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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

**If you have sold or transferred** all your shares in North Asia Strategic Holdings Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, other licensed corporation or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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# North Asia Strategic Holdings Limited

## 北亞策略控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock code: 8080)

**ISSUE OF PREFERENCE SHARES TO INDEPENDENT PLACEEES;  
CONNECTED TRANSACTIONS INVOLVING  
ISSUE OF PREFERENCE SHARES TO AICV AND TIMELESS,  
AND WAIVER AGREEMENT;  
CONTINUING CONNECTED TRANSACTIONS  
INVOLVING SERVICES AGREEMENT;  
INCREASE IN AUTHORISED SHARE CAPITAL;  
CREATION OF A NEW CLASS OF PREFERENCE SHARES  
AND  
AMENDMENTS TO BYE-LAWS**

Financial adviser to North Asia Strategic Holdings Limited



**SOMERLEY LIMITED**

**Independent financial adviser to the independent board committee  
and the independent shareholders of North Asia Strategic Holdings Limited**



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A letter from the board of directors of North Asia Strategic Holdings Limited is set out on pages 7 to 35 of this circular. A letter from the independent board committee of the Company and a letter from Access Capital Limited containing their recommendation and advice are set out on page 36 and pages 37 to 72 of this circular respectively.

A notice convening a special general meeting of North Asia Strategic Holdings Limited to be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on Monday, 20th February, 2006 is set out on pages 88 to 126 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

*This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the Company's website at [www.nasholdings.com](http://www.nasholdings.com).*

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## CHARACTERISTICS OF GEM

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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## DEFINITIONS

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

“Access Capital”	Access Capital Limited, a licensed corporation under the SFO which engages in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities
“AICV”	Asia Internet Capital Ventures LP, a US\$33 million venture capital fund with 13 limited partners organised for the object and purpose of making private equity investments in internet and technology-oriented companies and managed by Mr. Tsang
“AICV Subscription Agreement”	the subscription agreement entered into by the Company and AICV on 16th September, 2005 in relation to the subscription of 148,659,004 Preference Shares under the Placement
“Ajia Group”	API and all of its subsidiaries including NASA
“Ajia Parties”	NASAC and Mr. Tsang
“Ajia Parties Subscription Agreement”	the subscription agreement dated 19th May, 2005 entered into between the Company, NASAC, Mr. Tsang and Huge Top in relation to the subscription by the Ajia Parties of a total of 63,856,960 Shares and the Convertible Bonds, details of which are set out in the announcement of the Company dated 19th May, 2005 and the circular of the Company dated 20th June, 2005
“Anchor Investor I”	United Overseas Bank Limited, being one of the Placees subscribing for 743,295,019 Preference Shares under the Placement
“Anchor Investor II”	ABN AMRO Asset Management Holding N.V., being one of the Placees subscribing for 1,238,825,032 Preference Shares under the Placement
“Anchor Investor III”	Goldman Sachs (Asia) Finance, being one of the Placees subscribing for 2,477,650,064 Preference Shares under the Placement
“Anchor Investor IV”	Oikos Asia Fund, being one of the Placees subscribing for 495,530,013 Preference Shares under the Placement

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## DEFINITIONS

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“Anchor Investors”	such Placees (a) as nominated by the Ajia Parties; and (b) who invest at least US\$10 million (equivalent to approximately HK\$77.6 million) each in the Preference Shares prior to Completion (excluding client accounts of such Placees). As at the Latest Practicable Date, there were four Anchor Investors (i.e. Anchor Investor I, Anchor Investor II, Anchor Investor III and Anchor Investor IV)
“Announcement”	the announcement dated 30th December, 2005 issued by the Company in relation to, among other things, the Placement and the Services Agreement
“API”	Ajia Partners Inc., a company incorporated in the Cayman Islands and the holding company of NASA
“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Cap Amounts”	the maximum total fees, consisting of annual service fee, incentive fee and placement fee, payable to NASA pursuant to the terms of the Services Agreement for each of the financial years ending 31st March, 2007, 2008 and 2009
“Company”	North Asia Strategic Holdings Limited, a company incorporated in Bermuda with limited liability whose issued Shares are listed on GEM
“Completion”	the closing of the respective Subscription Agreements, which shall occur on such date conditional upon the satisfaction of the conditions precedent set out in this circular and prior to 31st March, 2006
“Completion Date”	the date of Completion
“connected persons”	has the meaning given to it in the GEM Listing Rules
“Conversion Shares”	the Shares to be issued upon conversion of the Preference Shares

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## DEFINITIONS

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“Convertible Bonds”	the convertible bonds, with an aggregate principal amount of HK\$20 million, issued by the Company to the Ajia Parties, which are convertible into new Shares at an initial conversion price of HK\$0.1566 per Share (subject to adjustments) pursuant to the Ajia Parties Subscription Agreement, details of which are set out in the circular of the Company dated 20th June, 2005
“Deed”	the guarantee and indemnity dated 19th May, 2005 between Huge Top, Mr. Yao, the Company and the Ajia Parties in connection with the subscription by the Ajia Parties of Shares and Convertible Bonds pursuant to the Ajia Parties Subscription Agreement
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Huge Top”	Huge Top Industrial Limited, a company incorporated in the British Virgin Islands
“Independent Board Committee”	an independent committee of the Board (comprising all the independent non-executive Directors) constituted to give recommendations to the Independent Shareholders as regards the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement
“Independent Shareholders”	Shareholders other than the Ajia Parties, Mr. Cho and their respective associates and who or whose associates may have interests in the Services Agreement and the Placement that are different from other Shareholders
“Investment Committee”	the committee constituted by the Board from time to time for the purposes of evaluating potential acquisition and disposition of investments, which is expected to comprise at least six members

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## DEFINITIONS

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“Latest Practicable Date”	20th January, 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Mr. Cho”	Mr. Henry Cho Kim, an executive Director
“Mr. Chow”	Mr. Savio Chow Sing Nam, an executive Director and the Chief Executive Officer of the Company
“Mr. Malm”	Mr. Göran Sture Malm, the Chairman and an executive Director of the Company
“Mr. Tsang”	Mr. Moses Tsang Kwok Tai, a substantial Shareholder holding approximately 21.1% of the existing issued Shares who is also the chairman and managing partner of API and the manager of AICV
“Mr. Yao”	Mr. Andrew Yao Cho Fai, an executive Director
“NASA”	North Asia Strategic Advisors, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of API
“NASAC”	North Asia Strategic Acquisition Corp., a company incorporated in the Cayman Islands and the controlling Shareholder holding approximately 46.1% of the existing issued Shares. NASA controls 100% of the voting capital of NASAC
“Placees”	a total of 21 institutional and professional investors (including AICV and Timeless) and the subscribers of the Preference Shares under the Placement
“Placement”	the private placing of a total of 7,630,926,793 Preference Shares by the Company to the Placees pursuant to the Subscription Agreements
“Preference Shares”	the convertible preference shares to be issued by the Company and subscribed by the Placees under the Placement, and any further convertible preference shares to be issued by the Company from time to time
“Services Agreement”	the services agreement dated 26th September, 2005 (as amended and restated on 30th December, 2005) entered into between the Company and NASA

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## DEFINITIONS

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“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of Share(s)
“Special General Meeting”	the special general meeting of the Company to be held to consider and, if thought fit, approve, among other things, the amendments to the Company’s Bye-laws, the increase of the Company’s authorised share capital, the creation of a new class of the Preference Shares, the Subscription Agreements, the Services Agreement and the Waiver Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreements”	a total of 21 subscription agreements (with addendum where applicable) entered into between the Company and 21 Placees (including AICV and Timeless) in relation to the Placement
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Timeless”	Timeless Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Cho
“Timeless Subscription Agreement”	the subscription agreement entered into between the Company and Timeless on 26th September, 2005 in relation to the subscription of 99,106,003 Preference Shares under the Placement
“TN”	TN Development Limited
“VSC”	Van Shung Chong Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1001)
“VSC BVI”	Van Shung Chong (B.V.I.) Limited, a wholly-owned subsidiary of VSC
“Waiver Agreement”	the agreement to be dated on or about 20th February, 2006 between the Ajia Parties and the Company



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## DEFINITIONS

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“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*For the purpose of illustration in this circular, figure in US\$ are translated into HK\$ at the approximate exchange rate of US\$1 = HK\$7.76.*

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## LETTER FROM THE BOARD

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# North Asia Strategic Holdings Limited

## 北亞策略控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock code: 8080)

*Executive Directors:*

Mr. Göran Sture Malm (*Chairman*)  
Mr. Savio Chow Sing Nam (*Chief Executive Officer*)  
Mr. Henry Cho Kim  
Mr. Andrew Yao Cho Fai  
Mr. Desmond Fu Hay Ching

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

Mr. Philip Ma King Huen  
Mr. Kenny Tam King Ching  
Mr. Edgar Kwan Chi Ping

*Head Office and Principal*

*Place of Business in Hong Kong:*

78th Floor  
The Center  
99 Queen's Road Central  
Hong Kong

24th January, 2006

*To the Shareholders*

Dear Sir or Madam,

**ISSUE OF PREFERENCE SHARES TO INDEPENDENT PLACEEES;  
CONNECTED TRANSACTIONS INVOLVING  
ISSUE OF PREFERENCE SHARES TO AICV AND TIMELESS,  
AND WAIVER AGREEMENT;  
CONTINUING CONNECTED TRANSACTIONS  
INVOLVING SERVICES AGREEMENT;  
INCREASE IN AUTHORISED SHARE CAPITAL;  
CREATION OF A NEW CLASS OF PREFERENCE SHARES  
AND  
AMENDMENTS TO BYE-LAWS**

### INTRODUCTION

On 30th December, 2005, the Company announced that the Company entered into a total of 20 Subscription Agreements with 20 Placees for the placement of a total of 7,541,846,333 Preference Shares at an issue price of HK\$0.1566 each. On 16th January, 2006, the Company further announced that the Company entered into one additional Subscription Agreement with one independent Placee for the placement of 89,080,460 Preference Shares at an issue price of HK\$0.1566 each. The aggregate number of Preference Shares to be issued under the Placement is therefore 7,630,926,793. The Board proposed to increase the authorised share capital of the Company and create a new class of shares in the capital of the Company to reflect the terms of the Preference Shares. Amendments to the Bye-laws of the Company will be made to,

\* For identification purpose only

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## LETTER FROM THE BOARD

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among other things, reflect the terms of the Preference Shares. The Company also entered into the Services Agreement with NASA pursuant to which NASA shall, during the 3-year term of the Services Agreement, provide consulting services to the Group.

On 23rd January, 2006, the Company announced that the Ajia Parties and the Company have agreed to enter into the Waiver Agreement to waive any requirement to adjust the conversion price of the Convertible Bonds arising from the Placement, including any subsequent conversion of the Preference Shares into ordinary shares of the Company.

The purpose of this circular is to provide you with, among other things, further details of the Placement, the Services Agreement, the Waiver Agreement, the increase in the Company's authorised share capital, the creation of a new class of shares in the Company's capital and the proposed amendments to the Bye-laws of the Company, and to give you notice of the Special General Meeting at which resolutions shall be proposed to consider and approve the Placement, the Services Agreement, the Waiver Agreement, the increase in the Company's authorised share capital, the creation of a new class of shares in the Company's capital and the proposed amendments to the Bye-laws of the Company.

The Independent Board Committee, comprising Mr. Philip Ma King Huen, Mr. Kenny Tam King Ching and Mr. Edgar Kwan Chi Ping, has been constituted to give recommendations to the Independent Shareholders on the terms of the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement. Access Capital has been appointed as the independent financial adviser to the Independent Board Committee and Independent Shareholders in this regard. A letter from the Independent Board Committee is set out on page 36 of this circular and a letter from Access Capital is set out on pages 37 to 72 of this circular.

### THE SUBSCRIPTION AGREEMENTS

The Company has entered into a total of 21 Subscription Agreements with 21 Placees for the subscription of the Preference Shares. Set out below are the principal terms of the Subscription Agreements:

#### Dates of the Subscription Agreements:

##### *Date*

16th September, 2005*	six Subscription Agreements with six Placees including AICV
19th September, 2005*	two Subscription Agreements with two Placees
23rd September, 2005*	three Subscription Agreements with three Placees
26th September, 2005*	one Subscription Agreement with Timeless
27th September, 2005*	one Subscription Agreement with one Placee
10th October, 2005*	one Subscription Agreement with one Placee
19th October, 2005*	two Subscription Agreements with two Placees
31st October, 2005	one Subscription Agreement with one Placee
7th November, 2005	one Subscription Agreement with one Placee

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## LETTER FROM THE BOARD

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9th November, 2005	one Subscription Agreement with one Placee
15th November, 2005	one Subscription Agreement with one Placee
16th January, 2006	one Subscription Agreement with one Placee

\* *These Subscription Agreements have been supplemented by addendum during 19th October, 2005 to 11th November, 2005.*

### **Parties to the Subscription Agreements:**

Issuer: the Company

Placees: 21 Placees including AICV and Timeless

As at the Latest Practicable Date, four Placees, namely United Overseas Bank Limited (Anchor Investor I), ABN AMRO Asset Management Holding N.V. (Anchor Investor II), Goldman Sachs (Asia) Finance (Anchor Investor III) and Oikos Asia Fund (Anchor Investor IV) were Anchor Investors.

### **Placees:**

Anchor Investor I (United Overseas Bank Limited) is a leading bank listed on the Singapore Stock Exchange and a dominant player in Asia-Pacific. Its group companies provide a wide range of financial services through a global network of branches/offices and subsidiaries/associates including personal financial services, private banking, trust services, commercial and corporate banking, investment banking, corporate finance, capital market activities, treasury services, futures broking, asset management, venture capital management, general insurance, life insurance and stockbroking services.

Anchor Investor II (ABN AMRO Asset Management Holding N.V.) is a member within the asset management business unit of ABN AMRO Bank N.V.. ABN AMRO Bank N.V. is one of the world's largest banks and has a strong presence in all major financial and offshore centres with a clear focus on consumer and commercial lending. The asset management business unit is one of the world's leading asset managers with significant experience in managing assets for private and institutional clients, including central banks, pension funds, insurance companies and other institutions.

Anchor Investor III (Goldman Sachs (Asia) Finance) is a member company of The Goldman Sachs Group, Inc. which is a company listed on the New York Stock Exchange with a market capitalisation of over US\$60 billion (equivalent to approximately HK\$465.6 billion). The Goldman Sachs Group, Inc. is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base which includes corporations, financial institutions, governments and high net-worth individuals.

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## LETTER FROM THE BOARD

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Anchor Investor IV (Oikos Asia Fund) is a Cayman Islands domiciled company focused on direct investments in Asia.

AICV is a US\$33 million venture capital fund with 13 limited partners organised for the object and purpose of making private equity investments in internet and technology-oriented companies and is managed by Mr. Tsang, who is not a limited partner of AICV. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, all the 13 limited partners of AICV and their respective ultimate beneficial owners are not connected persons of the Company and are third parties independent of the Company and its connected persons. Two of the limited partners of AICV are also interested in an investment company which is in turn a 5.1% shareholder of API and of which Mr. Tsang is the controlling shareholder. Mr. Tsang is an independent non-executive director of one of the Placees which is a financial institution listed on the Main Board of the Stock Exchange. He also holds less than 1% interest in the holding company of Anchor Investor III which is a company listed on the New York Stock Exchange.

Timeless is a company wholly and beneficially owned by Mr. Cho who is an executive Director. As at the Latest Practicable Date, Mr. Cho, through Timeless, is interested in 50 non-voting participating shares of NASAC, representing approximately 18.80% of the total issued shares within the same class.

Mr. Malm has a 5.01% shareholding interest in one of the Placees which has agreed to subscribe for 148,659,004 Preference Shares (representing 1.95% of the total Preference Shares to be issued under the Placement).

The other Placees are institutional and professional investors.

Save as aforesaid and to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Placees, their respective associates and ultimate beneficial owners are not connected persons of the Company. Each of the Placees and their respective ultimate beneficial owners are also third parties independent of the Company and its connected persons. Save as disclosed in notes 17, 20 and 21 to paragraph (b) under the section headed "Disclosure of interests" contained in the appendix to this circular, and to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Placees are independent of each other. Save as disclosed above and to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, neither the Placees nor their respective associates has any beneficial interests in any Shares or other securities in the Company prior to the Placement.

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## LETTER FROM THE BOARD

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### Securities to be subscribed:

	Number of Preference Shares	% of total Preference Shares
Anchor Investor I	743,295,019	9.7
Anchor Investor II	1,238,825,032	16.2
Anchor Investor III	2,477,650,064	32.5
Anchor Investor IV	495,530,013	6.5
Sub-total for the Anchor Investors	4,955,300,128	64.9
15 other independent Placees	2,427,861,658	31.8
AICV	148,659,004	2.0
Timeless	99,106,003	1.3
Total	<u>7,630,926,793</u>	<u>100.0</u>

### Principal terms of the Preference Shares:

Redemption and Conversion:                      The Preference Shares are not redeemable.

The Preference Shares shall be automatically converted into Shares on the listing of the Shares on the Main Board of the Stock Exchange, or on the fourth anniversary of the Completion Date, whichever occurs earlier, at the conversion ratio of one Preference Share to one Share, subject to usual anti-dilution adjustments. The adjustment events will arise as a result of certain changes in the share capital of the Company including capital reorganisation involving consolidation, sub-division or re-classification of shares, bonus issue by way of capitalisation of profits or reserves, capital distributions and subsequent issue of rights, options, warrants and other convertible securities in the Company.

In the event that the conversion by any holder of its Preference Shares would result in such holder holding 30% or more of the issued Shares, or otherwise result in such holder being required to make a mandatory general offer for the Shares under the Takeovers Code, the holder shall be entitled to elect to convert such number of Preference Shares as will cause it to hold (a) 29% of the issued Shares; or (b) if applicable, the maximum whole number of percentage of the issued Shares it could hold

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## LETTER FROM THE BOARD

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without being required to make a mandatory general offer for the Shares under the Takeovers Code. Any remaining Preference Shares held by such holder may be converted by such holder by giving not less than 45 days' prior notice to the Company.

The Conversion Shares, when issued, shall rank pari passu in all respects with all other Shares in issue on the date of conversion including the right to any dividends or distributions declared, made or paid after the date of the conversion.

### Transferability:

The Preference Shares may only be transferred with the prior approval of the Board and in compliance with applicable law and regulatory requirements. Save as disclosed herein, there are no other provisions regarding transferability of the Preference Shares.

The Company has undertaken to the Stock Exchange that it shall notify the Stock Exchange if it becomes aware of any dealings in the Preference Shares by connected persons of the Company.

### Voting:

Holders of the Preference Shares will not be entitled to vote at general meetings of the Shareholders, except when a resolution is to be proposed for (i) the winding up of the Company; (ii) renewing the Services Agreement, amending, modifying or supplementing its terms, or approving the payment of any fee to NASA in Shares; or (iii) varying or abrogating the rights or privileges of the holders of the Preference Shares. Holders of the Preference Shares are also entitled to vote on the election of a chairman of any meeting at which they are entitled to vote or any motion for adjournment of such general meeting.

In view of Mr. Tsang and Mr. Cho's respective interests in the AICV Subscription Agreement and the Timeless Subscription Agreement and NASA's interests in the Services Agreement (pursuant to which NASA shall receive a placement fee from the Placement), AICV and Timeless, as holders of the Preference Shares, shall abstain from voting on resolutions pertaining to (ii) above in general meetings of the Shareholders.

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## LETTER FROM THE BOARD

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When the holders of the Preference Shares are entitled to vote at a general meeting, each Preference Share shall confer on its holder one vote.

All or any of the rights or privileges attached to the Preference Shares may be varied or abrogated only with the sanction of a resolution passed at a separate meeting of the holders of the Preference Shares by 75% votes cast at such meeting of the holders of the Preference Shares.

The Company has been advised by its Bermuda legal advisors that any variation in the rights of the Preference Shares that would result in the variation, modification or abrogation of the rights of the ordinary shareholders would, pursuant to Bye-law 10 of the Company's Bye-laws, require the approval of the ordinary shareholders at a separate general meeting of the ordinary shareholders. In circumstances where rights of the Preference Shares are varied or abrogated, amendments to the Bye-laws of the Company will be required to accommodate the relevant variation or abrogation. Such amendments will require a special resolution to be passed at the general meeting of the Company in which holders of the ordinary Shares and Preference Shares are entitled to vote.

The above voting rights of the holders of the Preference Shares are applicable to partly paid Preference Shares as if such shares were fully paid.

Listing:

The Preference Shares will not be listed on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

Ranking:

The Preference Shares will rank *pari passu* as to dividends with the Shares. In the event of liquidation or winding up of the Company, the holders of the Preference Shares will receive an amount equal to 100% of the subscription monies paid by the holders of the Preference Shares before a return of capital is made to the holders of the Shares. Thereafter, the remaining assets of the Company will be distributed to the Shareholders and holders of the Preference Shares *pro-rata* on an *as-if-converted* basis.



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## LETTER FROM THE BOARD

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Save for the Preference Shares to be issued pursuant to the Subscription Agreements and the HK\$20 million Convertible Bonds issued by the Company to the Ajia Parties pursuant to the Ajia Parties Subscription Agreement, the Company does not have any other outstanding options, warrants or other securities in issue which carry rights to be convertible into Shares.

**Subscription price:**

HK\$0.1566 per Preference Share.

The subscription price shall be payable in cash by the Placees in four equal installments, the first of which will be payable on the Completion Date, and the remaining three of which will be payable on the dates falling 12 months, 24 months and 36 months respectively after the Completion Date, provided that payment of either the second or third installment shall not be required unless and until at least 75% of the subscription monies previously paid by the Placees from time to time has been paid out for or committed to investments for the Company.

In the event that the subscription monies previously paid by the Placees from time to time for the Preference Shares are insufficient to make any potential investments approved by the Board and/or pay fees or expenses which are payable by the Company under the Services Agreement, the Company shall be entitled to require the relevant amount of installment to be paid by the Placees before the due dates described above on a date specified by the Company but not earlier than 45 days from the date serving the payment notice by the Company. The schedule of capital call for the subscription monies will take into account the investment plan of the Company.

Any unpaid balance of the subscription price remaining payable immediately prior to the third anniversary of the Completion Date or, if earlier, the business day immediately preceding the date of conversion of the Preference Shares, shall in any event be payable on such anniversary of the Completion Date or on such business day immediately preceding the date of conversion, as the case may be.

The subscription price per Preference Share represents:

- (i) a discount of approximately 83.2% to the closing price of HK\$0.93 per Share on 16th September, 2005, being the last trading day of the Shares prior to the suspension of the Shares pending the release of the Announcement;
- (ii) a discount of approximately 83.2% to the average closing price of the Shares of HK\$0.932 for the ten trading days up to and including 16th September, 2005;
- (iii) a discount of approximately 80.2% to the closing price of the Shares of HK\$0.79 per Share on the Latest Practicable Date; and

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## LETTER FROM THE BOARD

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- (iv) a premium of approximately 17.0% over the audited net asset value per Share of HK\$0.1338 as at 31st March, 2005.

The subscription price of the Preference Shares was determined after arm's length negotiations between the Company and the Placees. In view of the deteriorating financial results of the Group in recent years, the Directors do not consider the current level of market price of the Shares to be supported by the fundamentals of the Company. The Directors consider that the subscription price of the Preference Shares, which represents a 17.0% premium over the audited net asset value per Share, to be fair and reasonable to the Shareholders.

### **Conditions:**

Completion of each of the Subscription Agreements is subject to the following conditions being fulfilled or waived on or before the Completion Date:

- (i) receipt of all necessary approvals of applicable authorities (including the GEM Listing Committee and the Bermuda Monetary Authority) and Shareholders' approvals for:
- (a) the Subscription Agreements;
  - (b) amendments to the Company's Bye-laws to reflect the terms of the Preference Shares;
  - (c) the issue of the Preference Shares to the relevant Placees and the issue of the Conversion Shares to such Placees upon conversion of the Preference Shares; and
  - (d) the Services Agreement; and
- (ii) the Placees having received duly certified true copies of (a) the approvals specified in (i) above; and (b) the resolutions of the Directors approving the registration of the Placees as a member of the Company.

The conditions set out in (i) above may not be waived.

Completion of each of the Subscription Agreements with Anchor Investor I, Anchor Investor II, Anchor Investor III and Anchor Investor IV is also subject to the following conditions being fulfilled or waived on or before the Completion Date:

- (iii) the listing of the Shares on the Stock Exchange has not been revoked or withdrawn at any time prior to the satisfaction of the last of the other conditions precedent;
- (iv) the GEM Listing Committee has granted approval of the listing of, and permission to deal in, the Conversion Shares to be issued upon conversion of the Preference Shares

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## LETTER FROM THE BOARD

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and such approval has not been revoked prior to satisfaction of the last of the other conditions precedent;

- (v) no mandatory offer is required by Anchor Investor I, Anchor Investor II, Anchor Investor III and Anchor Investor IV under the Takeovers Code (or in the case of the obligation to make a mandatory offer on the part of these Placees, a whitewash waiver is granted by the Executive Director (or any delegate for the time being of the Executive Director) of the Corporate Finance Division of the Securities and Futures Commission in Hong Kong, to these Placees and the relevant parties).

Completion of each of the Subscription Agreements with Anchor Investor I, Anchor Investor II and Anchor Investor III is also subject to the following conditions being fulfilled or waived on or before the Completion Date:

- (vi) no material default has occurred and is continuing under the Deed;
- (vii) the Group has a positive net asset value as at the Completion Date;
- (viii) no material breach of the Company's undertakings has occurred and is continuing, and the warranties given by the Company are true and correct in all material respects and not misleading in any material aspect, and no event has occurred and is continuing that renders untrue, incorrect or breached in any material respect, any of the representations, warranties or undertakings of the Company;
- (ix) no material adverse change has occurred and is continuing in the financial position or prospects of the Group since 31st March, 2005;
- (x) the Group does not have any material indebtedness or material liabilities that are not fully provided for in the most recent audited accounts; and
- (xi) Anchor Investor I, Anchor Investor II and Anchor Investor III have received an opinion (the "Opinion") in respect of the Company rendered by the Company's Bermuda legal advisers for the benefit of some or all of the Placees, including them, in form and substance satisfactory to them.

Pursuant to the Deed, Huge Top has given certain indemnities and undertakings in favour of the Company regarding the maintenance of the consolidated net asset value of the group of companies engaging in the steel trading business of the Group at a level equal to or exceeding HK\$5,000,000 after completion of the Ajia Parties Subscription Agreement. The Deed provides comfort to the Anchor Investors on the minimum net asset value of the Group. Details of the Deed have been set out in the announcement of the Company dated 19th May, 2005 and the circular of the Company dated 20th June, 2005 in relation to the Ajia Parties Subscription Agreement.

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## LETTER FROM THE BOARD

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The Opinion will include principally matters in relation to the due incorporation of the Company, its corporate capacity to enter into the Subscription Agreements and their due execution, confirmation that no authorisation from any public body is required in connection with the Subscription Agreements, valid choice of governing law, whether there are judgements or pending proceedings against the Company, and confirmation that no steps have been taken for the appointment of a receiver or liquidator, or for the winding up of the Company.

Completion of the Subscription Agreement with Anchor Investor I is further subject to the following additional condition being fulfilled or waived on or before the Completion Date:

- (xii) the Company has received subscriptions for the Preference Shares from investors (including Anchor Investor I) in an aggregate amount of at least HK\$858,000,000 by Completion.

In addition, the Subscription Agreement entered into between the Company and Anchor Investor II is subject to the condition that a member of Anchor Investor III is one of the subscribers to which such simultaneous closing relates. Completion of the Subscription Agreement with Anchor Investor II is further subject to the following additional condition being fulfilled or waived on or before the Completion Date:

- (xiii) completion of the Subscription Agreement with Anchor Investor II is part of a simultaneous closing of subscriptions by other Placees (excluding Anchor Investor II) for Preference Shares for which the aggregate subscription monies payable to the Company are equal to at least HK\$1,000,000,000.

Completion of the Subscription Agreement with Anchor Investor III is further subject to the following additional conditions being fulfilled or waived on or before the Completion Date:

- (xiv) the Group's existing steel trading business having a consolidated net asset value equal or exceeding HK\$5 million;
- (xv) completion of the Subscription Agreements being part of a simultaneous closing of subscriptions for Preference Shares, in which
  - (a) the aggregate subscription monies payable to the Company by all the Placees (including the Anchor Investors) are equal to at least HK\$1,000,000,000;
  - (b) the Company is not deemed to be an associate of Anchor Investor III by virtue of its proposed shareholding or interests under the relevant accounting standards;
- (xvi) a side letter being executed between the Company and Anchor Investor III with respect to additional rights applicable to Anchor Investor III (as described in the paragraph headed "Additional rights of Anchor Investors" below); and

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## LETTER FROM THE BOARD

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(xvii) there being no suspension of trading of the Shares (a) in effect on the trading day prior to or on the Completion Date; or (b) for a five trading-day period (unless such suspension has been lifted prior to the Completion Date and otherwise than for purposes of clearance of announcements to be issued in connection with the Placement or pending the requisite approval to be obtained for the Placement); which in either case: (a) have been imposed as a result of any breach of the GEM Listing Rules; or (b) could reasonably be expected to result in delisting of the Shares from GEM.

The Subscription Agreement entered into between the Company and Anchor Investor III is subject to the condition that Anchor Investor I and/or its affiliated companies and Anchor Investor II and/or its affiliated companies are Anchor Investors. Save for the aforesaid Subscription Agreements with the three Anchor Investors, the other Subscription Agreements are not inter-conditional on each other.

Save for condition (i), all the above conditions are capable of being waived at the discretion of the relevant Placees. If the above conditions are not fulfilled or waived on or prior to the Completion Date, the relevant Subscription Agreement(s) shall terminate and none of the parties thereto shall have any obligations or liabilities thereunder, save for any antecedent breach thereof.

### **Completion**

Completion of the respective Subscription Agreements shall occur on such date conditional upon the satisfaction or waiver, as the case may be, of their respective conditions precedent as set out above, and shall occur prior to 31st March, 2006.

Further announcement(s) will be made by the Company as regards the status of Completion or any changes to the Completion Date if appropriate.

### **Additional rights of Anchor Investors**

The Company has entered into legally binding agreements with (i) Anchor Investor I on 19th September, 2005; (ii) Anchor Investor III on 16th September, 2005; and (iii) Anchor Investor IV on 7th November, 2005 to set out a framework for strategic co-operation between the Company and the respective Anchor Investors. Pursuant to the agreements, the Company has agreed, for a term of ten years commencing on the Completion Date, to give Anchor Investor I, Anchor Investor III and Anchor Investor IV the rights to co-invest in potential investment targets of the Company and to offer deal referral opportunities on investment projects which are deemed to be outside the investment focus of or not pursued by the Company, in each case following consideration by the Investment Committee. The Company has also entered into letter agreements with Anchor Investor I and Anchor Investor III to give, for a period of ten years from the Completion Date, additional rights to them to provide financing and investment

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## LETTER FROM THE BOARD

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banking or corporate finance services to the Company or its investment portfolio. The relevant terms will be determined when such opportunities arise and have not been specified or agreed as at the Latest Practicable Date.

In addition, the letter agreements with Anchor Investor I and Anchor Investor II give each of them the right to nominate one member to the Investment Committee. The letter agreement with Anchor Investor III gives it the right (i) to participate in other private equity and buyout business of the Ajia Parties in China; (ii) to participate in any subsequent placing of Preference Shares of the Company as will allow them to maintain their percentage shareholdings of Preference Shares in the Company; and (iii) to nominate one observer to the Investment Committee. The letter agreement with Anchor Investor IV also gives it the right to nominate one observer to the Investment Committee. The observers to be nominated by Anchor Investor III and Anchor Investor IV have no right to participate in any voting by, or any advisory role to, the Investment Committee but have the right to receive information and to participate in meetings and discussions of the Investment Committee. None of the Anchor Investors is entitled to appoint members to the Board and their respective representatives at the Investment Committee will be required to act in that capacity only. The Investment Committee members and observers appointed by the Anchor Investors shall be required to give reasonable undertakings to the Company to observe all internal guidelines of the Company, if any, applicable to the Directors in respect of maintaining confidentiality of information disclosed to them. They are also required to observe the relevant provisions of Part XIII and Part XIV of the SFO in respect of insider dealing and market misconduct, and the applicable provisions contained in Chapter 5 of the GEM Listing Rules (or in the event that the Shares become listed on the Main Board of the Stock Exchange, the applicable provisions contained in the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on the Stock Exchange) in respect of restrictions on directors' transactions in securities of the Company while in possession of unpublished price-sensitive information. In the event of a breach of confidentiality by the relevant Investment Committee members or observers, the Company may bring legal action against the relevant Anchor Investors including seeking a court order of specific performance to prevent the relevant Investment Committee members or observers from any unauthorised disclosure of confidential material.

The above letter agreements with the Anchor Investors will terminate in the event that the Services Agreement is terminated.

Should any transactions materialise in future as a result of the Anchor Investors exercising their rights under the aforesaid agreements, the Company shall comply with the applicable requirements of the GEM Listing Rules in due course. In particular, should Anchor Investor III become a connected person of the Company and exercise its anti-dilution right by participating in any subsequent placing of Preference Shares of the Company, such participation shall be subject to the approval of the independent Shareholders who are not connected with Anchor Investor III.

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## LETTER FROM THE BOARD

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The Company views the Anchor Investors as important business partners for the future development of the Group. The additional rights given to the Anchor Investors provide the Group with an opportunity to leverage on the capability and expertise of the Anchor Investors which are prominent global financial institutions. The additional conditions provided in the Subscription Agreements of the Anchor Investors are arrived at following commercial arm's length negotiations with each of the Anchor Investors.

### FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

On 19th May, 2005, the Company entered into inter-conditional agreements, pursuant to which:

- (i) the Ajia Parties subscribed for 63,856,960 new Shares (as to 19,693,486 Shares by Mr. Tsang and 44,163,474 Shares by NASAC) at HK\$0.1566 per Share and the HK\$20 million Convertible Bonds (as to HK\$6,168,000 by Mr. Tsang and HK\$13,832,000 by NASAC) which are convertible into 127,713,920 new Shares at an initial conversion price of HK\$0.1566 per Share (subject to adjustment); and
- (ii) the Company offered 15,968,878 Shares to the Shareholders at an offer price of HK\$0.1566 by way of a 1-for-1 open offer underwritten by VSC BVI.

The aforesaid transactions (details of which are set out in the announcement of the Company dated 19th May, 2005 and the circular of the Company dated 20th June, 2005) were approved by the disinterested Shareholders at a special general meeting held on 14th July, 2005 and were completed in August 2005. Net proceeds of approximately HK\$30.2 million were raised by the Company, of which HK\$4.2 million was intended to be used as general working capital and HK\$26 million was intended to finance future investments of the Group. Up to the Latest Practicable Date, approximately HK\$11.3 million has been utilised for the Group's general working capital. The remaining HK\$18.9 million will be used as intended. Save for the above, the Company has not undertaken any other fund raising activities in the past twelve months since 16th September, 2004.

# LETTER FROM THE BOARD

## SHAREHOLDING STRUCTURE

Set out below are the Company's shareholding structures (i) as at the Latest Practicable Date and immediately upon completion of the Placement; (ii) upon full conversion of the Convertible Bonds at the initial conversion price of HK\$0.1566; (iii) upon full conversion of the Preference Shares at the 1-to-1 conversion ratio; and (iv) upon full conversion of the Convertible Bonds at the initial conversion price of HK\$0.1566 and the Preference Shares at the 1-to-1 conversion ratio:

	As at the Latest Practicable Date and immediately upon completion of the Placement		Upon full conversion of the Convertible Bonds		Upon full conversion of the Preference Shares		Upon full conversion of the Preference Shares and the Convertible Bonds	
	Shares	%	Shares	%	Shares	%	Shares	%
NASAC	44,163,474	46.1	132,490,421	59.3	44,163,474	0.6	132,490,421	1.7
Mr. Tsang	20,202,886	21.1	59,589,859	26.7	20,202,886	0.3	59,589,859	0.7
Huge Top (Note 1)	1,598,113	1.7	1,598,113	0.7	1,598,113	0.0	1,598,113	0.0
Right Action Offshore Inc. (Note 2)	1,024,000	1.1	1,024,000	0.5	1,024,000	0.0	1,024,000	0.0
VSC BVI (Note 3)	6,336,309	6.6	6,336,309	2.8	6,336,309	0.1	6,336,309	0.1
TN Development Limited (Note 4)	1,633,676	1.7	1,633,676	0.7	1,633,676	0.0	1,633,676	0.0
AICV	—	—	—	—	148,659,004	1.9	148,659,004	1.9
Timeless	—	—	—	—	99,106,003	1.3	99,106,003	1.3
	74,958,458	78.3	202,672,378	90.7	322,723,465	4.2	450,437,385	5.7
Anchor Investor I (Note 5)	—	—	—	—	743,295,019	9.6	743,295,019	9.5
Anchor Investor II	—	—	—	—	1,238,825,032	16.0	1,238,825,032	15.8
Anchor Investor III (Note 6)	—	—	—	—	2,477,650,064	32.1	2,477,650,064	31.5
Anchor Investor IV (Note 5)	—	—	—	—	495,530,013	6.4	495,530,013	6.3
Total Anchor Investors	—	—	—	—	4,955,300,128	64.1	4,955,300,128	63.1
15 other independent Placees (Note 7)	—	—	—	—	2,427,861,658	31.4	2,427,861,658	30.9
Other public Shareholders	20,836,258	21.7	20,836,258	9.3	20,836,258	0.3	20,836,258	0.3
Total public Shareholders	20,836,258	21.7	20,836,258	9.3	2,448,697,916	31.7	2,448,697,916	31.2
Total	95,794,716	100.0	223,508,636	100.0	7,726,721,509	100.0	7,854,435,429	100.0



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## LETTER FROM THE BOARD

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*Notes:*

1. Mr. Yao, an executive Director, holds approximately 11.91% direct and 42.86% indirect interests in the issued share capital of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top.
2. Mr. Yao owns the entire issued share capital of Right Action Offshore Inc.
3. VSC BVI is a wholly-owned subsidiary of VSC. Huge Top holds approximately 47.05% of VSC.
4. The issued share capital of TN is owned as to 54% by VSC BVI and as to 10% by Mr. Yao.
5. Since each of Anchor Investor I and Anchor Investor IV will hold less than 10% of the issued Shares upon full conversion of the Preference Shares, they will be treated as public Shareholders.
6. Anchor Investor III is entitled to elect to convert such number of Preference Shares as will cause it to hold (a) 29% of the issued Shares or (b) if applicable, the maximum whole number of percentage of the issued Shares it could hold without being required to make a mandatory general offer for the Shares under the Takeovers Code.
7. None of the 15 independent Placees will hold more than 10% of the issued Shares upon full conversion of the Preference Shares (whether or not the Convertible Bonds are converted) and be treated as a connected person of the Company for the purpose of the GEM Listing Rules.

Save for the Preference Shares to be issued pursuant to the Subscription Agreements and the HK\$20 million Convertible Bonds issued by the Company to the Ajia Parties pursuant to the Ajia Parties Subscription Agreement, the Company does not have any other outstanding options, warrants or other securities in issue which carry rights to be convertible into Shares.

In the event that the Preference Shares held by the Placees are converted into Shares in accordance with the terms thereof and based on the current issued share capital of the Company on a fully converted and diluted basis, Anchor Investor III may become a Shareholder being interested in 30% or more of the enlarged issued Shares. In such circumstances, Anchor Investor III will be obliged to make a mandatory offer to the Shareholders to acquire all the then issued Shares, other than those already owned or agreed to be acquired by it and parties acting in concert with it in accordance with Rule 26 of the Takeovers Code, unless a waiver is obtained. Anchor Investor III shall comply with the relevant requirements of the Takeovers Code in such circumstances. According to the terms of the Preference Shares as set out in paragraph headed “Principal terms of the Preference Shares” above, Anchor Investor III is entitled to elect to convert such number of Preference Shares as will cause it to hold 29% of the issued Shares in the event that the automatic conversion of Anchor Investor III’s Preference Shares would result in it being required to make a mandatory general offer for the Shares under the Takeovers Code. Any remaining Preference Shares held by Anchor Investor III may be converted by it by giving not less than 45 days’ prior notice to the Company.

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## LETTER FROM THE BOARD

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Each of the Ajia Parties has previously undertaken to the Stock Exchange that for so long as it remains a connected person of the Company, it will not exercise the conversion rights of the Convertible Bonds if the public float of the Company falls below 15% upon exercise of the conversion rights of the Convertible Bonds. Based on the existing shareholding structure of the Company as disclosed above, there will be sufficient public float for the Shares (i) immediately upon completion of the Placement (assuming no conversion of the Convertible Bonds) which being 15% of the Shares; and (ii) after conversion of the Preference Shares (whether before or after the conversion of the Convertible Bonds) which being 15% if the Shares remain listed on GEM or 25% if the Shares then become listed on the Main Board of the Stock Exchange.

The Stock Exchange has indicated that should the Placement be completed and the Preference Shares be converted, it will closely monitor trading in the Shares if less than 15% of the Shares (if the Shares remain listed on GEM) or the requisite minimum percentage of the Shares (as required under the Rules Governing the Listing of Securities on the Stock Exchange if the Shares are then listed on the Main Board) are held by the public. If the Stock Exchange believes that a false market exists or may exist in the trading in the Shares, or there are too few Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Shares until a sufficient level of public float is attained.

### REASONS FOR THE PLACEMENT

The Group is principally engaged in the trading of steel products, provision of procurement services for steel products, operation of an e-commerce vertical portal for the provision of online steel trading services and ancillary services.

The Group's existing steel trading business has been operating in a difficult environment, principally due to the continuous deployment by the PRC government of macro-entrenchment policies to limit excessive investments in several overheated industries including the steel, real estate, aluminum, automobile and cement industries. Turnover of the Group declined from approximately HK\$1.4 billion in the year ended 31st March, 2004 to HK\$860.0 million in the year ended 31st March, 2005. Losses attributable to Shareholders were recorded at HK\$25.7 million and HK\$10.4 million for each of the years ended 31st March, 2004 and 2005 respectively. Given the current difficult operating environment coupled with an interest rate uptrend, the Directors considered that there is an imminent need for the Company to adjust itself. As described in the paragraph headed "Fund raising activities in the past twelve months" above, the Ajia Parties (i.e. NASAC and Mr. Tsang) became the new controlling Shareholders in August 2005, following which new executive Directors (Mr. Malm, Mr. Chow and Mr. Cho) were appointed to the Board by the Ajia Parties.

The Ajia Parties stated in the circular of the Company issued on 20th June, 2005 that they intend to explore opportunities in the acquisition of strategic, possible controlling, stakes in companies with strong cash flow in growth sectors such as the consumer, industrial, technology, media and telecommunications businesses with a view to diversifying the operations of the

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## LETTER FROM THE BOARD

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Group from its cyclical steel trading business. The Placement aims to raise financial resources for the Group to capture sizeable investment opportunities and implement the diversification strategy as discussed above. The Placees comprise internationally reputable institutions. The Directors are of the view that the introduction of the Placees as long-term investors in the Company by way of the Placement will enhance the shareholders profile of the Company and the Placement will strengthen the capital base and financial capability of the Group. The Directors, including the independent non-executive Directors, consider the terms of the Subscription Agreements (including the subscription price, the letter agreements with the Anchor Investors as described in the section headed “Additional rights of Anchors Investors” above and the terms of the Preference Shares) to be fair and reasonable to the Shareholders and the issue of the Preference Shares to provide funding for the Group’s future expansion plan is in the interests of the Company and the Shareholders as a whole.

The Board intends to adopt the following guidelines in investment selection:

- (i) the majority of the Company’s investments will be made in companies whose core operations are located in Japan, South Korea, China, Hong Kong, Macau and Taiwan and which have demonstrated a unique and sustainable market position in their own industry;
- (ii) investment targets will be middle-market profitable and cash-flow positive companies with annual revenues between US\$100 million to US\$500 million which can demonstrate a sustainable business model that is potentially scalable either nationally or regionally; and
- (iii) the entry valuation for the Company’s investments will, depending on the focus country and prevailing market conditions, generally not be greater than 5 times price-earnings multiple or enterprise value/EBITDA ratio, as applicable.

The Company also intends to adopt the following principal investment policies:

- (i) the majority of the Company’s investments will be made in the form of equity or equity-related interests in listed or unlisted companies or other entities in North Asia;
- (ii) the Group will not in aggregate invest more than 50% of its consolidated net assets in any one investment;
- (iii) the Group will seek to acquire in aggregate at least a 20% interest in each investment, to maintain the majority control or effective management control of the investments and to have board representation;
- (iv) the Company will generally not invest in companies or entities that it considers to be undergoing financial restructuring or to represent special or recovery situations; and

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## LETTER FROM THE BOARD

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- (v) the Company will not invest in funds (whether open-ended or closed-ended), commodities, futures contracts or traded options, other than currency hedging contracts.

The Investment Committee appointed by the Board will be responsible for pursuing and evaluating investment projects and making investment recommendations to the Board in accordance with the investment guidelines and policies described above. The Board is responsible for making investment decisions based on the recommendations of the Investment Committee. It is expected that the Investment Committee will consist of at least six members including certain existing executive Directors.

The Preference Shares will be accounted for as equity instruments of the Company in accordance with applicable accounting standards. The proceeds from the Placement amount to approximately HK\$1,195.0 million (or HK\$1,181.6 million after deducting the placement fee payable to NASA pursuant to the Services Agreement and related expenses) and are intended to be used for future investment and working capital purposes.

As at the Latest Practicable Date, possible investment targets include a PRC-based distributor of mobile handsets, the beneficial owners of which are third parties independent of the Company and its connected persons. Due diligence work on this investment target is still in progress and the transaction may or may not proceed. The Company has not, as at the Latest Practicable Date, entered into any definitive agreements for any investments. Should the above investment or other investments materialise, the Company will comply with the relevant requirements of the GEM Listing Rules.

### RELATIONSHIP BETWEEN THE PARTIES

NASAC is the controlling Shareholder holding approximately 46.1% of the issued Shares as at the Latest Practicable Date. The issued share capital of NASAC comprises 1 voting participating share and 49,999 non-voting participating shares, all with par value of US\$1 each. NASA holds the single voting participating share of NASAC. Mr. Cho, Mr. Chow, Mr. Malm and AICV each holds 18.8%, 18.8%, 9.4% and 37.6% respectively of the non-voting participating shares of NASAC in issue as at the Latest Practicable Date. According to the memorandum of association of NASAC, the non-voting participating shareholders have no voting rights (save for matters affecting their class of shares only) and these shares cannot be converted into voting participating shares. Accordingly, NASAC is a company controlled by NASA. NASA is in turn a wholly-owned subsidiary of API. Mr. Tsang, Mr. Cho and Mr. Chow and their associates in aggregate hold an approximately 48.95% equity interest in API, but none of the shareholders of API hold or control more than 30% of equity interest in API.

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## LETTER FROM THE BOARD

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### GEM LISTING RULES IMPLICATIONS ON PLACEMENT

By virtue of Mr. Tsang's interests as manager of AICV and his substantial shareholding interests in the Company, the placement of Preference Shares to AICV constitutes a connected transaction for the Company under the GEM Listing Rules. Timeless is a company wholly and beneficially owned by Mr. Cho who is an executive Director. Accordingly, Timeless is a connected person of the Company and the placement of Preference Shares to Timeless constitutes a connected transaction for the Company under the GEM Listing Rules. The AICV Subscription Agreement and the Timeless Subscription Agreement are therefore subject to the approval of the Independent Shareholders on which voting shall be taken by poll.

NASAC, Mr. Tsang and Mr. Cho and their respective associates, which control their respective voting rights in their Shares, shall abstain from voting on the AICV Subscription Agreement and the Timeless Subscription Agreement at the Special General Meeting. Apart from them, no Shareholders or their respective associates have interests in the Placement different from other Shareholders who should abstain from voting on the Subscription Agreements at the Special General Meeting. No Shareholder is required to abstain from voting on the resolutions to be proposed at the Special General Meeting regarding the Subscription Agreements other than the AICV Subscription Agreement and the Timeless Subscription Agreement.

### PROPOSED AMENDMENTS TO BYE-LAWS, INCREASE IN AUTHORISED SHARE CAPITAL AND CREATION OF A NEW CLASS OF PREFERENCE SHARES

It is necessary for the Company to amend its Bye-laws to reflect the terms of the Preference Shares which will constitute a new class of shares of the Company. Accordingly, a special resolution will be proposed at the Special General Meeting to approve the amendments to the Bye-laws of the Company.

The existing authorised share capital of the Company is HK\$400,000,000 divided into 40,000,000,000 Shares. The Board proposes to create a new class of Preference Shares. It is proposed that the authorised share capital of the Company be increased by HK\$300,000,000 by the creation of 30,000,000,000 Preference Shares. Resolutions will be proposed at the Special General Meeting to approve the increase in authorised share capital of the Company and the creation of the new class of Preference Shares.

The proposed amendments to the Bye-laws of the Company, the increase in authorised share capital and the creation of the new class of Preference Shares are neither conditional on the Services Agreement nor the Subscription Agreements. However, in view of Mr. Tsang and Mr. Cho's respective interests in the AICV Subscription Agreement and the Timeless Subscription Agreement and NASA's interests in the Services Agreement (pursuant to which NASA shall receive a placement fee from the Placement), the proposed amendments to the Bye-laws of the Company, the increase in authorised share capital and the creation of the new class of Preference Shares are subject to the approval of the Independent Shareholders on which voting shall be taken by poll. NASAC, Mr. Tsang and Mr. Cho and their respective

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## LETTER FROM THE BOARD

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associates shall abstain from voting on the proposed resolutions regarding amendments to the Bye-laws of the Company, the increase in authorised share capital and the creation of the new class of Preference Shares at the Special General Meeting.

### **WAIVER AGREEMENT IN RESPECT OF ADJUSTMENT OF THE CONVERSION PRICE OF THE CONVERTIBLE BONDS**

According to the terms of the Convertible Bonds which provide for adjustments to the conversion price in circumstances where the Company issues wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription of additional Shares, the conversion price of the Convertible Bonds is required to be adjusted downwards from HK\$0.1566 per Share to HK\$0.0280 per Share as a result of the Placement. In order to avoid the potential dilution effect to the Independent Shareholders as a result of the downward adjustment to the conversion price of the Convertible Bonds and to have a consistent entry price for the investments in the Company by the Ajia Parties and the Placees, which is one of the factors considered by the Placees in committing to participate in the Placement, the holders of the Convertible Bonds (being the Ajia Parties) and the Company have agreed to enter into the Waiver Agreement to waive any requirement to adjust the conversion price of the Convertible Bonds arising from the Placement, including any subsequent conversion of the Preference Shares into ordinary shares of the Company.

In view of Ajia Parties' controlling shareholding interests in the Company, the Waiver Agreement will constitute a connected transaction for the Company under Chapter 20 of the GEM Listing Rules and is subject to the approval of the Independent Shareholders. The Ajia Parties and their respective associates shall abstain from voting on the resolution to be proposed at the Special General Meeting regarding the Waiver Agreement.

### **THE SERVICES AGREEMENT**

**Date:** 26th September, 2005 (as amended and restated on 30th December, 2005)

**Parties:** the Company and NASA

**Term:** 3 years, commencing on 1st April, 2006, or such other date as the Board may determine that the condition to the Services Agreement (as described below) has been satisfied, and shall continue until the termination of the Services Agreement in accordance with its terms; provided that the parties may agree that the placing fee in relation to the Placement shall be payable prior to the commencement date of the Services Agreement.

#### **Role of NASA:**

NASA is a special purpose vehicle set up on 4th March, 2004 for the sole purpose of holding NASAC and providing exclusive services to the Company being contemplated under the Services Agreement. Pursuant to the Services Agreement, NASA shall provide services to the Group covering fund raising, market and industry research, investor sourcing, investment

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## LETTER FROM THE BOARD

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sourcing, investment analysis and due diligence, and financial advisory under the overall control and supervision of the Board. The services to be provided by NASA will include principally:

- (i) identifying potential investors in the Company and coordinating capital raising activities;
- (ii) seeking out and evaluating investment and divestment opportunities consistent with the Board's investment guidelines, and preparing investment and divestment proposals and recommendations for consideration by the Investment Committee and the Board;
- (iii) coordinating and supervising of due diligence in connection with the Group's investment programme;
- (iv) assisting in negotiation of terms and conditions of the acquisition and disposition of investments; and
- (v) engaging and supervising professionals to provide services to the Group and its investments from time to time.

### **Fees:**

Pursuant to the terms of the Services Agreement, the Company shall pay fees to NASA for the services rendered by it on the following basis. Subject to the Cap Amounts as defined below, there is no agreed aggregate sum of fees payable under the Services Agreement.

#### **(i) *Service fee***

The Company will pay an annual service fee in cash to NASA equal to 2% per annum of the aggregate amount of capital drawn down and injected into the Company and contractually committed for investments in the Company (but not yet drawn down) by way of public and/or private placings arranged or supervised by NASA of ordinary shares, preference shares, other equity capital or convertible securities (the "Committed Capital"), less the aggregate amount of salaries and other remuneration paid by the Group to certain senior managers of the Company including the Chairman, Chief Executive Officer, Director of Strategic Planning, Chief Financial Officer and Company Secretary of the Company (excluding any directors' fees paid to the relevant senior managers purely for their services as members of the Board) and such other individuals as may be employees of the Company from time to time (which is estimated to be approximately HK\$5.4 million for the year ending 31st March, 2007, subject to 5% increment thereafter). The annual service fee, calculated on the basis disclosed above, is payable quarterly in advance as at the first day of each calendar quarter. The service fee represents the remuneration for NASA providing services on the investments to be made out of the funds raised by NASA for the Company.



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## LETTER FROM THE BOARD

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### *(ii) Incentive fee*

NASA will also be entitled to receive an incentive fee equal to 20% of the amount (if any) by which net assets of the Group (the “Net Assets”) at the end of each financial year (as confirmed by the auditors of the Company and calculated based on the aggregate fair valuation of the underlying investments of the Group in accordance with applicable financial reporting standards in Hong Kong and including all amounts distributed from time to time by the Company as dividends or other distributions to the Shareholders and taking into account any requisite accrual(s) for fees under the Services Agreement) exceed the greater of:

- (a) the highest level of Net Assets achieved at the end of any prior financial year (the “High Water Mark”); or
- (b) at any time or from time to time, the aggregate amount of capital drawn down and injected into the Company by way of public and/or private placings arranged or supervised by NASA of Shares, Preference Shares, other equity capital or securities convertible into Shares, Preference Shares or other equity capital, of the Company as of such time (the “Funded Capital”), compounded annually at the rate of 5%.

The incentive fee shall be payable within (i) 15 days of the announcement of the annual audited results of the Company in respect of each financial year in relation to which an incentive fee is payable; or (ii) 90 days after the end of each such financial year; whichever is earlier, in cash or, at the option of NASA and subject to compliance with applicable GEM Listing Rules including obtaining relevant approvals (such as approval of the GEM Listing Committee for the listing of and permission to deal in such Shares and the approval of the Shareholders) required under the GEM Listing Rules, in Shares or a combination of both. The Shares shall be issued at a price equal to the average closing price of the Shares for a period of 90 trading days immediately preceding the date on which NASA serves written notice to the Company of its election to receive payment in Shares. Such Shares received by NASA shall be subject to lock up for a period of 3 years from the date of issue or until termination of the Services Agreement, whichever is the earlier.

### *(iii) Placing fee*

The Company shall pay a placing fee in cash to NASA equal:

- (a) in the case of the Placement, to the higher of (aa) HK\$7.8 million; and (bb) 0.5% of the gross proceeds of the Placement; and



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## LETTER FROM THE BOARD

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- (b) in the case of each subsequent placing of Preference Shares or any other equity or equity-linked securities of the Company arranged by NASA or under NASA's supervision, to 0.5% of the gross proceeds of such placing.

Provided that the parties may agree that the placing fee in relation to the Placement shall be payable prior to the commencement date of the Services Agreement (approval for such payment will be sought at the Special General Meeting as part of the approval for the Services Agreement), the placing fee shall be payable to NASA on the date on which subscription monies are first payable to the Company in respect of such placing, whether or not all subscription monies in relation to such placing are payable on such date.

The services to be provided by NASA pursuant to the Services Agreement are typical of the role of a manager in the private equity industry and the structure of the compensation to be paid to NASA as described above are consistent with market practice in the private equity industry.

### **Termination:**

The Services Agreement may be terminated by the Company without cause on three months' prior written notice and subject to payment to NASA of a sum equal to the aggregate of : (i) the amount of the annual service fee that would have been payable for the remainder of the term of the Services Agreement had it not been terminated, calculated on the basis of the Committed Capital on the date of termination; (ii) 2.5% of the Committed Capital, less all placing fees already paid to NASA prior to the termination of the Services Agreement; (iii) 20% of the amount (if any) by which the fair value of investments made by the Company (the "Appraised Value") as at the date of termination of the Services Agreement exceeds the greater of (a) the High Water Mark; and (b) the Funded Capital, compounded annually at the rate of 5%. The Appraised Value shall be determined by an independent licensed investment bank or professional firm of valuers in Hong Kong appointed by the Board and acceptable to NASA, and the fees and expenses for the determination of the Appraised Value shall be borne by the Company and NASA in equal shares; and (iv) 15% of the Net Assets reflected in the most recent audited annual accounts of the Group as at the date of termination, provided that the amount payable under this sub-clause (iv) shall be payable only to the extent that payment of all amounts described in (i) to (iv) herein does not cause the net assets of the Group, as reflected the Group's most recent management accounts, to fall below the aggregate amount of the paid-up capital of the Shares and the Preference Shares. The termination fee is payable in cash or in Shares or a combination of both on the same basis and conditions as the annual incentive fee as described above.

The Services Agreement may be terminated by mutual agreement of the parties and no prior notice is required for such termination. The Services Agreement may also be terminated by either party in the event the other party is in material breach of the terms of the Services Agreement or applicable laws, rules, regulations and codes in any relevant jurisdiction for a

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## LETTER FROM THE BOARD

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period of more than 30 days after having received notice of the breach, or the other party becomes insolvent, or is the subject of a petition to be wound up, or is determined to be bankrupt or unable to pay its debts when due. In either of these cases, no termination payment will be made to NASA.

In the event of early termination of the Services Agreement pursuant to any reasons described above, any Shares held by NASA on the date of such termination becomes effective shall upon termination be free and clear of any and all lock up or other restrictions of whatsoever nature on transfer.

### **Renewal:**

The Services Agreement is renewable for an additional term of three years after expiry pursuant to its then current terms, subject to compliance by the Company with applicable law, rules, regulations and codes of governmental authorities, and any and all applicable rules of any stock exchange on which the securities of the Company or its investments are listed including the GEM Listing Rules.

In the event that the Services Agreement is for any reason (other than because NASA does not agree to such renewal) not renewed upon expiry as provided for in the above paragraph, the Company shall pay NASA a sum equal to:

- (i) 2.5% of Committed Capital, less all placing fees already paid to NASA prior to the expiry of the Services Agreement; and
- (ii) 20% of the amount (if any) by which the Appraised Value as at the expiry date of the Services Agreement exceeds the greater of (a) the High Water Mark; and (b) the Funded Capital, compounded annually at the rate of 5%.

### **Condition:**

The Services Agreement is conditional upon the grant and/or obtaining of all and any requisite legal and regulatory approvals including but not limited to compliance with applicable laws, rules, regulations and codes of governmental authorities having jurisdiction over the Group and in particular the GEM Listing Rules.

## **REASONS FOR THE SERVICES AGREEMENT**

API is an investment holding company and its investee companies are engaged in the provision of investment advisory services including asset management, securities and futures dealings and wealth management. Its management team comprises individuals with extensive experience in investment, banking, private equity and managing and operating sizeable companies in Asia. Mr. Tsang, the Chairman and Managing Partner of API and a director of NASA, was a General Partner of Goldman Sachs Group, a global investment bank where he led the

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## LETTER FROM THE BOARD

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establishment of the fixed income group in Tokyo and headed the debt syndicate group in London. He served as the Chairman of Goldman Sachs (Asia) LLC between 1989 and 1994. The other directors of NASA are Mr. Timothy Chiang Ta Kuang and Mr. Paul Cheng Wyman. Mr. Chiang, a co-founder and Managing Partner of API, has over 20 years experience in operations and investment. He was Managing Director of Total e-commerce (HK) Limited which managed venture capital funds for Pacific Century CyberWorks Limited (stock code : 1186). Mr. Cheng has been involved in private equity and investment banking for more than 30 years and was with AIG Investment Corp. as Director of Direct Investment, BZW Asia as Head of Mergers and Acquisition and NM Rothschild as an executive director. The Ajia Group has established a network of leading institutions and families offices in various countries in North Asia such as Japan, Korea and China as partners which will support NASA in accessing and generating deal flow and determining the feasibility of outsourcing in potential target investments. The network also gives NASA unique insights into the motives behind sellers and competitors in local markets which will in turn improve the negotiation position and ultimately lead to more favourable valuations and a higher probability of closing transactions.

The Placees are investors procured by NASA and its directors and advisers. Their commitments to subscribing for the Preference Shares are in support of the investment objective and strategy to acquire a portfolio of controlling interests in listed and unlisted North Asian companies in the industrial, consumer products, telecommunications, media and technology sectors that the Ajia Parties initiate for the Group. The Placees' commitments are also in reliance on a dedicated and professional management team from NASA being put in place to oversee and monitor the implementation of the investment strategy for the Group and to support the investment programme of the Company throughout the duration of the life cycle of the investment portfolio. In view of the size of the Placement, the Directors consider it appropriate to recruit additional personnel to assist the Board in actively executing the investment plan. The Directors are of the view that the Services Agreement enables the Group to capitalise on the wealth of experience of NASA's management team and NASA's ability to network and tackle sizeable projects as well as to promote deal flow for the implementation of the investment strategy of the Group as described in the paragraph headed "Reasons for the Placement" above. The regional network of NASA would also provide local due diligence and deal execution assistance to the Group.

The Directors consider that the terms of the Services Agreement, including the basis of determining service fees, incentives and placement fees which are assessed in accordance with the typical fees for managers in the private equity market, serve to align the interests of NASA with those of the Shareholders through effective implementation of the Board's investment objectives and strategies, and are fair and reasonable to the Independent Shareholders.

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## LETTER FROM THE BOARD

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### GEM LISTING RULES IMPLICATIONS FOR THE SERVICES AGREEMENT

By virtue of NASA's controlling interests in the Company, the transactions contemplated under the Services Agreement constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements of the GEM Listing Rules. The Company will seek the approval of the Independent Shareholders by way of a poll at the Special General Meeting of the Services Agreement and the Cap Amounts on the following conditions:

- (a) the services provided by NASA are:
  - (i) in the ordinary and usual course of business of the Company;
  - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to (or from) independent third parties; and
  - (iii) in accordance with the terms of the Services Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the amount of fees for each of the financial years ending 31st March during the term of the Services Agreement will not exceed the Cap Amounts (as described below); and
- (c) compliance by the Company with all other relevant requirements under the GEM Listing Rules, including an annual review of the continuing connected transactions by the Company's auditors and independent non-executive Directors.

#### **Basis of the Cap Amounts**

The annual Cap Amounts of the fees payable to NASA (including annual service fee, incentive fee and placing fee) for each of the three years ending 31st March, 2007, 2008 and 2009 respectively are determined based on factors including (i) the estimated amount and timing for further fund raising exercises of the Group; (ii) the target size and schedule of the investment programme of the Group; (iii) the target rate of return on investments to be made by the Group; and (iv) the projected annual growth in net assets of the Group. Taking into account these factors and on the basis of the amount to be raised from the Placement and in accordance with the payment terms for the Placement pursuant to the Subscription Agreements, the Cap Amounts are set at HK\$260 million for each of the three financial years ending 31st March, 2007, 2008 and 2009.

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## LETTER FROM THE BOARD

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If the terms of the Services Agreement are altered or if the total fees payable to NASA for any of the periods stipulated under the Services Agreement exceed the corresponding Cap Amounts set out above, the Company will have to fully comply with the provisions of Chapter 20 of the GEM Listing Rules.

### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee, comprising Mr. Philip Ma King Huen, Mr. Kenny Tam King Ching and Mr. Edgar Kwan Chi Ping, has been constituted to give recommendations to the Independent Shareholders on the terms of the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement. Your attention is drawn to the recommendations of the Independent Board Committee set out in its letter on page 36 of this circular.

Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the terms of the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement. Your attention is drawn to the letter to the Independent Board Committee and Independent Shareholders from Access Capital set out on pages 37 to 72 of this circular.

### **SPECIAL GENERAL MEETING**

Set out in this circular is a notice convening the Special General Meeting to be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on Monday, 20th February, 2006 at which resolutions will be proposed to approve the Subscription Agreements (including the issue of Conversion Shares upon conversion of the Preference Shares), the Services Agreement (including the Cap Amounts), the Waiver Agreement, the increase in authorised share capital, the creation of a new class of Preference Shares and the proposed amendments to the Bye-laws of the Company.

A form of proxy for use at the Special General Meeting is accompanying this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon to the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting should you so wish.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Your attention is drawn to the letter of recommendation from the Independent Board Committee and the letter of advice from Access Capital which contains their respective recommendation and advice to the Independent Shareholders as regards the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement.

The Directors consider that the terms of the Subscription Agreements, the Services Agreement and the Waiver Agreement are fair and reasonable and that the Subscription Agreements (including the issue of Conversion Shares upon conversion of the Preference Shares), the Services Agreement (including the Cap Amounts), the Waiver Agreement, the increase in authorised share capital of the Company, the creation of a new class of Preference Shares and the amendments to the Bye-laws are in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders or Shareholders (as appropriate) to vote in favour of the relevant resolutions set out in the notice of the Special General Meeting contained in this circular.

### GENERAL

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

For and on behalf of  
**North Asia Strategic Holdings Limited**  
**Savio Chow Sing Nam**  
*Executive Director and Chief Executive Officer*

**North Asia Strategic Holdings Limited**  
**北亞策略控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock code: 8080)

24th January, 2006

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTIONS INVOLVING  
ISSUE OF PREFERENCE SHARES TO AICV AND TIMELESS  
AND WAIVER AGREEMENT;  
AND  
CONTINUING CONNECTED TRANSACTIONS  
INVOLVING SERVICES AGREEMENT**

We refer to the circular of the Company dated 24th January, 2006 (the “Circular”), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the terms of the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement, and to advise you as to whether, in our opinion, such terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and whether the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement are in the interests of the Company and the Shareholders as a whole.

Access Capital has been appointed as the independent financial adviser to advise us and you regarding the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 37 to 72 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix to the Circular.

Having considered the terms of the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement and the independent advice of Access Capital, we consider that the terms of the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement are in the interests of the Company and the Shareholders as a whole. On this basis, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting to approve the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement (including the Cap Amounts) and the Waiver Agreement.

Yours faithfully,  
Independent Board Committee

**Philip Ma King Huen**

**Kenny Tam King Ching**

**Edgar Kwan Chi Ping**

\* For identification purpose only

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## LETTER FROM ACCESS CAPITAL

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*The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for incorporation in this circular.*



Suite 606, 6th Floor  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

24th January, 2006

*To: The Independent Board Committee and the Independent Shareholders of  
North Asia Strategic Holdings Limited*

Dear Sirs,

**CONNECTED TRANSACTIONS INVOLVING  
ISSUE OF PREFERENCE SHARES TO AICV AND TIMELESS  
AND WAIVER AGREEMENT  
CONTINUING CONNECTED TRANSACTIONS  
INVOLVING SERVICES AGREEMENT**

**I. INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with regard to the proposal, comprising: (i) the terms of 21 Subscription Agreements entered into between the Company and 21 Placees (including, inter alia, AICV and Timeless) for the placement (the “Placement”) of convertible preference shares of par value of HK\$0.01 per share (the “Preference Shares”), pursuant to which, the Company has conditionally agreed to issue and the Placees have conditionally agreed to subscribe for a total of 7,630,926,793 Preference Shares at an issue price of HK\$0.1566 per Preference Share; (ii) the terms of an agreement entered into between the Company and NASA on 26th September, 2005 which was amended and restated on 30th December, 2005 between the same parties, pursuant to which NASA will provide certain fund-raising, investment, and other related services to the Company (together the “Services Agreement”); as well as (iii) the agreement to be entered into between the Company and the Ajia Parties, pursuant to which the Ajia Parties shall agree to waive any requirement to adjust the conversion price of the Convertible Bonds, arising from the Placement, including any subsequent conversion of the Preference Shares into ordinary shares of the Company (the “Waiver Agreement”), (together the “Proposal”).



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## LETTER FROM ACCESS CAPITAL

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The Placement contemplated under the Subscription Agreements is conditional upon, inter alia, approval of the Services Agreement by the Independent Shareholders.

Details of the Proposal are contained in the “Letter from the Board” of the circular to the Shareholders dated 24th January, 2006 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Circular unless the context otherwise specifies.

### **II. THE INDEPENDENT BOARD COMMITTEE**

The Board currently consists of 5 executive Directors, namely Mr. Göran Sture Malm, Mr. Savio Chow Sing Nam, Mr. Desmond Fu Hay Ching, Mr. Henry Cho Kim and Mr. Andrew Yao Cho Fai; 3 independent non-executive Directors, namely Mr. Philip Ma King Huen, Mr. Edgar Kwan Chi Ping and Mr. Kenny Tam King Ching.

The Independent Board Committee comprising the independent non-executive Directors, Mr. Philip Ma King Huen, Mr. Edgar Kwan Chi Ping and Mr. Kenny Tam King Ching, has been established to consider the terms of the AICV Subscription Agreement, the Timeless Subscription Agreement (which form part of the Subscription Agreements) and the Services Agreement (including the annual Cap Amounts) and the Waiver Agreement.

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of (i) the AICV Subscription Agreement and the Timeless Subscription Agreement (which form part of the Subscription Agreements), (ii) the Services Agreement (including the annual Cap Amounts), as well as (iii) the Waiver Agreement, are fair and reasonable so far as the Shareholders are concerned, and to give our opinion in relation to such agreements for the Independent Board Committee’s consideration when making their recommendation to the Independent Shareholders.

### **III. BASES OF AND ASSUMPTIONS OF THE ADVICE**

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due

and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

#### IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

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

##### 1. Background to the Proposal

###### *1.1 Recent change in controlling shareholder and business diversification*

Following the completion of various proposals described in the Company's circular dated 20th June, 2005 (the "June Circular"), the Ajia Parties now own approximately 67.2% of the issued ordinary shares of the Company. As set out in the June Circular, the Company stated that it was the intention of the Ajia Parties to diversify from the Company's focus on the cyclical steel trading business and explore acquisition opportunities of strategic and possibly controlling stakes in companies with strong cashflows and in growth sectors within the North Asia Region. At the same time, it was also stated in the June Circular that the Company would raise new capital and increase its financial resources in order to implement its stated acquisition strategy and capture sizeable investment opportunities.

###### *1.2 Investment thesis and philosophy*

The Directors believe that North Asia provides an excellent investment environment as the region covers some of the World's fastest growing economies (i.e. the PRC, South Korea, Hong Kong, Macau, Taiwan and Japan). The Directors believe that the universe of middle-market companies

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## LETTER FROM ACCESS CAPITAL

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in North Asia is greater than that of other more developed regions, and yet the amount of private equity dedicated to this sector of the North Asian economy is proportionally low. Against this background, the Directors believe that the North Asia Region is rich in investment opportunities that involve undervalued companies as well as motivated sellers.

The Company will focus on investing in middle-market listed and unlisted companies in the industrial, consumer products, telecommunications, media and technology sectors. The Company will utilise its extensive network and close relationships with major institutions and associates across North Asia, leverage their respective regional acquisition and investment experience, and develop and execute investment transaction flow. After securing control over its investment targets, the Company will seek to implement measures in those targets to unlock any hidden value or potential (e.g. branding, market coverage and output efficiency) and improve the investment targets' profitability.

The Board considers that the Company would, without the contemplated funding under the Placement, continue to operate and utilise its own network and relationships to develop business flow. However, in the absence of such funding, the Directors are of the view that the Company would not be able to achieve the anticipated scale and critical mass of growth. The Directors believe that the engagement of NASA under the Services Agreement and the establishment of the Investment Committee are necessary so as to (i) enable the Company to raise the substantial amount of funds under the Placement (as the Placees require the entering into of the Services Agreement, as a condition precedent to the Placement); and, (ii) provide the Placees the necessary comfort that the Company will secure the continuing services of NASA (and their more extensive business network and relationship within the Ajia Parties) even though the aforementioned NASA connected persons may cease to be controlling shareholders in the Company (as referred to in section 2.3 below).

According to the terms of reference of the Investment Committee, the Investment Committee will only include a certain subset of key senior persons from the NASA team, rather than all of NASA's staff. Furthermore, the Directors have confirmed that the Investment Committee is meant to act as a "check and balance" to the investment fund's investment and divestment decision making and approval processes; as it allows the Anchor Investors to participate in these processes. Through the Investment Committee, the Anchor Investors can offer a "second opinion" on investments or divestments put forth for approval.

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## LETTER FROM ACCESS CAPITAL

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The Company will seek multiple exit opportunities for its investment portfolio through one or more avenues such as dividend payments, primary and secondary equity offerings or market sales, trade sales or sales to strategic buyers, or refinancing and payment of special dividends.

### ***1.3 Immediate priority to seek new long-term capital for acquisitions***

Given the current financial position of the Company, and given that the valuation of the Company's acquisition targets will likely be considerably larger than the Company's current shareholders funds of approximately HK\$2.1 million as at 31st March, 2005 or its market capitalisation of approximately HK\$75.8 million as at the Latest Practicable Date, the Board is of the view that the Company should, as a matter of high priority, seek an appropriate solution that can substantially augment or multiply the Company's capital base, so as to equip the Company with the necessary financial means to implement its diversification and growth strategy in a timely and effective way.

### ***1.4 The Placement as contemplated under the Subscription Agreements***

As set out in the "Letter from the Board", under the 21 Subscription Agreements the Company entered into with 21 Placees, the Company has conditionally agreed to issue and the Placees have conditionally agreed to subscribe for a total of 7,630,926,793 Preference Shares at an issue price of HK\$0.1566 per Preference Share. The Placement will raise approximately HK\$1,195.0 million (or HK\$1,181.6 million after deducting a placement fee to NASA and related expenses).

The purpose of the Placement is to raise the necessary financial resources in order for the Company to be in a position to capture sizeable investment opportunities and implement its long-term diversification and growth strategy as mentioned in section 1.2 above. In addition, the Placement will allow the Company to gain long-term institutional or strategic investors, which will not only strengthen the financial capabilities of the Company, but also strengthen its shareholder base.

Among the Placees are three major international financial institutions as well as one Asia focused fund of funds, which are the Anchor Investors to the Placement. They are United Overseas Bank Limited (Anchor Investor I), ABN AMRO Asset Management Holding N.V. (Anchor Investor II), Goldman Sachs (Asia) Finance (Anchor Investor III) and Oikos Asia Fund, a Cayman Islands domiciled company focused on direct investments in Asia (Anchor Investor IV).

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## LETTER FROM ACCESS CAPITAL

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Also among the 21 Placees, are (i) AICV, a US\$33 million partnership venture capital fund managed by Mr. Tsang and dedicated to making private equity investments in internet and technology-oriented sectors, and (ii) Timeless, a company wholly and beneficially owned by Mr. Cho, an executive Director. The total commitment under the AICV Subscription Agreement and the Timeless Subscription Agreement amounts to HK\$38.8 million, representing approximately 3.3% of the total amount of commitment procured under the Subscription Agreements as at the Latest Practicable Date.

As stated in the “Letter from the Board”, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, the Placees (other than AICV and Timeless) and the respective ultimate beneficial owners of the Placees are not connected persons of the Company. In addition, each of the Placees and the respective ultimate beneficial owners of the Placees are third parties independent of the Company and its connected persons, and are independent of each other. Also none of the Placees held any Shares or other securities in the Company prior to the Placement.

By virtue of Mr. Tsang’s interest as the manager (but not as a limited partner) of AICV and his substantial shareholding interests in the Company, the placement of Preference Shares to AICV under the AICV Subscription Agreement constitutes a connected transaction of the Company under the GEM Listing Rules. Also, by virtue of the fact that Timeless is a company wholly and beneficially owned by Mr. Cho who is an executive Director, Timeless is considered to be a connected person of the Company, and the placement of Preference Shares to Timeless under the Timeless Subscription Agreement also constitutes a connected transaction of the Company under the GEM Listing Rules. The AICV Subscription Agreement and the Timeless Subscription Agreement are therefore subject to the approval of the Independent Shareholders at the Special General Meeting.

Accordingly, NASAC, Mr. Tsang and Mr. Cho and their respective associates shall abstain from voting on the AICV Subscription Agreement and the Timeless Subscription Agreement at the Special General Meeting. No Shareholder is required to abstain from voting on the resolutions to be proposed at the Special General Meeting regarding the Subscription Agreements other than the AICV Subscription Agreement and the Timeless Subscription Agreement.

### ***1.5 Engagement of NASA***

In order to execute the Company's long-term plans, the Board considers it necessary to assemble a dedicated professional team, which will work exclusively for the Company to carry out the Group's investment strategy, and which will be subject to the Board's control.

In addition, as stated in the "Letter from the Board", as the Placees were procured by NASA and its directors and advisers, the Placees' respective commitments are reliant upon a dedicated and professional management team from NASA being put in place to oversee and monitor the implementation of the Company's investment strategy, as well as to support the investment program of the Company throughout the life cycle of its investment portfolio.

The Company has therefore proposed to engage NASA (subject to all applicable requirements including regulatory approvals and the approval of the Independent Shareholders), to act as a consultant to the Company. In this capacity, NASA will provide the Company a range of services relevant to the Company's investment portfolio. These services will include: fund raising, research, investor sourcing, investment sourcing, investment analysis and due diligence, and financial advisory, all of which will be under the control and supervision of the Board.

As API is the sole shareholder of NASA which is the controlling shareholder of NASAC (which owns directly approximately 46.1% of the issued ordinary shares of the Company), the entering into of the Services Agreement by NASA and the Company will constitute a continuing connected transaction for the Company under the GEM Listing Rules. The Services Agreement will therefore be subject to approval by the Independent Shareholders at the Special General Meeting. Accordingly, NASAC and its associates which include NASAC and Mr. Tsang, i.e. the Ajia Parties, who in aggregate own approximately 67.2% of the Company's issued share capital, are required to abstain from voting on the relevant resolution to approve the Services Agreement at the Special General Meeting.

### ***1.6 Waiver Agreement in relation to the adjustment of the conversion price of the Convertible Bonds***

Pursuant to the Ajia Party Subscription Agreement entered into on 19th May, 2005, between the Company, NASAC, Mr. Tsang, and Huge Top (details of which are set out in the announcement of the Company dated 19th May, 2005 and the circular of the Company dated 20th June, 2005); the Ajia Parties subscribed for, inter alia, an aggregate principal amount of

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HK\$20 million in Convertible Bonds, which are convertible into 127,713,920 new Shares at an initial conversion price of HK\$0.1566 per Share (subject to adjustments). According to the terms of the Convertible Bonds, adjustments to the conversion price are allowed in circumstances where the Company issues wholly for cash any securities, which are convertible into or exchangeable for or carry rights of subscription of additional Shares. As such, in the case of the Placement, the conversion price of the Convertible Bonds would need to be adjusted downwards from HK\$0.1566 per Share to HK\$0.0280 per Share.

In order to avoid the potential dilution effect to the Independent Shareholders as a result of the abovementioned downward adjustment to the conversion price of the Convertible Bonds, and also so that there would be a consistent entry price for investment in the Company by the Ajia Parties and the Placees (one of assumptions held by the Placees when committing to participate in the Placement); holders of the Convertible Bonds (namely the Ajia Parties) and the Company have agreed to enter into the Waiver Agreement, in order to waive any requirement to adjust the conversion price of the Convertible Bonds arising from the Placement, including any subsequent conversion of the Preference Shares into ordinary Shares. According to the Directors, this is a one time waiver for the purposes of facilitating the Placement.

Due to Ajia Parties' controlling shareholding in the Company, the entering into of the Waiver Agreement will constitute a connected transaction for the Company under Chapter 20 of the GEM Listing Rules and is subject to the approval of the Independent Shareholders at the Special General Meeting. Accordingly, the Ajia Parties and their respective associates shall be required to abstain from voting on the ordinary resolution to be proposed at the Special General Meeting regarding the Waiver Agreement.

## **2. Underlying rationale for the Subscription Agreements, the Services Agreement, and the Waiver Agreement**

### ***2.1 The Subscription Agreements***

Given the general volatility of GEM board securities, as well as the Company's relatively small size (with a shareholders funds of approximately HK\$2.1 million as at 31st March, 2005 and a market capitalisation of approximately HK\$75.8 million as at the date of the Latest Practicable Date), the Board considers it unlikely that the Company would be able to raise large sums of new long-term capital in the amount equivalent to the HK\$1,195.0 million to be raised via the Placement, under the Subscription Agreements, through a traditional "best effort" basis or underwritten equity

placement or a rights issue. In addition, due to the existing financial position of the Group, the Directors believe that it would be unlikely (if not impossible) to secure bank borrowings.

Furthermore, the proceeds from the latest commitments under the Placement amounting to approximately HK\$1,195.0 million (or HK\$1,181.6 million after deducting placement fees payable to NASA and related expenses) are intended for future investment and working capital purposes; which is in line with the Company's diversification and growth strategy. The abovementioned amounts are expected to be increased by additional commitments to be secured by the Company in future.

Finally, and as mentioned above, the Board considers that the Placees will broaden the shareholder base of the Company; and as many of these Placees are reputable world-class institutional investors, the Board is positive that their involvement in the Company will, in time, give rise to further institutional interest in the Company.

Taking into account the reasons for the Subscription Agreements set out in this section, we concur with the view of the Directors and believe that the entering of the Subscription Agreements is justifiable and in the interests of the Company and the Shareholders as a whole.

### **2.2 *The AICV Subscription Agreement and the Timeless Subscription Agreement***

AICV and Timeless are among the 21 Placees to the Placement, and as such the AICV Subscription Agreement and the Timeless Subscription Agreement form part of the Subscription Agreements.

With the exception of various conditions precedent required by the Anchor Investors in their respective subscription agreements, the terms of the Subscription Agreements vis-a-vis the Preference Shares are the same. However, by virtue of the fact that AICV and Timeless are connected persons as defined under the GEM Listing Rules, the entering into of the AICV Subscription Agreement and the Timeless Subscription Agreement by the Company constitute connected transactions for the Company and therefore the AICV Subscription Agreement and the Timeless Subscription Agreement are both subject to Independent Shareholders' approval at the Special General Meeting.



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We understand from the Directors that certain Placees have indicated that their investments are contingent upon the Directors (or their affiliates) also participating in the Placement. We have (i) conducted interviews with several Anchor Investors to confirm that it was a prerequisite to have founding members co-invest in the Company; and (ii) discussed with other reputable world-class institutional investors (who are not involved in the Placement) and have noted that it is not uncommon, as a matter of market practice, for certain founding members of a given investment fund to co-invest along with any procured third party investors, so as to show commitment to and faith in such fund, as well as to ensure that the interests of the founders in the fund are aligned with those of the third party investors (in this case, the other Placees).

Taking into account the background to and the reasons for entering into the AICV Subscription Agreement and the Timeless Subscription Agreement, as described in the above paragraphs, we concur with the view of the Directors and believe that the entering of the AICV Subscription Agreement and the Timeless Subscription Agreement (which form part of the Subscription Agreements) is justifiable and in the interests of the Company and the Shareholders as a whole.

### **2.3    *The Services Agreement***

The Board considers that fundamental to the willingness of the Placees (mainly the Anchor Investors) to invest in the Company is the requirement that the Company enter into the Services Agreement (i.e. as a precondition to investment), thus allowing the Company to secure the services of NASA in support of the Company's investment program for the duration of the Company's investment portfolio life cycle.

Embedded in this expectation and desire for the ongoing involvement of NASA as described above lies the Placees' legitimate concern about the level of NASA's future commitment, in the event that the vested interest of NASAC is substantially reduced following full conversion of the Preference Shares. Shareholders should note that as stated in the "Letter from the Board", the shareholding of the Ajia Parties will, upon full conversion of the Company's outstanding Convertible Bonds and the Preference Shares, be diluted from its current level of 67.2% to approximately 2.4% of the enlarged issued ordinary share capital of the Company.

The Company therefore recognizes the need to formalise the relationship and scope of services rendered by NASA to the Company. The Services Agreement seeks to achieve congruence between the interests of the Company, the Placees, and NASA, as well as to secure stability and the commitment of NASA's services, coupled with an appropriate incentive for NASA to deliver performance; even after the Ajia Parties cease to be a controlling shareholder of the Company.

Taking into account the reasons for the Services Agreement, we concur with the view of the Directors and believe that the entering of the Services Agreement is necessary within the context of the business objectives and growth vision of the Board, and that it is therefore in the interest of the Company.

### **2.4    *The Waiver Agreement***

The Board recognizes that the Placement would, under the terms of the Convertible Bonds, cause the Convertible Bond conversion price to be adjusted downwards from HK\$0.1566 per Share to HK\$0.0280 per Share, and it is of the view that a waiver of the said conversion price adjustment is needed in order to avoid any potential dilution to the Independent Shareholders upon conversion of the Convertible Bonds, as well as to ensure that there is a consistent entry price for investment in the Company between the Ajia Parties and the Placees (one of assumptions held by the Placees when committing to participate in the Placement). As such, following discussions with the holders of the Convertible Bonds (namely the Ajia Parties, who are connected persons of the Company), the Company and the Ajia Parties have agreed to enter into the Waiver Agreement pursuant to which any requirement to adjust the conversion price of the Convertible Bonds arising from the Placement, including any subsequent conversion of the Preference Shares into ordinary shares of the Company shall be waived.

The Board is of the view that the Waiver Agreement will help the Company in executing the Placement and thus the Proposal, and that the Waiver Agreement is fair and reasonable and in the interests of the Company and the Shareholders. As the Waiver Agreement is a one-time voluntary waiver agreement signed by the holders of the Convertible Bonds (namely the Ajia Parties) which both facilitates the Placement and serves to minimize any additional potential dilution to the Independent Shareholders, as well as ensures that there is a consistent entry price between the Ajia Parties and the Placees; we are of the view that the entering of the Waiver Agreement is in the interests of the Company and the Shareholders as a whole.

### 3. Perceived intended benefits of the Proposal

In summary, the Board considers the implementation of the Proposal to be in the interest of the Company. In particular, the successful execution of the Proposal would result in the following perceived intended benefits to the Company:

- Immediate substantial enhancement of the Company's shareholders' funds and a broadening of the Company's shareholder base with the inclusion of reputable and sizeable institutional investors.
- Provide the Company with a credible financial capacity to invest in suitable investment opportunities as they arise.
- Leverage on NASA's business network (whereby the Placees as long term investors would also bring potential co-investment opportunities) and thus further extend the Company's investment reach and capability.
- Through the Services Agreement with NASA, the Company and the Placees would secure the long-term and exclusive services of NASA needed in order to successfully implement the investment objectives of the Company.

Taking into account the reasons and the perceived intended benefits of the Proposal set out above, we concur with the view of the Directors and believe that the implementation of the Proposal is reasonable and in the interest of the Company.

### 4. Discussion and analysis of the terms of the Preference Shares and the Services Agreement

We have discussed with the Company and have considered the following factors when performing our assessment of the terms of the AICV Subscription Agreement, the Timeless Subscription Agreement and the Services Agreement:

#### 4.1 *Principal terms of the Preference Shares*

The following section sets out the principal terms of the Preference Shares:

Redemption	Non redeemable
Listing	Unlisted. An application has been made to the Stock Exchange for the listing of and permission to deal in the Conversion Shares.
Subscription price	HK\$0.1566 per Preference Share

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### Payment

The subscription price shall be payable in cash by the Placees in four equal installments, the first of which will be payable on the Completion Date, and the remaining three of which will be payable on the dates falling 12 months, 24 months and 36 months respectively after the Completion Date, provided that payment of either the second or third installment shall not be required unless and until 75% of the subscription monies previously paid by the Placees from time to time has been paid out for or committed to investments for the Company.

In the event that the subscription monies previously paid by the Placees from time to time for the Preference Shares are insufficient to make any potential investments approved by the Board and/or pay fees or expenses which are payable by the Company under the Services Agreement, the Company shall be entitled to require the relevant amount of installment to be paid by the Placees on a date specified by the Company but not earlier than 45 days from the date serving the payment notice by the Company.

Any unpaid balance of the subscription price remaining payable immediately prior to the date falling 36 months after the Completion Date or, if earlier, the business day immediately preceding the date of conversion of the Preference Shares, shall in any event be payable on such anniversary or on such business day immediately preceding the date of conversion, as the case may be.

### Conversion into new Shares of the Company

Automatically convertible into Shares upon the listing of the Shares on the Main Board of the Stock Exchange, or on the fourth anniversary of the Completion Date, whichever occurs earlier, at the conversion ratio of one Preference Share to one Share, subject to usual anti-dilution adjustments.

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The adjustment events will arise as a result of certain changes in the share capital of the Company including, among other things, consolidation or subdivision of shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company.

In the event that conversion of any holder's Preference Shares would result in such holder holding 30% or more of the issued Shares, or otherwise result in such holder being required to make a mandatory general offer for the Shares under the Takeovers Code, the holder shall be entitled to elect to convert such number of Preference Shares as will cause it to hold (a) 29% of the issued Shares; or (b) if applicable, the maximum whole number of percentage of the issued Shares it could hold without being required to make a mandatory general offer for the Shares under the Takeovers Code. Any remaining Preference Shares held by such holder may be converted by such holder by giving not less than 45 days' prior notice to the Company.

Ranking

Rank *pari passu* with the Shares as regards dividend.

Voting

Holders of the Preference Shares will not be entitled to vote at general meetings of the Shareholders, except when a resolution is to be proposed for (i) the winding up of the Company; (ii) renewing the Services Agreement, amending, modifying or supplementing its terms, or approving the payment of any fee to NASA in Shares; or (iii) varying or abrogating the rights or privileges of the holders of the Preference Shares. Holders of the Preference Shares are also entitled to vote on the election of a chairman of any meeting at which they are entitled to vote for any motion for adjournment of such general meeting.

When the holders of the Preference Shares are entitled to vote at a general meeting, each Preference Share shall confer on its holder one vote.

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All or any of the rights or privileges attached to the Preference Shares may be varied or abrogated only with the sanction of a resolution passed at a separate meeting of the holders of the Preference Shares by 75% of the votes cast at such meeting of the holders of the Preference Shares.

The above voting rights of the holders of the Preference Shares are applicable to partly-paid Preference Shares as if such shares were fully paid.

Board seats                      None

As stated in the “Letter from the Board”, the terms of the Subscription Agreements (including the subscription price of the Preference Shares) were determined after arm’s length negotiations between the Company and the Placees.

Shareholders should also note that the Preference Shares will not be listed, and as such, they will not be readily tradable until such time that the Preference Shares are automatically converted into Shares, upon migration of the Company’s listing from the GEM Board to the Main Board, or on the fourth anniversary of the Completion Date, which ever occurs earlier. We understand from the Company that, save for the Preference Shares to be placed to AICV and Timeless under the AICV Subscription Agreement and the Timeless Subscription Agreement respectively, the Preference Shares will be placed to Placees, who are not connected persons (as defined in the Listing Rules). As such, these Placees are in essence long-term investors in the Company. The latest commitment secured under the Placement of approximately HK\$1,195.0 million represents some 569.0 times the Company’s current shareholders’ funds, and as such the Placement upon completion would completely transform the Company’s financial capabilities and prospects.

Shareholders should also note that the Preference Shares do not carry with them voting rights (save as to specific events as described above) and holders of the Preference Shares have no right to nominate directors to the Board; although the Anchor Investors may nominate to place 2 or more members (out of a total of at least 6 members) on the Investment Committee. The Board considers that the concessions with respect to voting rights and board representation demonstrate the Placees’ confidence in the prospects of the Company under the Proposal. In addition, the Board also considers that (taking into consideration the illiquid nature of the Preference Shares,

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the minimal subscription requirement (of US\$1 million), and the pay by installments and call features of the Preference Shares over a period of 4 years) it would not be practicable and administratively feasible to offer Preference Shares to all Shareholders. In any event, as stated in the “Letter from the Board”, the Independent Shareholders’ holdings in the Company will be reduced from approximately 21.7% upon completion of the Subscription Agreements to approximately 0.3% upon full conversion of the Convertible Bonds and the Preference Shares. Taking into account the background of the Proposal, the current limited financial resources of the Group and the priority to raise new capital to implement the investment objectives and program of the Group, we are of the view that despite the fact that the Independent Shareholders’ holdings in the Company could be reduced from approximately 21.7% upon completion of the Subscription Agreements to approximately 0.3% upon full conversion of the Convertible Bonds and the Preference Shares, the issuance of the Preference Shares to the Placees under the Subscription Agreements are in the interests of the Company and the Shareholders as a whole.

As mentioned above, the Preference Shares carry no voting rights except in situations that relate to (i) the winding up of the Company, (ii) renewing, amending or modifying or supplementing of the Services Agreement, and (iii) varying or abrogating the rights and privileges of the Preference Share holders; in which cases the Preference Share holders will be entitled to vote in a general meeting of the Company, along with the holders of the ordinary shares of the Company, on the relevant resolutions.

Under situation (iii) above, the Preference Share holders will be entitled to vote and will have to obtain not less than 75% approval within their own class of shares, and, in the event that the rights attached to the ordinary shares of the Company are varied, modified or abrogated at the same time, the holders of the ordinary shares of the Company will be also entitled to vote and will also have to obtain not less than 75% approval within their own class of shares, before either class of shareholders can proceed to a general meeting of the Company. At such general meeting of the Company, both the holders of the Preference Shares and holders of the ordinary shares of the Company will then be entitled to vote to approve the requisite amendments to the Company’s Bye-laws in order to accommodate the relevant variations, or abrogation of the rights and privileges of the Preference Share holders, pursuant to situation (iii) set out above.

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Because both classes of shareholders need to obtain not less than 75% approval within their respective classes of shares before any actual amendment to the Bye-laws of the Company can be made (to accommodate the situation under (iii) above), the interests of the ordinary shareholders are effectively protected. This check and balance gives the ordinary shareholders of the Company the ability to effectively veto any changes contemplated under situation (iii). After taking into account the background of the Proposal, and the fact that the ordinary shareholders of the Company have the ability effectively veto any changes contemplated under situation (iii), we are of the view that it is fair and reasonable for the Preference Share holders to be given the right (under specific circumstances, i.e. situations (i), (ii) and (iii) above) to vote, together with the holders of ordinary shares, at a general meeting of the Company.

After having considered the abovementioned reasons and factors, we concur with the Board's view and are of the view that it is justifiable for the Company to issue the Preference Shares to the Placees under the Subscription Agreements, and that the terms of the Preference Shares are fair and reasonable to the Company, as well as to the Shareholders as a whole.

### **4.2    *The subscription price of the Preference Shares***

The subscription price per Preference Share represents:

- (i) a discount of approximately 83.2% to the closing price of HK\$0.93 per Share on 16th September, 2005, being the last trading day for the Shares prior to the suspension of the Shares pending the release of the Company's announcement dated 30th December, 2005;
- (ii) a discount of approximately 83.2% to the average closing price of the Shares of HK\$0.932 for the ten trading days up to and including 16th September, 2005; and
- (iii) a premium of approximately 17.0% over the audited net asset value per Share of HK\$0.1338 as at 31st March, 2005.

It is also important to note that (i) although the Company's Shares are thinly traded in the market, there has been some variance in the trading volume of the Shares prior to their suspension on 16th September, 2005 (pending the issue of the announcement for the Project) with daily turnover fluctuating between a low of 55,300 Shares on 24th August, 2005 and a high of some 7.40 million Shares on 6th September, 2005 (the latter



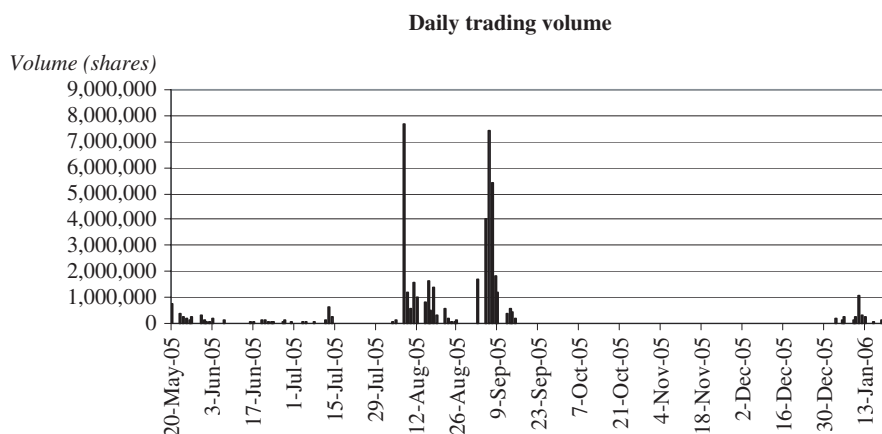
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representing only approximately 7.7% of the Company's approximately 96 million current Shares outstanding); and that (ii) there has been no significant change in the underlying business of the Group, as further described below.

The following chart sets out the recent trading volume of the Shares:



Source: Bloomberg

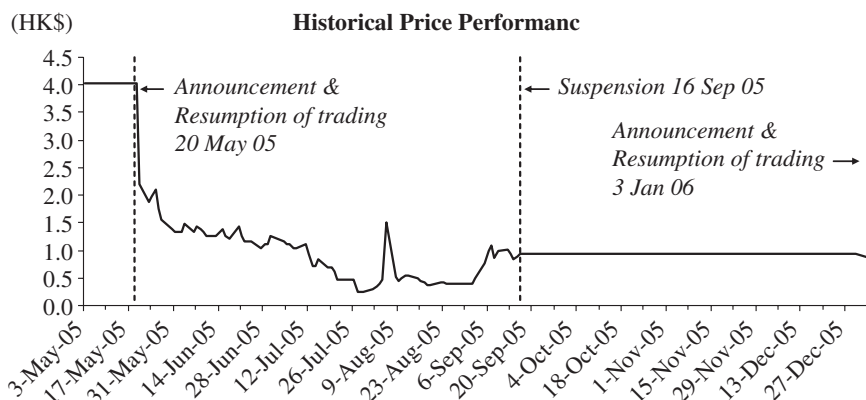
Also, as set out in the “Letter from the Board”, in view of the deteriorating financial results of the Group in recent years, the Share’s lackluster performance and volatility, and that fact that the Shares are currently trading at some 6 times net asset value per Share, the Board considers that the current trading level of the Shares (which underwent several surges as shown in the chart below, for a short periods, including most recently from around 2nd September, 2005 (after the Company announced its then proposed acquisition) to 16th September, 2005 (the last trading day prior to the publication of the Announcement), to be unsustainable. As such, given the volatility of the Shares, their thin trading volume and the Company’s poor performance in recent years, we are of the view that the Share price does not entirely reflect the value of the underlying business of the Company.

In any event, the subscription price for the issuance of the new Shares and Convertible Bonds to the Ajia Partners in 20th June, 2005, was set with reference to the net asset value of the then Group as at 31st December, 2004, less allowances for expenses, which is still the same fair and reasonable basis applicable to determining the issue price of the Preference Shares, given that the underlying business of the Company has not changed since then.

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Source: Bloomberg

From the perspective of the Placees, the Board considers that it is reasonable for them to base the subscription price of the Preference Shares against the recently completed subscription of new Shares and Convertible Bonds by the Ajia Parties in 19th May, 2005 (details of which are described in the circular of the Company dated 20th June, 2005). We concur with the view of the Board as the Company has, save for declaring the Company's new business strategy and objectives, not yet obtained the requisite long-term funding to implement its new business vision, nor has it completed any new business acquisitions. As such, the Company's current business of steel trading continues to be the only operating business following the closing of the Company's open offer on 4th August, 2005 (details of which are set out in the Company's circular dated 20th June, 2005 and the announcement dated 5th August, 2005). On this basis, we consider that it is reasonable for the Placees to require that the Subscription Price be based on the relevant entry price of the investments by the Ajia Parties.

The above two charts cover the period starting from the date of the announcement of when the Ajia Parties first became controlling investors in the Company (details of which are set out in the Company's circular of 20th June, 2005) up to the Latest Practicable Date.

Having considered the abovementioned reasons and factors, we concur with the Board's view and are of the view that the subscription price of the Preference Shares is fair and reasonable to the Company.

### **4.3 *Inter-conditionality between the Services Agreement and the Subscription Agreements***

Shareholders are reminded that the execution of the Services Agreement is a condition precedent for the completion of the Subscription Agreements and that such condition will not be waived. We understand that this condition

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precedent was designed to provide comfort to the Placees such that, notwithstanding the potential dilution of NASAC's shareholding in the Company following the conversion of the Preference Shares, the Company (and the funds invested therein by the Placees) will continue to be serviced and advised by NASA, and that NASA will continue to be remunerated and incentivized, so as to deliver performance to the Company.

The Board also recognizes that the Company serves as the investment vehicle for the Placees. The Placees are investing in the Company on the basis of their assessment in the ability of (and any risk of relying on) NASA to manage their investment; and consequently, the terms of the Services Agreement are effectively endorsed and accepted by the Placees even though they are not a direct contracting party under the Services Agreement.

In assessing the terms of the Services Agreement and the Subscription Agreements, the Board considers it imperative to take into account the abovementioned perspective of the Placees who are potential holders of the new Shares. As the Preference Shares are not redeemable but can participate in the future profitability (or otherwise) of the Company, they share with the Shareholders the future profitability of the Company on a pro-rata basis. As such, their interest in the Company aligns directly with that of the Shareholders.

From the perspective of the Shareholders, the Placement represents a unique opportunity for the Company to multiply its capital base (569.0 times its present size, as at the Latest Practicable Date), which provides the Company with the necessary resources to build its business to the benefit of the Company and all the Shareholders. The Directors (including the independent non-executive Directors) are not aware of any other alternative proposal, nor can they reasonably foresee (in the near-to-medium term) any alternative avenues through which the Company can secure a similar amount of long-term funding contemplated under the Placement.

Having considered the abovementioned reasons and factors, we are of the view that the conditions precedent of the Subscription Agreements (in particular, that which pertains to the execution of the Services Agreement) are justifiable and reasonable to the Company.

#### **4.4 *Principal terms of the Services Agreement***

In order to carry out our analysis and comparison of the principal terms of the Services Agreement, we have sampled and examined the private placement memorandums of private equity investment funds; publicly

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available offer documents pertaining to listed investment companies in Hong Kong; various hedge funds that invest, inter alia, in both listed and non-listed securities of companies for long-term capital appreciation and returns; as well as a number of off-shore listed property or property related investment funds. Accordingly, we have set out below our analysis of the terms of the Services Agreement:

### *Service fee*

NASA will be entitled to a service fee that will be calculated and paid, in cash, quarterly in advance at the rate of 2% per annum of equity capital committed by investors identified by NASA less such amounts expended by the Group in employing certain senior managers, comprising initially a team of four experienced professionals, including a chief executive officer and a chief financial officer.

We have compared the proposed service fee under the Services Agreement with the terms of various private equity investment funds of at least US\$100 million in size (i.e. those that are comparable in size with the amount of funds to be raised through the Placement). We have noted that, these funds (as do other types of investment funds) generally charge annual service fees (which can be payable semi-annually, quarterly or monthly) in the range from 1.5% to 2.5% of the fund size, calculated by reference to either the underlying net asset value of the fund or in some cases, on the committed size of the funds, and such fees are normally payable at monthly or quarterly intervals in advance or in arrears.

After taking into consideration the market practices for how service fees are charged by investment funds, we are of the view that the service fee is in line with the market rate, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### *Incentive fee*

The Company shall pay to NASA an annual incentive fee (the “Incentive Fee”) of 20% of the amount (if any) by which the Company’s net assets (“Net Assets”) (as confirmed by the Company’s auditors and based on the aggregate fair valuation of the Group’s investments, and taking account of any accruals for fees due under the Services Agreement), as at the end of any financial year, exceed the greater of:

- (i) the highest level of Net Assets (on a fully diluted per share basis) as at the end of any prior financial year (the “High Water Mark”); AND

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- (ii) the aggregate amount of capital received by the Company through public and/or private placing of share capital (the “Funded Capital”), compounded annually at the rate of 5%, the minimum rate of return agreed to between the Company and the Placees (the “Reference Base”).

Like annual service fees, based on the sample of investment funds we mentioned above, the incentive fees paid to investment fund managers are common market practice. We have noted that investment fund managers typically charge performance related incentive fees that are designed to share in any excesses achieved over and above certain minimum pre-defined profit targets within a certain accounting period; or alternatively, fees may be designed to share in any excesses in a given fund’s asset value that are over and above certain benchmarks (e.g. a high water mark and/or any given minimum rate of return or hurdle rate) during a particular accounting period. The rate at which an investment fund manager shares in such excesses named above can be in the form of a straight percentage of the relevant excess, or they may be designed to increase if certain pre-set bands of excess are achieved.

Below is our general understanding of how and under what circumstances NASA can earn the Incentive Fee:

In the case of the Services Agreement, there is no performance related High Water Mark in place during the first financial year from the completion of the Subscription. As such, the Reference Base will serve as a default High Water Mark beginning in year one, increasing each year by a compound rate of 5% as mentioned above.

From the outset, as long as the Company’s Net Assets remain below the relevant Reference Base, no Incentive Fee will be paid to NASA. However, as soon as the Company’s Net Assets exceed the relevant Reference Base, 20% of such excess, namely the Incentive Fee, will be payable to NASA.

From this point on, any new high Net Assets level achieved by the Company will serve as the new High Water Mark, and only when the Company’s Net Assets in subsequent years exceeds any previously set High Water Mark, will NASA will be paid the Incentive Fee, namely 20% of the amount by which the Company’s Net Assets exceeds the most recent High Water Mark.

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## LETTER FROM ACCESS CAPITAL

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Shareholders should note that as we are not investors to the abovementioned sampled investment funds, we are not privy to data regarding the respective performance of these funds nor do we have data on the historical total incentive fees paid to their respective investment managers from year to year. As such, we do not have sufficient data upon which to draw a comparison of the historical aggregate of the relevant service and incentive fees paid to the respective investment managers of these funds. We do however have a sufficient amount of information drawn from the examples of private placement memorandums available to us thus far (of private equity funds, buy-out funds, hedge funds, and off-shore listed infrastructure and property and property related funds); as well as the publicly available offer documents of Hong Kong listed investment funds; all of which take long-term major or controlling positions over their respective investments, whether listed or unlisted; to have enough information so as to be able to identify and compare the relevant durations, investment parameters, focus; and fee categories, rates and features (e.g. service fees, incentive fees, termination fees) of these funds. As such, we have in our analysis and based on the abovementioned information, compared the general investment terms, focus, duration, and range of fees (by category, i.e. service fee, incentive fee and/or termination fee) charged by investment managers of these investment funds.

Based on the private placement memorandums and offer documents we have sampled (which as mentioned above include private equity investment funds, various hedge funds, and a number of off-shore listed infrastructure and property or property related investment funds); as well as publicly available offer documents pertaining to listed investment companies in Hong Kong; we consider that they are the best examples identified and available to us thus far, and that together they enable us to form a view on the fairness and reasonableness of the relevant service and incentive fees.

After taking into consideration the market practice for how incentive fees are charged (including our sample of investment funds as mentioned above that focus on longer term major and/or controlling stakes in listed and unlisted investments, and that feature incentive fees involving 20% of any surplus over certain minimum rates of return and targets), we are of the view that the proposed incentive fee under the Services Agreement is in line with the market rate, is fair and reasonable and is in the interests of the Company and the Independent Shareholders.

# LETTER FROM ACCESS CAPITAL

## Placing Fee

The Company shall pay to NASA or to such NASA-Related Person as NASA may designate a placing fee (the “Placing Fee”) equal:

- (i) in the case of Placement, to the higher of (a) HK\$7,800,000; and (b) 0.5% of the gross proceeds of the Placement; and
- (ii) in the case of each subsequent placing of Preference Shares or any other equity or equity-linked securities of the Company arranged by NASA, to 0.5% of the gross proceeds of such placing.

The placing fee in respect of each such placing shall be payable on the date on which subscription monies are first payable to the Company in respect of such placing, whether or not all subscription monies in relation to such placing are payable on such date.

In the following table, we have reviewed placing fees for various placements completed in Hong Kong in 2005 and have noted that, based on the latest placement size of HK\$1,195.0 million, the Placing Fee of HK\$7,800,000 (which is equivalent to approximately 0.65% of the total value of funds committed under the Placing) is generally lower than the placing fee rates that placing agents normally charge for listed shares on a best effort basis.

In the examples reviewed, which includes 43 “best-efforts” placements of shares and convertible securities of Hong Kong listed companies in 2005, we note that the relevant placing fees ranged between 0.5% and 3.0%, as summarised in the following tables:

## Share placements

No. of companies	Range of gross funds raised (HK\$)	Placing fee as a percentage of funds raised			
		0.5% and below	0.51% to 1.0%	1.01% to 2.49%	2.5% and above
32	Up to 200 mil	1	2	12	17
3	Above 200 mil to 500 mil			2	1
1	Above 500 mil to 1 billion ( <i>Note</i> )				1
3	Above 1 billion ( <i>Note</i> )			2	1
<b>39</b>		<b>1</b>	<b>2</b>	<b>16</b>	<b>20</b>

# LETTER FROM ACCESS CAPITAL

## Convertible bond placements

No. of companies	Range of gross funds raised (HK\$)	Placing fee as a percentage of funds raised			
		0.5% and below	0.51% to 1.0%	1.01% to 2.49%	2.5% and above
1	Less than 100 mil		1		
1	Above 100 mil to 350 mil			1	
2	Above 350 mil ( <i>Note</i> )				2
4			1	1	2

*Source:* Hong Kong Exchanges and Clearing Limited (HKEx) website, Bloomberg, relevant company announcements

*Note:* **Details of placements raising over HK\$500 million (for share placements) and over HK\$350 million (for convertible bond placements)**

Date of announcement	Company name	Size of the placing	Placing fee as a percentage of funds raised
<i>Placement of shares raising over HK\$500 million</i>			
9th December, 2005	Sinolink Worldwide Holdings Limited (Stock code: 1168)	HK\$546 million	Approximately 2.5%
21st April, 2005	K. Wah Construction Materials Limited (Stock code: 27)	HK\$1,168 million	2.50%
30th August, 2005	Lifestyle International Holdings Limited (Stock code: 1212)	HK\$1,255 million	1.875%
12th December, 2005	New World Development Company Limited (Stock code: 17)	HK\$3,220 million	Approximately 1.25%



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## LETTER FROM ACCESS CAPITAL

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Date of announcement	Company name	Size of the placing	Placing fee as a percentage of funds raised
<i>Placement of convertible bonds raising over HK\$350 million</i>			
29th October, 2005	Shanghai Real Estate Limited (Stock code: 1207)	HK\$386 million	3.0%
20th April, 2005	Cheung Tai Hong Holdings Limited (stock code: 199)	HK\$450 million	2.5%

Shareholders should note that as explained later in this letter, NASA is entitled to charge additional Placing Fees in the event of the non-renewal of the Services Agreement or early termination of the Services Agreement (without cause). The relevant amount of such additional fee payable would be equivalent to 2.5% of the gross amount of equity capital raised by NASA for the Company (the “NASA Committed Funds”), less all placing fees already paid to NASA prior to the expiry of the Services Agreement.

Shareholders should also note that NASA does not have the exclusive or pre-emptive right to handle the future equity issues of the Company. We have been advised by the Board that the selection of institutions to handle the Company’s future equity fund raising exercises will be made based on commercial considerations and an evaluation of all available alternatives, including the then prevailing market rates for placing fees.

With respect to the Placement, taking into consideration the above factors (including the market rates charged for the sampled placements), we consider the current Placing Fee of 0.65% (and the potential additional fee of up to 2.5%) to be in line with market rates. On this basis, the Board considers the Placing Fee under the Placement to be fair and reasonable and in the interest of the Company. We concur with this view.

### *Tenor of the Services Agreement*

Under the Amended and Restated Services Agreement dated 30th December, 2005, the tenor of the Services Agreement has been amended from 10 years to an initial term of 3 years commencing 1st April, 2006 (or such later date as the relevant parties agree). The Services Agreement is renewable for another 3 years after expiry of the initial 3-year term, subject to compliance by the Company with applicable laws, rules, regulations and codes of

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## LETTER FROM ACCESS CAPITAL

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governmental authorities, and any and all applicable rules of any stock exchange on which the securities of the Company or its investments are listed including the GEM Listing Rules.

Based on our discussions with certain Anchor Investors and discussions with other reputable world-class institutional investors (who are not involved in the Placement) as mentioned in section 2.2 above, as well as our review of the terms of various private equity investment funds, we note that generally, the tenor of investment management contracts depend on a number of factors including the term of the fund, the nature of the investment fund's investment activities, the background and experience of the investment managers (or their principals) and the requirements of the investors. It is common to see investment management contracts with a typical initial tenor of 3 years (plus renewal provisions) for Hong Kong listed investment companies, and also contracts with longer durations for overseas investment funds (including buy-out, special situation and private equity funds) that often have a life of up to 10 years (plus renewal provisions).

In the case of a recently announced transaction in Hong Kong involving Lippo ASM Asia Property LP ("LAAP", a limited partnership vehicle focused on real estate investment in the East Asia Region), the term of LAAP is not less than 10 years and the requisite investment management contract accordingly covers the abovementioned term of LAAP, subject to termination provisions. We consider LAAP to be a relevant comparison in view of the funds being raised in the subscription, namely HK\$1.45 billion (equivalent to approximately US\$186 million), which is comparable to the amount of funds to be raised under the Placement, and that the underlying investment is long-term in nature with a possible investment cycle of up to 10 years.

In addition, we have noted a number of international precedents involving overseas based private equity funds (focusing on investments in significant or controlling interests in portfolio companies) whereby the respective general partners involved are responsible for the investing and realisation decisions of portfolio investments throughout the intended life of these funds and who oversee the management of the relevant funds throughout their intended tenure. These precedents include funds with durations of up to 10 years.

The Directors believe that a 10-year term for the Services Agreement is warranted and necessary for implementing the private equity investment strategy outlined above; especially given the substantial lead times required

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## LETTER FROM ACCESS CAPITAL

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in order to identify, analyse, negotiate and complete acquisitions, and the ongoing management required in order to manage and see investments through to the completion of their full investment cycle and eventual exit.

Based on the above analysis and the anticipated long-term horizon of the investment cycle of the Company's investments, it is understandable that NASA originally intended the tenor of the Services Agreement to be a period of 10 years. However, given the concerns which may arise pursuant to the GEM Listing Rules in relation to the terms for a non-exempt continuing connected transaction agreement exceeding 3 years, the Company and NASA have agreed to reduce the tenor of the Services Agreement to 3 years, subject to further term renewals by the requisite approval of the Company's relevant Shareholders.

Notwithstanding the commercial arguments and precedents to support a longer tenor for the Services Agreement, we consider that the reduced tenor to a 3 year period would afford Independent Shareholders the flexibility and the opportunity to reconsider the appropriateness of the terms of the Services Agreement; and it is in this regard, that we consider the tenor to be fair and reasonable to the Independent Shareholders.

*Payments under non-renewal and early termination of the Services Agreement, without cause*

Pursuant to the Amended and Restated Services Agreement dated 30th December, 2005, the terms of payment payable upon the non-renewal of Services Agreement and early termination, without cause, are as follows:

In the event that the Services Agreement is not renewed upon expiry of the 3-year term (other than because NASA does not agree to such renewal), the Company shall pay NASA a sum equal to:

- (i) 2.5% of NASA Committed Funds, less all placing fees already paid to NASA prior to the expiry of the Services Agreement; plus
- (ii) 20% of the amount (if any) by which the fair value of the investments made by the Company (the "Appraised Value") as at the expiry date of the Services Agreement exceeds the greater of (a) the High Water Mark; and (b) the Funded Capital, compounded annually at the rate of 5%.

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## LETTER FROM ACCESS CAPITAL

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In the event that the Services Agreement is terminated, without cause, prior to the maturity of its 3-year tenor, the Company shall be obliged to pay:

- (i) the amount of the annual service fee that would have been payable for the remainder of the term of the Services Agreement had it not been terminated, calculated on the basis of the Committed Capital on the date of termination; plus
- (ii) 2.5% of NASA Committed Funds (which includes the amount raised in the Placement), less all placing fees already paid to NASA prior to the termination of the Services Agreement; plus
- (iii) 20% of the amount (if any) by which the Appraised Value as at the date of termination of the Services Agreement exceeds the greater of (a) the High Water Mark; and (b) the Funded Capital, compounded annually at the rate of 5%. The Appraised Value shall be determined by an independent licensed investment bank or professional firm of valuers in Hong Kong appointed by the Board, and the fees and expenses for the determination of the Appraised Value shall be borne by the relevant parties in equal shares; plus
- (iv) 15% of the Net Assets reflected in the most recent audited annual accounts of the Group as at the date of the notice of termination, provided that the amount payable under this sub-clause (iv) shall be payable only to the extent that payment of all amounts described in (i) to (iv) herein does not cause the net assets of the Group, as reflected the Group's most recent management accounts, to fall below the aggregate amount of the paid-up capital of the Shares and the Preference Shares (the "Termination Fee").

NASA shall have the option, subject to compliance with the relevant regulatory requirements vis-a-vis connected transactions, to receive the Incentive Fee and the Termination Fee in Shares at a price equal to the average closing price of the Shares for a period of 90 trading days immediately preceding the date on which NASA serves written notice to the Company of its election to receive such relevant payment in Shares.

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## LETTER FROM ACCESS CAPITAL

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The Directors consider the revised terms proposed above to be commercially justifiable and fair and reasonable for the following reasons:

1. the effective rate of the Placing Fee of 0.65% under the Placement is lower than the placing fee for placements generally in the market, and NASA was prepared to accept the lower fee as it takes into account expected future benefits to NASA from the fund raising, for example, potential incentive fees payable over a number of years on the assumption that the Services Agreement would run for a term that is much longer than three years. As this assumption no longer stands and taking into account the actual benefits of the placement funds to the Company, NASA should be entitled to receive fees at market rate for the placement;
2. the incentive fee payable on non-renewal or early termination (without cause) is essentially based on the same formulae as the usual annual incentive fee payment, except that such fee would now be based on an independent fair valuation of the investments of the Company at the time of non-renewal or early termination. This would enable the Company to objectively appraise the performance and potential of the investments which might not have been fully reflected in the book value of the investments incorporated in the audited accounts of the Company; and
3. the Termination Fee (as revised) proposed above is only payable on early termination of the Services Agreement by the Company without cause. It is not payable if the termination is due to non-renewal of the Services Agreement, mutual agreement of the parties or material breach of the terms of the Services Agreement by NASA.

Having considered our foregoing analysis on the annual Service Fee, the Incentive Fee and the market rates for placing fees, we concur with the views of the Directors that the corresponding payment obligation and terms under the additional Placing Fee, annual Service Fee and Incentive Fee are commercially justified as well as fair and reasonable.

In assessing the terms of the Termination Fee (as revised), we have taken into account the perspective of NASA in that in the event that NASA's efforts do result in future and sustainable profits for the Company, the terms of the Services Agreement entitle NASA to its contractual recurring incentive fees going forward attributable to their efforts in building the business of the Company. In conjunction with this, the Termination Fee provision is designed to compensate NASA, to some extent, in the event of

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## LETTER FROM ACCESS CAPITAL

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any possible incentive fees forgone as a result of any early termination of the Services Agreement without cause (which may arise due to factors beyond the control of NASA including an unsolicited takeover of the Company) by the Company.

We have also compared the terms of the Termination Fee with the termination fee provisions of two publicly listed companies which respectively own and operate infrastructure assets, namely Macquarie International Infrastructure Fund Limited (which is listed on the Singapore Stock Exchange) and the Macquarie Infrastructure Company Trust (which is listed on the New York Stock Exchange). These aforesaid companies are the only companies in our sample with termination fees. We were unable to identify similar Hong Kong listed funds with similar termination fee features. In these funds, the relevant services agreements of the investment managers concerned provide for termination fee provisions in the event the stock of the relevant company is delisted. The following table summarises certain relevant features of these two funds, as extracted from their respective prospectuses:

	<b>Macquarie International Infrastructure Fund Limited (SGX — Ticker M41)</b>	<b>Macquarie Infrastructure Company Trust (NYSE — Ticker MIC)</b>
Prospectus date	20th May, 2005	15th December, 2004
Gross funds raised in public share offering	Not less than S\$437 million	US\$535 million

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## LETTER FROM ACCESS CAPITAL

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	<b>Macquarie International Infrastructure Fund Limited</b> <b>(SGX — Ticker M41)</b>	<b>Macquarie Infrastructure Company Trust</b> <b>(NYSE — Ticker MIC)</b>
Termination payment provisions	<p>In the event of removal of the Manager by a special resolution of shareholders and the stock being delisted as a result of sufficient shares having been acquired by members other than Macquarie Group such that the Company no longer meets the shareholding spread and distribution criteria of the Singapore Stock Exchange , then unless the Manager has failed to earn a performance fee in at least 16 out of the 20 last consecutive quarters prior to and including the most recent full quarter, a termination fee is payable to the manager, including:</p> <ul style="list-style-type: none"> <li>• Pay all accrued and unpaid base fees and performance fees for the period from the previous applicable quarter and date to the date of termination of the manager; AND</li> <li>• 15% of the aggregate of the 15 day weighted average market value of the shares up to the de-listing</li> </ul>	<p>In the event of stock being delisted on a recognized US exchange or on the Nasdaq National Market, as the result of the acquisition of trust stocks by third parties in an amount that results in the trust stock ceasing to meet the trading and distribution criteria of the such stock exchange or markets, then the Manager may elect to resign and be paid Termination Fee including:</p> <ul style="list-style-type: none"> <li>• All accrued and unpaid management fees and performance fees for the period from the previous applicable fiscal quarter end date to the date the stock ceases to be listed, using a volume weighted average price per share of stock paid by an acquirer in the transaction(s) that lead to the delisting; AND</li> <li>• If the market value of outstanding stock (excluding treasury stock) is less than \$500 million, 10% of such value; but if greater than \$500 million, then \$50 million plus 1.5% of the excess above \$500 million.</li> </ul>

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## LETTER FROM ACCESS CAPITAL

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Based on the above two listed precedents, we are satisfied that the underlying principal of the terms of payment in the event of early termination of the Services Agreement (without cause) is in line with the listed precedents set out above. This is due to the fact that (i) the relevant payments are only triggered by the termination of the relevant investment management or service contracts, which is beyond the control of the relevant managers, and as such, the termination fee provisions are in place to provide some monetary compensation for the foregone future income of the relevant investment managers under the relevant investment management agreements; and (ii) that the relevant termination fees are calculated by reference to the then underlying valuation of the relevant companies or their asset values (i.e. ranging from 10% to 15%). In the case of the Company, it is 15% of the Net Assets (as mentioned in the paragraph headed “Payments under non-renewal and early termination of the Services Agreement, without cause” above), but there is an overriding limitation vis-à-vis the Termination Fee in that any payment thereof (together with any other additional and or accrued payments on Service Fee, additional placing fee, and Inventive Fee) shall not cause the net assets of the Group to fall to a level below that of the aggregate of the paid up capital of the Shares and the Preference Shares. In sum, this restriction ensures that the principal investment of shareholders in the Company will not be eroded by the payment of fees upon the payment of the Termination Fee.

Independent Shareholders should also note that, based on presently available information; it is not possible for us to quantify the economic or financial impact of the invocation of the Termination Fee payment. The appropriateness of any decision to terminate the Services Agreement (without cause) and the resultant financial impact would depend on a number of factors, including but not limited to the then financial position and performance of the Company, and the then perceived future prospects of its investments as well as the then prevailing circumstances which may justify any such decision. As such, any decision to terminate the Services Agreement (which would thus evoke the obligation of the Termination Fee provision) would need to be assessed and determined by the Board based on the then prevailing circumstances accordingly. As no Termination Fee will be payable upon non-renewal of the Services Agreement upon the expiry of its 3 year term, the Company (with the support of the Independent Shareholders and the independent Preference Shareholders) do have the option to remove NASA as Investment Manger (through non-renewal of the Services Agreement) without invoking the Termination Fee payment, if it is considered appropriate to do so.

Based on the foregoing, we concur with the Board’s view that the revised terms of the Services Agreement (including the reduced tenor and the payment provisions in the event of non-renewal and early termination (without cause) of the Services Agreement) are fair and reasonable and in the interest of the Company. Shareholders’ should however note that in reaching our conclusion, we have not considered or expressed any opinion on the future financial performance of the Company.



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## LETTER FROM ACCESS CAPITAL

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### *The annual Cap Amounts*

As stated in the “Letter from the Board”, the annual Cap Amounts for the fees payable to NASA (including the annual Service Fee, the Incentive Fee and Placing Fee) for each of the financial year ending 31st March, 2007, 2008 and 2009, during the 3 years under the term of the Services Agreement, will be pre-set as to HK\$260 million per annum.

According to the Directors, the above annual Cap Amounts were arrived at after taking into account the consideration to be raised under the Placement, as well as various assumptions including (i) the estimated amounts and timing vis-a-vis further fund raising exercises of the Group within the duration of the Services Agreement (i.e. 3 years); (ii) the target size and schedule of the investment program of the Group (in accordance with the investment thesis and philosophy as described in section 1 above); (iii) an expected target internal rate of return (“IRR”) for the Group’s investments (with divestment to take place within a period of three to four years post investment); and (iv) the projected annual growth in net assets of the Group. Accordingly, based on the discussions we have held with the Company, the funds it intends to raise via the Placement, the requisite investment program, and the expected investment life-cycle of a fund as mentioned in section 4.4 above, we are of the view that the bases and assumptions used to estimate the annual Cap Amounts have been determined after due and careful consideration, and that these bases and assumptions are fair and reasonable and complete.

Notwithstanding the above factors, the Directors would also like to point out that the annual Cap Amounts do not provide for any changes in the Company’s investment exit schedule due to sudden shifts in the current economic cycle. A sudden downturn in the economic cycle due to unforeseen events would likely delay the scheduled divestments of planned investments, resulting in aggregate fees during those relevant periods to fall short the prescribed annual Cap Amounts. Conversely, if there were a sudden subsequent recovery in the economy, the aggregate fees during such time may also exceed the prescribed annual Cap Amounts due to the contemporaneous execution of previously postponed divestment transactions.

As such, the Directors are of the view that rather than attempt to adhere to different Cap Amounts for each year, the fees payable to NASA (including annual Service Fee, Incentive Fee and Placing Fee) should be capped at HK\$260 million for each of three years within the 3 year term of the Services Agreement i.e. until 31st March, 2009, so as to accommodate the potential unforeseen fluctuations as described above. The Directors propose that prior to 31st March, 2009, the Company will reapply for the approval of new annual Cap Amounts to cover the subsequent 3 year duration of the then renewed Services Agreement if approved by the Independent Shareholders.

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## LETTER FROM ACCESS CAPITAL

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Taking into consideration (i) the proceeds to be raised from the Placement; (ii) the discussions we have held with the Directors concerning their assumptions with respect to further capital raising by the Company, its fund deployment, and the Group's investment/divestment program and our conclusion that those assumptions have been determined after due and careful consideration, are fair and reasonable and complete; (iii) the Group's target IRR and growth rate over the full lifecycle of its investments; and (iv) the possible unforeseen shifts to the current economic cycle as described above, we consider the maximum annual Cap Amounts of HK\$260 million for each year within the 3 year duration of the Services Agreement (i.e. until 31st March, 2009), to be reasonable and in the interest of the Independent Shareholders.

If the terms of the Services Agreement are altered or if the total fees payable to NASA stipulated under the Services Agreement exceed the above mentioned proposed annual Cap Amounts during the 3 year term of the Services Agreement, the Company will comply fully with the provisions of Chapter 20 of the GEM Listing Rules.

### V. RECOMMENDATION

In making our recommendation we have considered the above principal factors, and in particular, we have taken into account the following:

- (i) the background to the Proposal;
- (ii) the underlying rationale for the Subscription Agreements, the Services Agreement and Cap Amounts, as well as the Waiver Agreement;
- (iii) the current limited financial resources of the Group and the priority to raise new capital to implement the investment objective and programme of the Group;
- (iv) the terms of the Placement and the substantial amount of cash intended to be raised upon the completion of the Subscription Agreements, which would significantly enhanced the financial standing and capabilities of the Group;
- (v) the need for the holders of the Convertible Bonds to waive the conversion price reset of the Convertible Bonds in order to avoid potential dilution to the Independent Shareholders and to allow for a consistent entry price of investment in the Company between the Ajia Parties and the Placees;
- (vi) the recurrent fees comprising the Service Fee and the Incentive Fee payable under the Services Agreement, as well as the Placing Fee, are in line with market practice;
- (vii) the tenor and Termination Fee provision of the Services Agreement are structured with the view to address the requirement of the Placees and to procure the commitment and long-term stability of the services and support from NASA in servicing the expected full life cycle of the Company's future investments;

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## LETTER FROM ACCESS CAPITAL

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- (viii) that the relevant Shareholders and Preference Shareholders of the Company have the ability of not renewing the 3-year term of the Services Agreement as it falls due; without invoking the obligation to pay the Termination Fee;
- (ix) the fact that the decision to terminate the Services Agreement (without cause) and the resultant obligation under the Termination Fee provision rests in the hands of the Company and any justification of such termination in future would be determined based on the then relevant circumstances at the time; and
- (x) the fact that the execution of the Services Agreement is a non-waiveable condition precedent to the completion of the Subscription Agreements.

In reaching our opinion, we concur with the Board that the Placement represents a unique and viable window of opportunity for the Company to raise a substantial amount of long-term funding, which the Board considers would otherwise not be feasible in the foreseeable future.

In summary, and after taking into account the factors and reasons mentioned in this letter and based on the information provided and the representations made to us, we consider the terms of the AICV Subscription Agreement and the Timeless Subscription Agreement (which form part of the Subscription Agreements), the terms of the Services Agreement including the Cap Amounts, as well as the terms of the Waiver Agreement, to be fair and reasonable so far as the Independent Shareholders are concerned as well as in the interests of the Shareholders and the Company. In this regard, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolution(s), which will be proposed at the SGM to approve the AICV Subscription Agreement, the Timeless Subscription Agreement, the Services Agreement and the Cap Amounts, including the payment of Placing Fee made by the Company to NASA prior to the Start Date (as defined in the Services Agreement), as well as the Waiver Agreement.

However, as with all investment management activities, there is always an inherent risk to investors of any managed investment that their investments may not perform as well as they expect or hope, and that the underlying investments may not necessarily perform. Independent Shareholders should be aware of such risk and the possibility that the value of their existing investment in the Company may be eroded in the event of future poor financial performance of the Company. Accordingly, by voting for the above-mentioned relevant resolution(s), Independent Shareholders are implicitly accepting the above-mentioned inherent risk surrounding the future investments of the Company and are prepared to align their interest in the Company alongside with that of the Placees.

In reaching our conclusion, Independent Shareholders should note that we do not express any view or comment on the future prospects or the likely performance on the Company's existing or future investments.

Yours faithfully,  
For and on behalf of  
**Access Capital Limited**  
**Ambrose W. H. Lam**  
*Chairman*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Directors’ interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors, were as follows:

*Long positions in the Shares and underlying Shares of the Company*

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholding	Note
Mr. Yao	Interests of controlled corporations	10,592,098	—	10,592,098	11.06%	1
Mr. Cho	Interests of controlled corporations	—	99,106,003	99,106,003	103.46%	2 & 3

*Notes:*

1. These interests represented:
  - (a) a deemed interest in 1,598,113 Shares of the Company owned by Huge Top. Mr. Yao directly holds approximately 11.91% and indirectly through Perfect Capital International Corp. (“Perfect Capital”) owns approximately 42.86% of the issued share capital of Huge Top. Mr. Yao owns the entire issued share capital of Perfect Capital and is one of the two directors of Huge Top. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these Shares of the Company held by Huge Top;
  - (b) a deemed interest in 6,336,309 Shares of the Company owned by VSC BVI, a wholly-owned subsidiary of VSC. Huge Top owns approximately 47.05% of the issued share capital of VSC. Mr. Yao is one of the two directors of VSC BVI. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these Shares of the Company held by VSC BVI. These Shares were the same 6,336,309 Shares referred to in note 7 under (b) below;
  - (c) a deemed interest in 1,633,676 Shares of the Company owned by TN. VSC BVI owns 54% of the issued share capital of TN and Mr. Yao owns 10% of the issued share capital of TN. Mr. Yao is one of the two directors of TN. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these Shares of the Company held by TN. These Shares were the same 1,633,676 Shares referred to in note 7 under (b) below; and
  - (d) an interest in 1,024,000 Shares of the Company owned by Right Action Offshore Inc. (“Right Action”). Mr. Yao owns the entire issued share capital of Right Action and is also the sole director of that company.
2. These underlying Shares were held by Timeless, a wholly-owned subsidiary of Kenthomas Company Limited which is a company wholly owned by Mr. Cho. Accordingly, Mr. Cho was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Timeless which is interested in 99,106,003 underlying Shares. These underlying Shares were the same underlying Shares referred to in note 22 under (b) below.
3. The underlying Shares arise as a result of the conversion rights attaching to the Preference Shares to be issued by the Company under the Placement. Each Preference Share shall be automatically converted into Share, credited as fully paid, at the conversion ratio of one Preference Share for one Share in accordance with the terms of the Preference Shares as disclosed under the section headed “Principal terms of the Preference Shares” contained in the letter from the Board in this circular. All the Shares to be issued upon conversion of the Preference Shares are to be physically settled.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the securities of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required (i) 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 were deemed or taken to have under such provisions of the SFO, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the GEM Listing Rules relating to securities transactions by directors of listed companies to be notified to the Company and the Stock Exchange.

(b) **Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO**

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons (other than the Directors and chief executive of the Company whose interests were disclosed above) had an interest or short position in the Shares and underlying Shares of the Company which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group together with particulars of any options in respect of such capital:

*Long positions in the Shares and underlying Shares of the Company*

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings	Note
Mr. Tsang	Beneficial owner	19,693,486	39,386,973	59,080,459	61.68%	1
	Interest of controlled corporation	509,400	—	509,400	0.53%	2
	Interest of a discretionary trust	—	148,659,004	148,659,004	155.18%	3
				<u>208,248,863</u>	<u>217.39%</u>	
NASAC	Beneficial owner	44,163,474	88,326,947	<u>132,490,421</u>	<u>138.31%</u>	4
NASA	Interest of controlled corporation	44,163,474	88,326,947	<u>132,490,421</u>	<u>138.31%</u>	4 & 5
API	Interest of controlled corporation	44,163,474	88,326,947	<u>132,490,421</u>	<u>138.31%</u>	4 to 6
VSC BVI	Beneficial owner	6,336,309	—	6,336,309	6.61%	7
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	7
				<u>7,969,985</u>	<u>8.32%</u>	

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GENERAL INFORMATION

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings	Note
VSC	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				<u>7,969,985</u>	<u>8.32%</u>	7 & 8
Huge Top	Beneficial owner	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				<u>9,568,098</u>	<u>9.99%</u>	7 to 9
Perfect Capital	Interest of controlled corporation	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				<u>9,568,098</u>	<u>9.99%</u>	7 to 9
Ms. Miriam Yao Che Li ("Ms. Yao")	Interest of controlled corporation	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				<u>9,568,098</u>	<u>9.99%</u>	7 to 10

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GENERAL INFORMATION

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings	Note
ABN AMRO Asset Management Holding N.V.	Benefical owner	—	1,238,825,032	1,238,825,032	1293.21%	
The Goldman Sachs Group, Inc. (“Goldman”)	Interest of controlled corporation	—	2,477,650,064	2,477,650,064	2586.42%	11
United Overseas Bank Limited	Benefical owner	—	743,295,019	743,295,019	775.92%	
Oikos Asia Fund (“Oikos”)	Benefical owner	—	495,530,013	495,530,013	517.28%	12
Tiger International Management Inc. (“Tiger”)	Benefical owner	—	297,318,008	297,318,008	310.37%	13
Chen Jong-Tai	Interest of controlled corporation	—	297,318,008	297,318,008	310.37%	13
Chen Wu, Feng-Tsai	Interest of controlled corporation	—	297,318,008	297,318,008	310.37%	13
Banca Monte Dei Paschi Di Siena Spa	Benefical owner	—	247,765,006	247,765,006	258.64%	
Grand Loyal (China) Limited (“Grand Loyal”)	Nominee	—	247,765,006	247,765,006	258.64%	14
Ho Yiu Wing	Interest of controlled corporation	—	247,765,006	247,765,006	258.64%	14
Grand Partners Group Limited (“Grand Partners”)	Nominee	—	247,765,006	247,765,006	258.64%	15
William Doo Wai Hoi	Interest of controlled corporation	—	247,765,006	247,765,006	258.64%	15
Fubon Bank (Hong Kong) Limited	Benefical owner	—	199,233,717	199,233,717	207.98%	
Chevalier International Holdings Limited (“Chevalier”)	Benefical owner	—	198,212,005	198,212,005	206.91%	16
Chow Yei Ching	Interest of controlled corporation	—	198,212,005	198,212,005	206.91%	16



Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings	Note
Miyakawa Michiko	Interest of spouse	—	198,212,005	198,212,005	206.91%	16
Fonditel B, Pension Fund ("Fonditel B")	Benefical owner	—	99,100,000	99,100,000	103.45%	17
Fonditel C, Pension Fund ("Fonditel C")	Benefical owner	—	148,660,000	148,660,000	155.19%	17
Telefonica	Interest of controlled corporation	—	247,760,000	247,760,000	258.64%	17
AICV	Benefical owner	—	148,659,004	148,659,004	155.18%	18
Asia Internet Capital Management LLC	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	18
EC.COM INC	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	18
Smart Channel Investments Inc.	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	18
MKT Holdings (Cayman Islands) LLC	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	18
HSBC International Trustee Limited	Trustee	—	148,659,004	148,659,004	155.18%	18
Gentfull Investment Limited ("Gentfull")	Benefical owner	—	148,659,004	148,659,004	155.18%	19
Vivien Chen Wai Wai	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	19
Doutdes S.P.A. ("Doutdes")	Benefical owner	—	148,659,004	148,659,004	155.18%	20
UFI Filters SPA	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	20

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Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings	Note
GGG SPA	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	20
G.G.G. S.A.	Benefical owner	—	99,106,003	99,106,003	103.46%	21
Giorgio Girondi	Interest of controlled corporation	—	247,765,007	247,765,007	258.64%	20 & 21
Timeless	Beneficial owner	—	99,106,003	99,106,003	103.46%	22
Kenthomas Company Limited	Interest of controlled corporation	—	99,106,003	99,106,003	103.46%	22
KKR Group Investments II LLC (“KKR”)	Beneficial owner	—	89,080,460	89,080,460	92.99%	23
George Rosenberg Roberts	Interest of controlled corporation	—	89,080,460	89,080,460	92.99%	23
Henry Roberts Kravis	Interest of controlled corporation	—	89,080,460	89,080,460	92.99%	23
Glint Delta II NV (“Glint ”)	Nominee	—	78,544,061	78,544,061	81.99%	24
Fentener Van Vlissingen Harold (“Harold”)	Benefical owner	—	78,544,061	78,544,061	81.99%	24
Rawlco Capital Ltd. (“Rawlco”)	Benefical owner	—	49,553,001	49,553,001	51.73%	25
Gordon Stanley Rawlinson	Interests of controlled corporation	—	49,553,001	49,553,001	51.73%	25
UBS España, S.A. (“UBS”)	Nominee	—	128,441,377	128,441,377	134.08%	26
Angeles González Garcia	Interest of controlled corporation	—	49,553,001	49,553,001	51.73%	26

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total	Approximate % of shareholdings	Note
Jorge Garcia Gonzalez	Interest of controlled corporation	—	49,553,001	49,553,001	51.73%	26
Sphirantes	Nominee	—	49,553,001	49,553,001	51.73%	26
Cesar Molinas Sanz	Beneficial owner	—	17,343,550	17,343,550	18.10%	26
Kobrither, S.A.	Nominee	—	14,865,900	14,865,900	15.52%	26
Antonio Del Cano Barbón	Interest of controlled corporation	—	14,865,900	14,865,900	15.52%	26
Ramón Suarez Beltrán	Beneficial owner	—	9,910,600	9,910,600	10.35%	26
Ricardo Sanz Ferrer	Beneficial owner	—	9,910,600	9,910,600	10.35%	26
Miguel Orúe-Echeverria	Beneficial owner	—	9,910,600	9,910,600	10.35%	26
Arcosilo, S.L.	Nominee	—	7,432,950	7,432,950	7.76%	26
Blanca Rueda Sabater	Interest of controlled corporation	—	7,432,950	7,432,950	7.76%	26
Fernando Rueda Sabater	Interest of controlled corporation	—	7,432,950	7,432,950	7.76%	26
Richardo de Ponga Bianco	Beneficial owner	—	5,946,360	5,946,360	6.21%	26

Notes:

1.
- Mr. Tsang was directly interested in 19,693,486 Shares and a further 39,386,973 underlying Shares which may fall to be issued if the Convertible Bonds are converted at the initial conversion price of HK\$0.1566.
2.
- These 509,400 Shares were directly held by Oboe Development Trading Limited, which was wholly owned by Mr. Tsang.
3.
- Mr. Tsang was deemed to be interested in the 148,659,004 underlying Shares by virtue of his being a founder of a discretionary trust, the trustee of which was HSBC International Trustee Limited (“HSBC Trustee”). HSBC Trustee, through its controlling interests in Asia Internet Capital Management LLC which acted as the investment manager of AICV, was deemed to be interested in the 148,659,004 underlying Shares. These 148,659,004 underlying Shares were the same underlying Shares referred to in note 18 below.

Mr. Tsang was therefore deemed, under the SFO, to be interested in an aggregate of 208,248,863 Shares.

4. NASAC was directly interested in 44,163,474 Shares and a further 88,326,947 underlying Shares which may fall to be issued if the Convertible Bonds are converted at an initial conversion price of HK\$0.1566. Accordingly, NASAC was deemed to be interested in a total of 132,490,421 Shares.
5. NASA held the single voting participating share of NASAC and was therefore deemed to be interested in 132,490,421 Shares.
6. API wholly owned all the shares in NASA, which in turn held the single voting participating share of NASAC. API was therefore deemed to be interested in 132,490,421 Shares.
7. VSC BVI owned 54% of the share capital of TN and was deemed to be interested in the 1,633,676 Shares held by TN. VSC BVI directly owned 6,336,309 Shares. VSC BVI was therefore directly and indirectly interested in an aggregate of 7,969,985 Shares.
8. VSC owned the entire issued share capital of VSC BVI, VSC was therefore deemed to be interested in an aggregate of 7,969,985 Shares.
9. Perfect Capital owned approximately 42.86% of the issued share capital of Huge Top. Huge Top was beneficially interested in approximately 47.05% of the issued share capital of VSC and Perfect Capital and Huge Top were therefore deemed to be interested in the 1,633,676 Shares held by TN and the 6,336,309 Shares held by VSC BVI. Huge Top also directly owned 1,598,113 Shares. Huge Top was therefore directly and indirectly interested in an aggregate of 9,568,098 Shares, and Perfect Capital was indirectly interested in the same aggregate interests.
10. Ms. Yao was one of the two directors for TN and Huge Top while the remaining director of these two companies was Mr. Yao who is the brother of Ms. Yao. Ms. Yao was therefore through Huge Top indirectly interested in an aggregate of 9,568,098 Shares.
11. These underlying Shares were held by Goldman, a company controlled by Goldman Sachs (Asia) Finance Holdings L.L.C. The Goldman Sachs Group, Inc. was deemed to have interests in these underlying Shares through its direct subsidiary, The Goldman Sachs Global Holdings L.L.C, and its indirect subsidiary, The Goldman Sachs & Co., which in turn was the controlling company of The Goldman Sachs (Asia) Finance Holdings L.L.C. Accordingly, all these parties were deemed, under the SFO, to have an interest in these underlying Shares by virtue of their respective corporate interests in Goldman.
12. These underlying Shares were held by Oikos, a company controlled by Walkers SPV Limited.
13. These underlying Shares were held by Tiger, a company controlled by Mr. Chen Jong Tai and Ms. Chen Wu Feng-Tsai. Accordingly, both were taken to be interested in these underlying Shares under the SFO by virtue of their interests in Tiger.
14. These underlying Shares were held by Grand Loyal, a company controlled by Mr. Ho Yiu Wing. Accordingly, Mr. Ho was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Grand Loyal.

15. These underlying Shares were held by Grand Partners, a company controlled by Mr. William Doo Wai Hoi. Accordingly, Mr. Doo was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Grand Partners.
16. These underlying Shares were held by Chevalier, a company 52.5% controlled by Mr. Chow Yei Ching and Miyakawa Michiko. Accordingly, both were taken to be interested in these underlying Shares under the SFO by virtue of their interests in Chevalier.
17. Fonditel B was interested in 99,100,000 underlying Shares and Fonditel C was interested in 148,660,000 underlying Shares. Each of Fonditel B and Fonditel C was 70% controlled by Telefonica. Accordingly, Telefonica was taken to be interested in an aggregate of 247,760,000 underlying Shares, under the SFO, by virtue of its corporate interests in both Fonditel B and Fonditel C.
18. These underlying Shares were held by AICV which was managed by Asia Internet Capital Management LLC, a company 99% controlled by EC.com Inc.. HSBC International Trustee Limited was deemed to have interests in these underlying Shares through its direct wholly-owned subsidiary MKT Holdings (Cayman Islands) LLC and its indirect wholly-owned subsidiary Smart Channel Investments Inc.. Smart Channel Investments Inc. had 48.66% controlling interests in EC.com Inc. Accordingly, all these parties were deemed, under the SFO, to have an interest in these underlying Shares by virtue of their respective corporate interests in AICV. These underlying Shares were the same underlying Shares referred to in note 3 above.
19. These underlying Shares were held by Gentfull, a company 100% controlled by Ms. Vivien Chen Wai Wai. Accordingly, Ms. Chen was taken to be interested in these underlying Shares under the SFO by virtue of her interests in Gentfull.
20. These underlying Shares were held by Doutdes, a company 83.98% controlled by UFI Filters Spa. which was in turn controlled by G.G.G. S.A., a company controlled by Mr. Giorgio Girondi. Accordingly, all these parties were taken to be interested in these underlying Shares under the SFO by virtue of their corporate interests in Doutdes.
21. These underlying Shares were held by G.G.G. S.A., a company 100% controlled by Mr. Giorgio Girondi. Accordingly, Mr. Girondi was taken to be interested in these underlying Shares under the SFO by virtue of his interests in G.G.G. S.A.
22. These underlying Shares were held by Timeless, a wholly-owned subsidiary of Kenthomas Company Limited which was a company wholly owned by Mr. Cho. Accordingly, Mr. Cho was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Timeless. These underlying Shares were the same underlying Shares referred to in notes 2 & 3 of under (a) above.
23. These underlying Shares were held by KKR, a company controlled by Messrs. George Rosenberg Roberts and Henry Roberts Kravis. Accordingly, both were taken to be interested in these underlying Shares under the SFO by virtue of their interests in KKR.
24. These underlying Shares were held by Glint, a company 99% controlled by Harold. Accordingly, Harold was taken to be interested in these underlying Shares under the SFO by virtue of its corporate interests in Glint.

25. These underlying Shares were held by Rawlco, a company controlled by Mr. Gordon Stanley Rawlinson. Accordingly, he was taken to be interested in these underlying Shares under the SFO by virtue of his interests in Rawlco.
26. These underlying Shares were held by UBS. Of these underlying Shares, 49,553,001 underlying Shares were held by Sphirantes, a company controlled by Angeles González García and Jorge García Gonzalez; 17,343,500 underlying Shares were held by Cesar Molinas Sanz; 14,865,900 underlying Shares were held by Kobrither, S.A., a company controlled by Antonio Del Cano Barbón; each of Ramón Suarez Beltrán, Ricardo Sanz Ferrer and Miguel Orúe-Echeverría held 9,910,600 underlying BeltrEn; 7,432,950 underlying Shares were held by Arcosilo, S.L., a company controlled by Blanca Rueda Sabater and Fernando Rueda Sabater; and 5,946,360 underlying Shares were held by Richardo de Ponga Bianco.
27. The underlying Shares (other than those referred to in notes 1 and 4 above) arise as a result of the conversion rights attaching to the Preference Shares to be issued by the Company under the Placement. Each Preference Share shall be automatically converted into Shares, credited as fully paid, at the conversion ratio of one Preference Share for one Share in accordance with the terms of the Preference Shares as disclosed under the section headed “Principal terms of the Preference Shares” contained in the Letter from the Board in this circular. All the Shares to be issued upon conversion of the Preference Shares are to be physically settled. Those underlying Shares referred in notes 1 and 4 above arise as a result of the conversion of the Convertible Bonds.

Save as disclosed above and save for any interest or short positions in the securities of the Company which any person may have, or would deemed or taken to have, or which would fall to be disclosed under this paragraph by virtue of the Placement, the Directors and the chief executive of the Company were not aware of any person (other than the Directors or chief executive of the Company) who has an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

### **3. SERVICE CONTRACT**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### **4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

Mr. Yao holds approximately 11.91% direct and 42.86% indirect interests in the issued share capital of Huge Top. Pursuant to the Deed, Huge Top has given certain indemnities and undertaking in favour of the Company regarding the maintenance of the consolidated

net asset value of the group of companies engaging in the steel trading business of the Group at a level equal to or exceeding HK\$5,000,000 after completion of the Ajia Parties Subscription Agreement. Details of the Deed have been set out in the announcement of the Company dated 19th May, 2005 and the circular of the Company dated 20th June, 2005 in relation to the Ajia Parties Subscription Agreement.

NASA, a party to the Services Agreement, is a wholly-owned subsidiary of API. Mr. Cho and Mr. Chow each holds an approximately 19.09% and 5.67% equity interest in API respectively.

Save for the Deed, the Services Agreement and the Timeless Subscription Agreement in which Mr. Cho is interested, there is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31st March, 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

## **5. COMPETING INTERESTS**

Mr. Yao is an executive Director and also the chairman and chief executive officer of VSC. According to the interim report 2005/06 of VSC, Huge Top held 173,424,000 shares (approximately 47.05%) in VSC as at 30th September, 2005 and Mr. Yao is one of the two directors of Huge Top. Mr. Yao directly held approximately 11.91% and indirectly held approximately 42.86% of the issued share capital of Huge Top. Mr. Yao also has personal interests in 1,614,000 shares (approximately 0.44%) in VSC as at 30th September, 2005. VSC is also engaged in steel trading business. The Directors believe that there is a risk that such business may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Yao in the steel industry will complement the development of the Group's business.

Save for aforesaid, none of the Directors, management Shareholders, substantial Shareholders and their respective associates compete or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

## **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2005 (being the date to which the latest published audited financial statements of the Company were made up).

7. CONSENT

Access Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

8. QUALIFICATION

The following is the qualification of the expert who has been named in this circular or has given its opinion, letter or advice which are contained in this circular:

Name	Qualification
Access Capital Limited	A licensed corporation under the SFO which engages in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities

As at the Latest Practicable Date, Access Capital did not have any shareholding in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31st March, 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

9. PROCEDURES FOR DEMANDING A POLL BY THE SHAREHOLDERS

Pursuant to bye-law 66 of the Bye-laws of the Company, at any general meeting, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or



- (d) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

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

## **10. GENERAL**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its head office and principal place of business in Hong Kong is at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong.
- (b) The compliance officer of the Company is Mr. Chow. Prior to joining the Group, Mr. Chow served as a Consultant at E.M. Warburg Pincus & Co. Asia Ltd. He has had about 20 years experience in the IT industry both in the US and Asia Pacific. He was the Managing Director of Yahoo! Inc. responsible for Asia. Prior to joining Yahoo, Mr. Chow held various senior management positions at Netscape Communications Corporation, Lotus Development Corporation and International Business Machines Corporation. He holds a Master of Science degree in Engineering and Master of Business Administration degree from the University of California at Berkeley. Mr. Chow was an executive director of MediaNation Inc., a company listed on GEM (stock code: 8160), during July 2002 to February 2003.
- (c) The qualified accountant of the Company is Ms. Grace Luk Pui Yin. She has over 15 years of experience in auditing, accounting, financial management and private equity in Hong Kong and the Mainland China. Ms. Luk holds a bachelor degree in Business Administration with honor from the Chinese University of Hong Kong. She is a Fellow of the Association of Chartered Certified Accountants in the United Kingdom, an Associate of the Chartered Institute of Management Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants.
- (d) The company secretary of the Company is Ms. Lam Yee Fan. She has over 10 years of company secretarial experience at listed companies in Hong Kong. She is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

- (e) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road Central, Hong Kong.
- (f) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

## **11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong from the date of this circular up to and including 20th February, 2006 and at the Special General Meeting:

- (a) the Memorandum of Association and Bye-laws of the Company;
- (b) the annual reports of the Company for each of the two years ended 31st March, 2004 and 2005, the quarterly report for the three months ended 30th June, 2005 and the interim report for the six months ended 30th September, 2005;
- (c) the letter of advice from Access Capital to the Independent Board Committee and the Independent Shareholders set out on pages 37 to 72 of this circular;
- (d) the letter of consent from Access Capital referred to in the paragraph headed "Consent" in this appendix;
- (e) the Subscription Agreements;
- (f) the Services Agreement;
- (g) each of the side letters and/or agreements entered into between the Company and the Anchor Investors in relation to their respective additional rights as mentioned in the paragraph headed "Additional rights of Anchor Investors" in the letter from the Board of this circular;
- (h) the final draft of the Waiver Agreement;
- (i) the Ajia Parties Subscription Agreement;
- (j) the Deed;
- (k) the circulars of the Company dated 20th June, 2005 and 23rd September, 2005; and
- (l) the prospectus of the Company dated 21st July, 2005.

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## NOTICE OF THE SPECIAL GENERAL MEETING

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# North Asia Strategic Holdings Limited 北亞策略控股有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock code: 8080)

**NOTICE IS HEREBY GIVEN** that a special general meeting of North Asia Strategic Holdings Limited (the “Company”) will be held at JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Monday, 20th February, 2006, at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

### ORDINARY RESOLUTIONS

(1) “**THAT**

- (a) having determined that it is in the best interests of and for the benefit of the Company to do so, the 19 Subscription Agreements (as defined in the announcement (the “**Announcement**”) of the Company dated 30th December, 2005 and the announcement of the Company dated 16th January, 2006) excluding the AICV Subscription Agreement (as defined in the Announcement) and Timeless Subscription Agreement (as defined in the Announcement) entered into between the Company and 19 Placees excluding AICV (as defined in the Announcement) and Timeless (as defined in the Announcement) pursuant to which the Company has conditionally agreed to issue, and the Placees have conditionally agreed to subscribe for, a total of 7,383,161,786 Preference Shares (as defined in the Announcement) at an issue price of HK\$0.1566 per Preference Share, subject to the conditions contained therein (copies of the Subscription Agreements have been produced to this meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and are hereby approved, confirmed and ratified in all respects;
- (b) the directors of the Company (the “**Directors**”) be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the 19 Subscription Agreements and to agree to such variations, amendments, supplements or waivers of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company;
- (c) conditional upon the resolution numbered (4) set out in this notice being duly passed, the Directors be and are hereby authorised to allot and issue a total of 7,383,161,786 Preference Shares to the 19 Placees, pursuant to the terms of the 19 Subscription Agreements; and

\* For identification purpose only

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## NOTICE OF THE SPECIAL GENERAL MEETING

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- (d) the Directors be and are hereby authorised to issue Conversion Shares (as defined in the Announcement) pursuant to the terms of the 19 Subscription Agreements.”

(2) **“THAT**

- (a) the AICV Subscription Agreement entered into between the Company and AICV and the Timeless Subscription Agreement entered into between the Company and Timeless pursuant to which the Company has conditionally agreed to issue, and AICV and Timeless have conditionally agreed to subscribe for 148,659,004 and 99,106,003 Preference Shares respectively at an issue price of HK\$0.1566 per Preference Share, subject to the conditions contained therein (copies of the AICV Subscription Agreement and Timeless Subscription Agreement have been produced to this meeting marked “B” and initialed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and are hereby approved, confirmed and ratified in all respects;
- (b) the Directors be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the AICV Subscription Agreement and the Timeless Subscription Agreement and to agree to such variations, amendments, supplements or waivers of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company;
- (c) conditional upon the resolution numbered (4) set out in this notice being duly passed, the Directors be and are hereby authorised to allot and issue 148,659,004 and 99,106,003 Preference Shares to AICV and Timeless pursuant to the terms of the AICV Subscription Agreement and the Timeless Subscription Agreement respectively; and
- (d) the Directors be and are hereby authorised to issue Conversion Shares pursuant to the terms of the AICV Subscription Agreement and the Timeless Subscription Agreement respectively.”

(3) **“THAT**

- (a) having determined that it is in the best interests of and for the benefit of the Company to do so, the Services Agreement (as defined in the Announcement) entered into between the Company and NASA (as defined in the Announcement) pursuant to which NASA shall provide services to the Group (as defined in the Announcement) covering fund raising, market and industry research, investor

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sourcing, investment sourcing, investment analysis and due diligence, and financial advisory under the overall control and supervision of the Board (as defined in the Announcement) subject to the conditions contained therein (copy of the Services Agreement has been produced to this meeting marked “C” and initialed by the chairman of the meeting for the purpose of identification) be and is hereby approved, confirmed and ratified in all respects;

- (b) the fixing of the respective Cap Amounts (as defined in the Announcement) be and is hereby approved and confirmed;
  - (c) the Directors be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the Services Agreement and to agree to such variations, amendments, supplements or waivers of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company; and
  - (d) the payment of the Placing Fee (as defined in the Services Agreement) made by the Company to NASA prior to the Start Date (as defined in the Services Agreement) be and is hereby approved and confirmed.”
- (4) “**THAT** the authorised share capital of the Company be and is hereby increased from HK\$400,000,000 divided into 40,000,000,000 ordinary shares of HK\$0.01 each, to HK\$700,000,000, (i) as to HK\$400,000,000 divided into 40,000,000,000 ordinary shares of HK\$0.01 each (“Ordinary Shares”) and (ii) as to HK\$300,000,000 divided into 30,000,000,000 preference shares of HK\$0.01 each (“Preference Shares”) having the special rights and being subject to the restrictions set out in resolution numbered (5) in this notice, and the existing issued and unissued shares of HK\$0.01 each in the capital of the Company be deemed Ordinary Shares.”
- (5) “**THAT** conditional upon the resolution numbered (4) set out in this notice being duly passed, 30,000,000,000 Preference Shares of HK\$0.01 each be created on the following terms:

### 1. Definitions

- 1.1 For the purpose of this resolution, the following terms have the corresponding meanings set out below:

“Adjustment Event”	means any or all of the events as described in sub-paragraphs 6.2 to 6.8 of this resolution.
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“Business Day”	means any day, excluding Saturday, on which banks are open for business in Hong Kong.
“Closing”	the closing of the subscription of the Preference Shares pursuant to the Subscription Agreements.
“Closing Date”	the date of the closing of the subscription of the Preference Shares pursuant to the Subscription Agreements.
“Conversion Ratio”	means the number of Ordinary Shares into which a Preference Share is convertible, which shall be one Ordinary Share, as such ratio is adjusted pursuant to sub-paragraph 6 of this resolution.
“Conversion Right”	means the right of a holder of Preference Shares to convert all or any of its Preference Shares into such number of Ordinary Shares as is determined in accordance with the Conversion Ratio.
“GEM”	means the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
“Register of Members”	means the register of the holders of Ordinary Shares and the holders of Preference Shares kept by or on behalf of the Company.
“Services Agreement”	means the Services Agreement entered into between the Company and North Asia Strategic Advisors, as such agreement may be amended or supplemented from time to time, or any successor agreement.

## 2. Payment

- 2.1 The amount and manner of payment of the subscription price for the Preference Shares shall be as determined from time to time by the board of directors of the Company.
- 2.2 In the event the holder of any Preference Shares fails to pay the subscription price of the Preference Shares, or any portion of such subscription price on the date on which payment is due, interest shall accrue on the overdue amount from and including such date to but excluding the date on which such amount is paid in full at the rate determined by the board of directors

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of the Company. In the event any such amount remains unpaid for a period of 30 days after the date on which payment was due, the Preference Shares of such holder and any amount of the subscription price previously paid by such holder shall in the discretion of the board of directors of the Company be liable to forfeiture, cancellation or sale in accordance with the Bye-Laws of the Company.

### **3. Dividends**

- 3.1 Subject to the laws of Bermuda, the holders of the Preference Shares shall be entitled to be paid out of the distributable profits of the Company available for dividends in respect of any financial year or any part thereof on a pari passu basis with the holders of the Ordinary Shares, as if the Ordinary Shares and the Preference Shares constituted one class of shares pari passu.

### **4. Transfer**

- 4.1 The Preference Shares may be transferred only with the prior approval of the board of directors of the Company, which may condition or withhold its approval as it deems appropriate in its sole discretion. Any transfer shall be in compliance with applicable law and regulatory requirements, including the rules of any stock exchange on which the securities of the Company are listed.
- 4.2 Subject to sub-paragraph 4.1 of this resolution, Preference Shares shall be transferable by instrument of transfer in such form as may be approved by the board of directors of the Company.

### **5. Conversion**

- 5.1 Subject to sub-paragraph 5.2 of this resolution and to the prior payment in full of the subscription price therefor, each Preference Share shall be automatically converted into Ordinary Shares (credited as fully paid) at the Conversion Ratio, subject to adjustment as provided in sub-paragraph 6 of this resolution:

- (a) on the listing of the Ordinary Shares on the Main Board of The Stock Exchange of Hong Kong Limited; or
- (b) on the fourth anniversary of the Closing Date;

whichever occurs earlier.

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- 5.2 Notwithstanding anything in sub-paragraph 5.1 of this resolution to the contrary, in the event that conversion of any holder's Preference Shares to Ordinary Shares would otherwise result in such holder holding 30% or more of the issued and outstanding Ordinary Shares of the Company, or otherwise result in such holder being required to make a mandatory general offer for the Ordinary Shares of the Company under the Code on Takeovers and Mergers in Hong Kong (the "**Takeovers Code**"), or any successor code, the Company shall so notify the holder at least 45 days prior to the date of conversion and the holder shall thereupon be entitled to elect to convert such number of Preference Shares as will cause it to hold (a) 29% of the issued and outstanding Ordinary Shares of the Company or (b) if applicable, the maximum whole number percentage of the issued and outstanding Ordinary Shares of the Company it could hold without being required to make a mandatory general offer for the Ordinary Shares of the Company under the Takeovers Code. Any remaining Preference Shares held by such holder after the date of conversion may be converted by such holder on such Business day as it may specify to the Company by not less than 45 days' prior notice.
- 5.3 The Company shall, on the date of conversion of the Preference Shares to Ordinary Shares:
- (a) enter the name of each holder of Preference Shares as the holder of the relevant number of Ordinary Shares resulting from the conversion of the Preference Shares into Ordinary Shares in, and make other necessary and consequential changes to, the Register of Members; and
  - (b) deliver, as soon as practicable but in any event within 10 Business Days of entry in the Register of Members, to the holder or as it directs, free of charge, such number of share certificate(s) in respect of such number of Ordinary Shares as may have been notified by such holder prior to the date of conversion (or if no such notification has been made, one share certificate in respect of such holder's entire holding of Ordinary Shares as at the date of conversion).
- 5.4 The Ordinary Shares resulting from the conversion of the Preference Shares shall carry the right to receive all dividends and other distributions declared, made or paid upon the ordinary share capital of the Company by reference to any record date on or after the date of conversion of the Preference Shares and shall rank *pari passu* in all other respects and form one class with the Ordinary Shares then in issue and fully paid.



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5.5 Until such time as the Preference Shares have been converted to Ordinary Shares, the Company shall:

- (a) at all times keep available for issue and free of all liens, charges, options, mortgages, pledges, claims, equities, encumbrances and other third-party rights of any nature, and not subject to any pre-emptive rights out of its authorised but unissued share capital such number of authorised but unissued Ordinary Shares as would enable all Preference Shares to be converted to Ordinary Shares and any other rights of conversion into, subscription for or exchange into Ordinary Shares to be satisfied in full;
- (b) not make any issue, grant or distribution or take any other action if the effect would be that on the conversion of the Preference Shares to Ordinary Shares it would be required to issue Ordinary Shares below the par value thereof; and
- (c) use its best endeavours to maintain the listing of the Ordinary Shares on the GEM.

### 6. Adjustments to Conversion Ratio

6.1 The Conversion Ratio shall be subject to adjustment as provided in subparagraphs 6.2 through 6.6 of this resolution.

6.2 **Bonus Issues:** If and whenever the Company issues (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Ratio immediately prior to such issue will be multiplied by the following fraction:

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

where:

**A** = the aggregate par value of the issued share capital of the Company immediately following such issue; and

**B** = the aggregate par value of the issued share capital of the Company immediately before such issue.

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Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

- 6.3 **Capital Reorganisations:** If and whenever there is any sub-division, consolidation or re-classification of Ordinary Shares which results in a change in the nominal amount of the Ordinary Shares, the Conversion Ratio immediately prior to such sub-division, consolidation or re-classification will be multiplied by the following fraction:

$$\frac{C}{D}$$

where:

**C** = the par value of each Ordinary Share immediately before such event;  
and

**D** = the par value of each Ordinary Share immediately following such event.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the sub-division, consolidation or reclassification becomes effective.

- 6.4 **Capital Distributions:**

- (a) If and whenever the Company makes any capital distribution (as defined below) to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or grants to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Ratio immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E}{E - F}$$

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where:

- E** = the market price (as defined in sub-paragraph 6.4(b)(ii) below of this resolution) on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) next preceding the date of the capital distribution or, as the case may be, of the grant; and
- F** = the fair market value on the day of such announcement or (failing any such announcement) the day next preceding the date of the capital distribution, as determined in good faith by an approved merchant bank, of the portion of the capital distribution or of such rights which is attributable to one Ordinary Share;

**provided that:**

- (i) if in the opinion of the relevant approved merchant bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if **F** meant) the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and
- (ii) the provisions of this sub-paragraph 6.4 of this resolution shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the capital distribution or grant.

- (b) For the purpose of this sub-paragraph 6.4 of this resolution:
  - (i) “**capital distribution**” shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend charged or provided for in the Company’s accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution; **provided** that any such dividend shall not be so deemed if (1) it is paid out of the aggregate of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after

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that ended 31st March, 2004 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or (2) to the extent that (1) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, if the lengths of such periods differ materially in the opinion of an approved merchant bank or if in the opinion of an approved merchant bank it is otherwise appropriate so to do, such adjustments may be made as are in the opinion of an approved merchant bank appropriate to the circumstances;

- (ii) “**market price**” means the average of the Closing prices of one Ordinary Share on the GEM for each of the last five trading days ending on the last such trading day preceding the day on or as of which the market price is to be ascertained; and
- (iii) “**approved merchant bank**” means a merchant bank of repute in Hong Kong selected by the Company and agreed by the holders of at least 50% of the aggregate issued Preference Shares for the purpose of providing a specific opinion or calculation or determination hereunder or, in the absence of such appointment, such merchant bank as may be appointed by the President for the time being of the Hong Kong Institute of Certified Public Accountants upon the request of either the Company or the holders of at least 50% of the Preference Shares.

**6.5 Issues of Rights, Options and Warrants:** If and whenever the Company offers to holders of Ordinary Shares any additional Ordinary Shares for subscription by way of rights, or shall grant to holders of Ordinary Shares any options or warrants to subscribe for additional Ordinary Shares, at a price which is less than 90% of the market price (as defined in sub-paragraph 6.4(b)(ii) above of this resolution) at the date of the announcement of the

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terms of the offer or grant, the Conversion Ratio shall be adjusted by multiplying the Conversion Ratio in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + \frac{H \times I}{J}}$$

where:

**G** = the number of Ordinary Shares in issue immediately before the date of such announcement;

**H** = the aggregate number of Ordinary Shares so offered for subscription;

**I** = the amount (if any) payable for the right, option or warrant to subscribe for each additional Ordinary Share, plus the subscription price payable for each additional Ordinary Share; and

**J** = the market price of one Ordinary Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant.

### 6.6 Issues of Convertible Securities:

(a) If and whenever the Company issues wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for additional Ordinary Shares, and the Total Effective Consideration per Ordinary Share (as defined below in this sub-paragraph 6.6 of this resolution) initially receivable for such securities is less than 90% of the market price (as defined in sub-paragraph 6.4(b)(ii) above of this resolution) at the date of the announcement of the terms of issue of such securities, the Conversion Ratio shall be adjusted by multiplying the Conversion Ratio immediately prior to the issue by a fraction of which:

(i) the denominator is the number of Ordinary Shares in issue immediately before the date of the issue plus the number of Ordinary Shares which the Total Effective Consideration for the securities issued would purchase at such market price; and

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- (ii) the numerator is the number of Ordinary Shares in issue immediately before the date of the issue plus the number of Ordinary Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of (1) the date on which the issue is announced and (2) the date on which the Company determines the conversion or exchange rate or subscription price.

- (b) In the event the rights of conversion or exchange or subscription attached to any such securities as are mentioned in sub-paragraph 6.6(a) of this resolution are modified so that the Total Effective Consideration per Ordinary Share initially receivable for such securities is less than 90% of the market price (as defined in sub-paragraph 6.4(b)(ii) above of this resolution) at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Ratio shall be adjusted by multiplying the Conversion Ratio immediately prior to such modification by a fraction of which:
  - (i) the denominator is the number of Ordinary Shares in issue immediately before the date of such modification plus the number of Ordinary Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and
  - (ii) the numerator is the number of Ordinary Shares in issue immediately before such date of modification plus the number of Ordinary Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate, retroactively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take account

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of rights or capitalization issues and other events which have given rise to adjustment of the Conversion Ratio under this sub-paragraph 6 of this resolution.

(c) For the purpose of this sub-paragraph 6.6 of this resolution:

- (i) the “**Total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights; and
- (ii) the “**Total Effective Consideration per Ordinary Share**” initially receivable for such securities shall be such aggregate consideration divided by the number of Ordinary Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

**6.7 Issues of Additional Ordinary Shares for Cash:** If and whenever the Company issues wholly for cash any Ordinary Shares (other than Ordinary Shares issued pursuant to any of the circumstances described in sub-paragraphs 6.5 and 6.6 above of this resolution) at a price per Ordinary Share which is less than 90% of the market price (as defined in sub-paragraph 6.4(b)(ii) above of this resolution) at the date of the announcement of the terms of such issue, the Conversion Ratio shall be adjusted by multiplying the Conversion Ratio in force immediately before the date of such announcement by a fraction of which:

- (a) the denominator is the number of Ordinary Shares in issue immediately before the date of such issue plus the number of Ordinary Shares which the aggregate amount payable for the issue would purchase at such market price; and
- (b) the numerator is the number of Ordinary Shares in issue immediately before the date of such issue plus the number of Ordinary Shares so issued.

Such adjustment shall become effective on the date of the issue.

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### 6.8 Issues of Additional Ordinary Shares for Asset Acquisitions:

- (a) If and whenever the Company issues Ordinary Shares for the acquisition of any assets at a Total Effective Consideration per Ordinary Share (as defined below in this sub-paragraph 6.8 of this resolution) which is less than 90% of the market price (as defined in sub-paragraph 6.4(b)(ii) above of this resolution) at the date of the announcement of the terms of such issue, the Conversion Ratio shall be adjusted in such manner as may be determined by an approved merchant bank (as defined in sub-paragraph 6.4(b)(iii) above of this resolution). Such adjustment shall become effective on the date of issue.
- (b) For the purpose of this sub-paragraph 6.8 of this resolution:
  - (i) “**Total Effective Consideration**” shall be the aggregate consideration credited as being paid for such Ordinary Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof; and
  - (ii) the “**Total Effective Consideration per Ordinary Share**” shall be the Total Effective Consideration divided by the number of Ordinary Shares issued as aforesaid.

6.9 Where more than one event which gives or may give rise to an adjustment to the Conversion Ratio occurs within such a short period of time that in the opinion of an approved merchant bank (as defined in sub-paragraph 6.4(b)(iii) above of this resolution) the foregoing provisions would need to be operated subject to any modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by the approved merchant bank to be in their opinion appropriate in order to give such intended result.

6.10 No adjustment involving a decrease in the Conversion Ratio will be made, except in the case of a consolidation of the Ordinary Shares as referred to in sub-paragraph 6.3 above of this resolution.

6.11 The Company shall pay the expenses of the issue of, and all expenses of obtaining a listing for, Ordinary Shares arising on conversion of the Preference Shares under this sub-paragraph 6 of this resolution.



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6.12 For so long as any Conversion Right remains to be exercised, the Company shall:

- (a) notify each holder of Preference Shares in writing as soon as reasonably practicable after the relevant meeting of the directors and/or shareholders (whichever is the earlier) has resolved to consider or implement an Adjustment Event and, in any event so far as reasonably practicable, at least 30 Business Days prior to the date on which an Adjustment Event is to occur, specifying the prospective date of the Adjustment Event, the proposed terms of the Adjustment Event, the Conversion Ratio prior to such adjustment, and the adjusted Conversion Ratio; and
- (b) not give effect to an Adjustment Event unless a notice has been given in accordance with sub-paragraph 6.12(a) above of this resolution.

6.13 Fractions of Ordinary Shares will not be issued on conversion of the Preference Shares and accordingly, the number of Ordinary Shares to be issued upon conversion of the Preference Shares shall be rounded up if otherwise fractions of Ordinary Shares would be issued pursuant to any conversion of Preference Shares under sub-paragraph 5 above of this resolution.

### **7. Liquidation Preference**

7.1 In the event of any liquidation, dissolution or winding-up (whether voluntary or involuntary) of the Company, the holders of the Preference Shares shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the Ordinary Shares or any other class or series of shares by reason of their ownership thereof, an amount equal to 100% of the subscription monies paid by the holders of the Preference Shares for the Preference Shares. If the assets and funds thus distributed among the holders of Preference Shares shall be insufficient to permit the payment to such holders of the full preferential amount applicable to such shares, then the entire assets and funds of the Company legally available for distribution shall be distributed rateably among the holders of the Preference Shares in proportion to their holdings of such shares.

7.2 If a surplus remains after a distribution to the holders of the Preference Shares as provided in sub-paragraph 7.1 above of this resolution, then subject to sub-paragraph 7.4 of this resolution, the holders of the Preference

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Shares and the holders of the Ordinary Shares shall be entitled to receive on a pari passu basis an amount equal to declared but unpaid dividends applicable to such shares. If the assets and funds thus distributed among the holders of Preference Shares and the holders of the Ordinary Shares shall be insufficient to permit the payment to such holders of the full amount of declared but unpaid dividends applicable to such shares, then subject to sub-paragraph 7.4 of this resolution, such remaining assets and funds of the Company legally available for distribution shall be distributed rateably among the holders of the Preference Shares and the holders of the Ordinary Shares in proportion to their respective holdings of such shares.

- 7.3 If a surplus remains after a distribution to the holders of the Preference Shares and the holders of the Ordinary Shares as provided in sub-paragraph 7.2 above of this resolution, then subject to sub-paragraph 7.4 of this resolution, such amount shall be distributed rateably to the holders of the Ordinary Shares and the holders of the Preference Shares in proportion to their respective holdings of such shares.
- 7.4 For the purpose of making allocations between the holders of the Preference Shares and the holders of the Ordinary Shares in relation to any distribution referred to in sub-paragraph 7.2 or 7.3 of this resolution, all Preference Shares shall be deemed to have been converted to Ordinary Shares after adjustment as provided in sub-paragraph 6 of this resolution.

### **8. Voting Rights**

- 8.1 Without prejudice to sub-paragraph 11 of this resolution, the holders of Preference Shares shall not be entitled to vote at general meetings of the Company unless:
- (a) a resolution is to be proposed for the renewal of the Services Agreement, or the amendment, modification or supplementation of the Services Agreement; or
  - (b) a resolution is to be proposed approving the payment of any fee to North Asia Strategic Advisors in the form of shares in the Company; or
  - (c) a resolution is to be proposed at a general meeting for the winding-up of the Company; or

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- (d) a resolution is to be proposed at a general meeting, which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the holders of the Preference Shares;

in which event the Preference Shares shall confer on the holders thereof the right to receive notice of, and to attend, participate and vote (either in person or by proxy) at that general meeting; save that such holders may not vote upon any business dealt with at such general meeting except (i) the election of a chairman of the meeting, (ii) any motion for adjournment of such general meeting and (iii) any resolution of the type described in (a) through (d) above. If the holders of Preference Shares are entitled to vote at a general meeting in accordance with this sub-paragraph 8.1 of this resolution, each Preference Share shall confer on its holder one vote.

- 8.2 Unless otherwise provided by the terms of issue of the Preference Shares, all or any of the rights or privileges attached to the Preference Shares may be varied or abrogated only with the sanction of a resolution passed at a separate meeting of the holders of the Preference Shares by 75% of the votes cast at such meeting of the holders of the Preference Shares.
- 8.3 Each holder of Preference Shares shall be entitled to receive copies of all notices of any general meeting of the Company and all other documents sent to holders of Ordinary Shares at the same time as they are respectively sent to holders of Ordinary Shares and shall be entitled to attend general meetings of the Company, whether or not such holder has a right to vote thereat.

### **9. Register of Members**

- 9.1 The Company shall at all times cause a Register of Members to be maintained at its registered office showing the number of Preference Shares held by each holder thereof and the date of issue and all subsequent transfers and changes of ownership of all Preference Shares and the names and address of each of the holders of Preference Shares and the persons deriving title under them. Holders of Preference Shares or any of them and any person authorised by any of them shall be at liberty at all reasonable times during office hours to inspect the Register of Members and to take copies of or extracts from the same or any part of it.
- 9.2 Any change of name or address on the part of a holder of Preference Shares shall be notified by such holder to the Company as soon as is reasonably practicable, and the Company shall alter the Register of Members accordingly.

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### 10. Redemption

10.1 The Preference Shares are not redeemable.

### 11. Restrictive Covenants

11.1 Without prejudice to sub-paragraph 8 of this resolution, so long as any of the Preference Shares are in issue, the Company shall not without first obtaining a resolution passed at a separate general meeting of the holders of the Preference Shares, or by written consent of all holders of the Preference Shares:

- (a) authorise, create, allot, issue or permit to exist any class of share capital that is senior to or has preference in any respect over the Preference Shares (including, without limitation, in respect of sub-paragraphs 3 and 7 above of this resolution) (“**Senior Securities**”) whether by merger, consolidation, amalgamation or otherwise;
- (b) reclassify, redesignate, convert or exchange any shares of any capital or capital stock of the Company into Senior Securities, whether by merger, consolidation, amalgamation or otherwise;
- (c) authorise, create, allot, issue or permit to exist any securities exchangeable for, convertible into, or evidencing the right to subscribe for any Senior Securities, whether by merger, consolidation, amalgamation or otherwise;
- (d) authorise, create, allot, issue or permit to exist any class or series of equity securities, or any shares of any class or series of equity securities, or any securities convertible into or exercisable for any class or series of equity securities, redeemable mandatorily or redeemable at the option of the holder thereof at any time on or prior to the conversion of the Preference Shares (whether or not only upon the occurrence of a specified event, or by merger, consolidation, amalgamation or otherwise);
- (e) amend, alter or repeal any provision of the Bye-laws of the Company, or authorise or take any other action which would require the approval of the Shareholders, to alter or change the powers, preferences, designations, rights, qualifications, limitations or restrictions of the Preference Shares or any other securities of the Company so as to affect the Preference Shares in any material adverse respect (whether by merger, consolidation, amalgamation or otherwise); or

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- (f) amend, alter or repeal this sub-paragraph 11 of this resolution.

### 12. Partly Paid-up Preference Shares

Notwithstanding any provisions to the contrary in this resolution, sub-paragraphs 3 to 11 of this resolution shall at all times apply to any partly paid-up Preference Share as if such shares were fully paid-up, and for the avoidance of doubt, partly paid-up Preference Shares shall confer on the holders thereof at all times all rights and benefits which would otherwise be conferred on such holders if such Preference Shares were fully paid-up, except that, for the purpose of conversion of any partly paid-up Preference Share into an Ordinary Share, such holder shall be required to pay the outstanding unpaid amount of such Preference Share prior to being entitled to conversion.”

- (6) “**THAT**, conditional upon the resolutions numbered (1) to (5) as set out in this notice being duly passed, and having determined that it is in the best interests of and for the benefit of the Company to do so, the agreement (the “**Waiver Agreement**”) to be entered into between the Company, North Asia Strategic Acquisition Corp. and Moses Kwok Tai Tsang (a copy of the substantially final form of which has been produced to this meeting marked “D” and initialed by the chairman of the meeting for the purpose of identification), whereby the parties thereto agree and consent to waive any requirement to adjust the conversion price of the Convertible Bonds (as defined in the Announcement) pursuant to Condition 6.9(e) of the conditions of the Convertible Bonds arising from the issue of the Preference Shares, including any subsequent conversion of the Preference Shares into Shares, be and is hereby approved in all respects, and that any two directors of the Company or any one director and the secretary of the Company be and are hereby authorised, in the name and on behalf of the Company, to execute and deliver the Waiver Agreement and to affix the common seal of the Company thereon, with such changes thereto as such authorised persons may approve, such approval to be conclusively evidenced by such authorised persons’ execution and delivery thereof.”

### SPECIAL RESOLUTION

- (7) “**THAT** the Bye-laws of the Company be and are hereby amended by:
- (a) inserting the following new definition of “Adjustment Event” in Bye-law 1 immediately after the definition of “Act”:
- ““Adjustment Event” means any or all of the events as described in Bye-laws 9A.1 to 9A.7.”
- (b) inserting the following new definition of “Business Day” in Bye-law 1 immediately after the definition of “Auditor”:
- ““Business Day” means any day, excluding Saturday, on which banks are open for business in Hong Kong.”

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- (c) inserting the following new definition of “Closing Date” in Bye-law 1 immediately after the definition of “clearing house”:

““Closing Date”                      the date of the closing of the subscription of the Preference Shares pursuant to the relevant subscription agreements executed between the Company and the relevant subscribers dated 16th, 19th, 23rd, 26th, 27th, September 2005, 10th, 19th, 31st October, 2005, 7th, 9th, 15th November, 2005, and 16th January, 2006.”

- (d) inserting the following new definitions of “Conversion Ratio” and “Conversion Right” in Bye-law 1 immediately after the definition of “competent regulatory authority”:

““Conversion Ratio”                means the number of Ordinary Shares into which a Preference Share is convertible, which shall be one Ordinary Share, as such ratio is adjusted pursuant to Bye-law 9A.5.

““Conversion Right”                means the right of a holder of Preference Shares to convert all or any of its Preference Shares into such number of Ordinary Shares as is determined in accordance with the Conversion Ratio.”

- (e) inserting the following new definition of “GEM” in Bye-law 1 immediately after the definition of ““dollar” and “\$””:

““GEM”                                means the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.”

- (f) inserting the following new definition of “Ordinary Shares” in Bye-law 1 immediately after the definition of “Notice”:

““Ordinary Shares”                means ordinary shares of \$0.01 each in the capital of the Company.”

- (g) inserting the following new definition of “Preference Shares” in Bye-law 1 immediately after the definition of “paid-up”:

““Preference Shares”                means preference shares of \$0.01 each in the capital of the Company having the rights and obligations set out in these Bye-laws.”

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- (h) inserting the following new definition of “Register of Members” in Bye-law 1 immediately after the definition of “Register”:

““Register of Members” means the register of the holders of Ordinary Shares and the holders of Preference Shares kept by or on behalf of the Company.”

- (i) inserting the following new definitions of “Services Agreement” and “shares” in Bye-law 1 immediately after the definition of “Secretary”:

““Services Agreement” means the services agreement entered into between the Company and North Asia Strategic Advisors, as such agreement may be amended or supplemented from time to time, or any successor agreement.

“shares” means Preference Shares and/or Ordinary Shares, as the case may require.”

- (j) deleting the figure “\$0.10” in Bye-law 3 and placing therewith the figure “\$0.01”;
- (k) inserting the following paragraph as new Bye-law 9A immediately after Bye-law 9:

“9A. The rights and restrictions attaching to the Preference Shares are as follows:

### **9A.1 Payment**

- (i) The amount and manner of payment of the subscription price for the Preference Shares shall be as determined from time to time by the Board of the Company.
- (ii) In the event the holder of any Preference Shares fails to pay the subscription price of the Preference Shares, or any portion of such subscription price on the date on which payment is due, interest shall accrue on the overdue amount from and including such date to but excluding the date on which such amount is paid in full at the rate determined by the Board of the Company. In the event any such amount remains unpaid for a period of 30 days after the date on which payment was due, the Preference Shares of such holder and any amount of the subscription price previously paid by such holder shall in the discretion of the Board of the Company be liable to forfeiture, cancellation or sale.

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### 9A.2 Dividends

- (i) Subject to the laws of Bermuda, the holders of the Preference Shares shall be entitled to be paid out of the distributable profits of the Company available for dividends in respect of any financial year or any part thereof on a pari passu basis with the holders of the Ordinary Shares, as if the Ordinary Shares and the Preference Shares constituted one class of shares pari passu.

### 9A.3 Transfer

- (i) The Preference Shares may be transferred only with the prior approval of the Board of the Company, which may condition or withhold its approval as it deems appropriate in its sole discretion. Any transfer shall be in compliance with applicable law and regulatory requirements, including the rules of any stock exchange on which the securities of the Company are listed.
- (ii) Subject to Bye-law 9A.3(i), Preference Shares shall be transferable by instrument of transfer in such form as may be approved by the Board of the Company.

### 9A.4 Conversion

- (i) Subject to Bye-law 9A.4(ii) and to the prior payment in full of the subscription price therefor, each Preference Share shall be automatically converted into Ordinary Shares (credited as fully paid) at the Conversion Ratio, subject to adjustment as provided in Bye-law 9A.5:
  - (a) on the listing of the Ordinary Shares on the Main Board of The Stock Exchange of Hong Kong Limited; or
  - (b) on the fourth anniversary of the Closing Date;whichever occurs earlier.
- (ii) Notwithstanding anything in Bye-law 9A.4(i) to the contrary, in the event that conversion of any holder's Preference Shares to Ordinary Shares would otherwise result in such holder holding 30% or more of the issued and outstanding Ordinary Shares of the Company, or otherwise result in such holder



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being required to make a mandatory general offer for the Ordinary Shares of the Company under the Code on Takeovers and Mergers in Hong Kong (the “**Takeovers Code**”, or any successor code, the Company shall so notify the holder at least 45 days prior to the date of conversion and the holder shall thereupon be entitled to elect to convert such number of Preference Shares as will cause it to hold,

- (a) 29% of the issued and outstanding Ordinary Shares of the Company, or
  - (b) if applicable, the maximum whole number percentage of the issued and outstanding Ordinary Shares of the Company it could hold without being required to make a mandatory general offer for the Ordinary Shares of the Company under the Takeovers Code. Any remaining Preference Shares held by such holder after the date of conversion may be converted by such holder on such Business Day as it may specify to the Company by not less than 45 days’ prior notice.
- (iii) The Company shall, on the date of conversion of the Preference Shares to Ordinary Shares:
- (a) enter the name of each holder of Preference Shares as the holder of the relevant number of Ordinary Shares resulting from the conversion of the Preference Shares into Ordinary Shares in, and make other necessary and consequential changes to, the Register of Members; and
  - (b) deliver, as soon as practicable but in any event within 10 Business Days of entry in the Register of Members, to the holder or as it directs, free of charge, such number of share certificate(s) in respect of such number of Ordinary Shares as may have been notified by such holder prior to the date of conversion (or if no such notification has been made, one share certificate in respect of such holder’s entire holding of Ordinary Shares as at the date of conversion).
- (iv) The Ordinary Shares resulting from the conversion of the Preference Shares shall carry the right to receive all dividends and other distributions declared, made or paid upon the ordinary

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share capital of the Company by reference to any record date on or after the date of conversion of the Preference Shares and shall rank pari passu in all other respects and form one class with the Ordinary Shares then in issue and fully paid.

- (v) Until such time as the Preference Shares have been converted to Ordinary Shares, the Company shall:
  - (a) at all times keep available for issue and free of all liens, charges, options, mortgages, pledges, claims, equities, encumbrances and other third-party rights of any nature, and not subject to any pre-emptive rights out of its authorised but unissued share capital such number of authorised but unissued Ordinary Shares as would enable all Preference Shares to be converted to Ordinary Shares and any other rights of conversion into, subscription for or exchange into Ordinary Shares to be satisfied in full;
  - (b) not make any issue, grant or distribution or take any other action if the effect would be that on the conversion of the Preference Shares to Ordinary Shares it would be required to issue Ordinary Shares below the par value thereof; and
  - (c) use its best endeavours to maintain the listing of the Ordinary Shares on the GEM.

### **9A.5 Adjustments to Conversion Ratio**

- (i) The Conversion Ratio shall be subject to adjustment as provided in Bye-laws 9A.5(ii) through 9A.5(vi).
- (ii) Bonus Issues: If and whenever the Company issues (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Ratio immediately prior to such issue will be multiplied by the following fraction:

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

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where:

**A** = the aggregate par value of the issued share capital of the Company immediately following such issue; and

**B** = the aggregate par value of the issued share capital of the Company immediately before such issue.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

- (iii) Capital Reorganisations: If and whenever there is any sub-division, consolidation or re-classification of Ordinary Shares which results in a change in the nominal amount of the Ordinary Shares, the Conversion Ratio immediately prior to such sub-division, consolidation or re-classification will be multiplied by the following fraction:

$$\frac{C}{D}$$

where:

**C** = the par value of each Ordinary Share immediately before such event; and

**D** = the par value of each Ordinary Share immediately following such event.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the sub-division, consolidation or reclassification becomes effective.

- (iv) Capital Distributions:

- (a) If and whenever the Company makes any capital distribution (as defined below) to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or grants to such

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holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Ratio immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E}{E - F}$$

where:

**E=** the market price (as defined in Bye-law 9A.5(iv) (b)(ii) below) on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) next preceding the date of the capital distribution or, as the case may be, of the grant; and

**F=** the fair market value on the day of such announcement or (failing any such announcement) the day next preceding the date of the capital distribution, as determined in good faith by an approved merchant bank, of the portion of the capital distribution or of such rights which is attributable to one Ordinary Share;

**provided that:**

- (i) if in the opinion of the relevant approved merchant bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and
- (ii) the provisions of this Bye-law 9A.5(iv) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend.

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Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the capital distribution or grant.

- (b) For the purpose of this Bye-law 9A.5(iv):
  - (i) “capital distribution” shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend charged or provided for in the Company’s accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution; **provided** that any such dividend shall not be so deemed if (1) it is paid out of the aggregate of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after that ended 31st March, 2004 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or (2) to the extent that (1) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, if the lengths of such periods differ materially in the opinion of an approved merchant bank or if in the opinion of an approved merchant bank it is otherwise appropriate so to do, such adjustments may be made as are in the opinion of an approved merchant bank appropriate to the circumstances;
  - (ii) “market price” means the average of the closing prices of one Ordinary Share on the GEM for each of the last five trading days ending on the last such trading day preceding the day on or as of which the market price is to be ascertained; and

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- (iii) “approved merchant bank” means a merchant bank of repute in Hong Kong selected by the Company and agreed by the holders of at least 50% of the aggregate issued Preference Shares for the purpose of providing a specific opinion or calculation or determination hereunder or, in the absence of such appointment, such merchant bank as may be appointed by the President for the time being of the Hong Kong Institute of Certified Public Accountants upon the request of either the Company or the holders of at least 50% of the Preference Shares.
- (v) Issues of Rights, Options and Warrants: If and whenever the Company offers to holders of Ordinary Shares any additional Ordinary Shares for subscription by way of rights, or shall grant to holders of Ordinary Shares any options or warrants to subscribe for additional Ordinary Shares, at a price which is less than 90% of the market price (as defined in Bye-law 9A.5(iv) (b)(ii) above) at the date of the announcement of the terms of the offer or grant, the Conversion Ratio shall be adjusted by multiplying the Conversion Ratio in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + \frac{H \times I}{J}}$$

where:

**G** = the number of Ordinary Shares in issue immediately before the date of such announcement;

**H** = the aggregate number of Ordinary Shares so offered for subscription;

**I** = the amount (if any) payable for the right, option or warrant to subscribe for each additional Ordinary Share, plus the subscription price payable for each additional Ordinary Share; and

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**J** = the market price of one Ordinary Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant.

(vi) Issues of Convertible Securities:

(a) If and whenever the Company issues wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for additional Ordinary Shares, and the Total Effective Consideration per Ordinary Share (as defined below in this Bye-law 9A.5(vi)) initially receivable for such securities is less than 90% of the market price (as defined in Bye-law 9A.5(iv) (b)(ii) above) at the date of the announcement of the terms of issue of such securities, the Conversion Ratio shall be adjusted by multiplying the Conversion Ratio immediately prior to the issue by a fraction of which:

- (i) the denominator is the number of Ordinary Shares in issue immediately before the date of the issue plus the number of Ordinary Shares which the Total Effective Consideration for the securities issued would purchase at such market price; and
- (ii) the numerator is the number of Ordinary Shares in issue immediately before the date of the issue plus the number of Ordinary Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of (1) the date on which the issue is announced and (2) the date on which the Company determines the conversion or exchange rate or subscription price.

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- (b) In the event the rights of conversion or exchange or subscription attached to any such securities as are mentioned in Bye-law 9A.5(vi) (a) are modified so that the Total Effective Consideration per Ordinary Share initially receivable for such securities is less than 90% of the market price (as defined in Bye-law 9A.5(iv) (b)(ii) above) at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Ratio shall be adjusted by multiplying the Conversion Ratio immediately prior to such modification by a fraction of which:
  - (i) the denominator is the number of Ordinary Shares in issue immediately before the date of such modification plus the number of Ordinary Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and
  - (ii) the numerator is the number of Ordinary Shares in issue immediately before such date of modification plus the number of Ordinary Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate, retroactively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take account of rights or capitalization issues and other events which have given rise to adjustment of the Conversion Ratio under this Bye-law 9A.5.

- (c) For the purpose of this Bye-law 9A.5(vi)
  - (i) the “Total Effective Consideration” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum



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consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights; and

- (ii) the “Total Effective Consideration per Ordinary Share” initially receivable for such securities shall be such aggregate consideration divided by the number of Ordinary Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.
- (vii) Issues of Additional Ordinary Shares for Cash: If and whenever the Company issues wholly for cash any Ordinary Shares (other than Ordinary Shares issued pursuant to any of the circumstances described in Bye-laws 9A.5(v) and (vi) above) at a price per Ordinary Share which is less than 90% of the market price (as defined in Bye-law 9A.5(iv) (b)(ii) above) at the date of the announcement of the terms of such issue, the Conversion Ratio shall be adjusted by multiplying the Conversion Ratio in force immediately before the date of such announcement by a fraction of which:
  - (a) the denominator is the number of Ordinary Shares in issue immediately before the date of such issue plus the number of Ordinary Shares which the aggregate amount payable for the issue would purchase at such market price; and
  - (b) the numerator is the number of Ordinary Shares in issue immediately before the date of such issue plus the number of Ordinary Shares so issued.

Such adjustment shall become effective on the date of the issue.

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(viii) Issues of Additional Ordinary Shares for Asset Acquisitions:

(a) If and whenever the Company issues Ordinary Shares for the acquisition of any assets at a Total Effective Consideration per Ordinary Share (as defined below in this Bye-law 9A.5(viii)) which is less than 90% of the market price (as defined in Bye-law 9A.5(iv) (b)(ii) above) at the date of the announcement of the terms of such issue, the Conversion Ratio shall be adjusted in such manner as may be determined by an approved merchant bank (as defined in Bye-law 9A.5(iv) (b)(iii) above). Such adjustment shall become effective on the date of issue.

(b) For the purpose of this Bye-law 9A.5(viii):

(i) “Total Effective Consideration” shall be the aggregate consideration credited as being paid for such Ordinary Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof; and

(ii) the “Total Effective Consideration per Ordinary Share” shall be the Total Effective Consideration divided by the number of Ordinary Shares issued as aforesaid.

(ix) Where more than one event which gives or may give rise to an adjustment to the Conversion Ratio occurs within such a short period of time that in the opinion of an approved merchant bank (as defined in Bye-law 9A.5(iv) (b)(iii) above) the foregoing provisions would need to be operated subject to any modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by the approved merchant bank to be in their opinion appropriate in order to give such intended result.

(x) No adjustment involving a decrease in the Conversion Ratio will be made, except in the case of a consolidation of the Ordinary Shares as referred to in Bye-law 9A.5(iii) above.

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- (xi) The Company shall pay the expenses of the issue of, and all expenses of obtaining a listing for, Ordinary Shares arising on conversion of the Preference Shares under this Bye-law 9A.5.
- (xii) For so long as any Conversion Right remains to be exercised, the Company shall:
  - (a) notify each holder of Preference Shares in writing as soon as reasonably practicable after the relevant meeting of the directors and/or shareholders (whichever is the earlier) has resolved to consider or implement an Adjustment Event and, in any event so far as reasonably practicable, at least 30 Business Days prior to the date on which an Adjustment Event is to occur, specifying the prospective date of the Adjustment Event, the proposed terms of the Adjustment Event, the Conversion Ratio prior to such adjustment, and the adjusted Conversion Ratio; and
  - (b) not give effect to an Adjustment Event unless a notice has been given in accordance with Bye-law 9A.5(xii) (a) above.
- (xiii) Fractions of Ordinary Shares will not be issued on conversion of the Preference Shares and accordingly, the number of Ordinary Shares to be issued upon conversion of the Preference Shares shall be rounded up if otherwise fractions of Ordinary Shares would be issued pursuant to any conversion of Preference Shares under Bye-law 9A.4 above.

### **9A.6 Liquidation Preference**

- (i) In the event of any liquidation, dissolution or winding-up (whether voluntary or involuntary) of the Company, the holders of the Preference Shares shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the Ordinary Shares or any other class or series of shares by reason of their ownership thereof, an amount equal to 100% of the subscription monies paid by the holders of the Preference Shares for the Preference Shares. If the assets and funds thus distributed among the holders of Preference Shares shall be insufficient to permit the payment to such holders of the full preferential amount

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applicable to such shares, then the entire assets and funds of the Company legally available for distribution shall be distributed rateably among the holders of the Preference Shares in proportion to their holdings of such shares.

- (ii) If a surplus remains after a distribution to the holders of the Preference Shares as provided in Bye-law 9A.6(i) above, then subject to Bye-law 9A.6(iv), the holders of the Preference Shares and the holders of the Ordinary Shares shall be entitled to receive on a pari passu basis an amount equal to declared but unpaid dividends applicable to such shares. If the assets and funds thus distributed among the holders of Preference Shares and the holders of the Ordinary Shares shall be insufficient to permit the payment to such holders of the full amount of declared but unpaid dividends applicable to such shares, then subject to Bye-law 9A.6(iv), such remaining assets and funds of the Company legally available for distribution shall be distributed rateably among the holders of the Preference Shares and the holders of the Ordinary Shares in proportion to their respective holdings of such shares.
- (iii) If a surplus remains after a distribution to the holders of the Preference Shares and the holders of the Ordinary Shares as provided in Bye-law 9A.6(ii) above, then subject to Bye-law 9A.6(iv), such amount shall be distributed rateably to the holders of the Ordinary Shares and the holders of the Preference Shares in proportion to their respective holdings of such shares.
- (iv) For the purpose of making allocations between the holders of the Preference Shares and the holders of the Ordinary Shares in relation to any distribution referred to in Bye-law 9A.6(ii) or (iii), all Preference Shares shall be deemed to have been converted to Ordinary Shares after adjustment as provided in Bye-law 9A.5.

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### 9A.7 Voting Rights

- (i) Without prejudice to Bye-law 9A.10, the holders of Preference Shares shall not be entitled to vote at general meetings of the Company unless:
  - (a) a resolution is to be proposed for the renewal of the Services Agreement, or the amendment, modification or supplementation of the Services Agreement; or
  - (b) a resolution is to be proposed approving the payment of any fee to North Asia Strategic Advisors in the form of shares in the Company; or
  - (c) a resolution is to be proposed at a general meeting for the winding-up of the Company; or
  - (d) a resolution is to be proposed at a general meeting, which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the holders of the Preference Shares;

in which event the Preference Shares shall confer on the holders thereof the right to receive notice of, and to attend, participate and vote (either in person or by proxy) at that general meeting; save that such holders may not vote upon any business dealt with at such general meeting except (i) the election of a chairman of the meeting, (ii) any motion for adjournment of such general meeting and (iii) any resolution of the type described in (a) through (d) above. If the holders of Preference Shares are entitled to vote at a general meeting in accordance with this Bye-law 9A.7(i) each Preference Share shall confer on its holder one vote.

- (ii) Unless otherwise provided by the terms of issue of the Preference Shares, all or any of the rights or privileges attached to the Preference Shares may be varied or abrogated only with the sanction of a resolution passed at a separate meeting of the holders of the Preference Shares by 75% of the votes cast at such meeting of the holders of the Preference Shares.

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- (iii) Each holder of Preference Shares shall be entitled to receive copies of all notices of any general meeting of the Company and all other documents sent to holders of Ordinary Shares at the same time as they are respectively sent to holders of Ordinary Shares and shall be entitled to attend general meetings of the Company, whether or not such holder has a right to vote thereat.

### **9A.8 Register of Members**

- (i) The Company shall at all times cause a Register of Members to be maintained at its registered office showing the number of Preference Shares held by each holder thereof and the date of issue and all subsequent transfers and changes of ownership of all Preference Shares and the names and address of each of the holders of Preference Shares and the persons deriving title under them. Holders of Preference Shares or any of them and any person authorised by any of them shall be at liberty at all reasonable times during office hours to inspect the Register of Members and to take copies of or extracts from the same or any part of it.
- (ii) Any change of name or address on the part of a holder of Preference Shares shall be notified by such holder to the Company as soon as is reasonably practicable, and the Company shall alter the Register of Members accordingly.

### **9A.9 Redemption**

- (i) The Preference Shares are not redeemable.

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### 9A.10 Restrictive Covenants

- (i) Notwithstanding any provisions in these Bye-laws and without prejudice to Bye-law 9A.7, so long as any of the Preference Shares are in issue, the Company shall not without first obtaining a resolution passed at a separate general meeting of the holders of the Preference Shares, or by written consent of all holders of the Preference Shares:
  - (a) authorise, create, allot, issue or permit to exist any class of share capital that is senior to or has preference in any respect over the Preference Shares (including, without limitation, in respect of Bye-laws 9A.2 and 9A.6 above) (“Senior Securities”) whether by merger, consolidation, amalgamation or otherwise;
  - (b) reclassify, redesignate, convert or exchange any shares of any capital or capital stock of the Company into Senior Securities, whether by merger, consolidation, amalgamation or otherwise;
  - (c) authorise, create, allot, issue or permit to exist any securities exchangeable for, convertible into, or evidencing the right to subscribe for any Senior Securities, whether by merger, consolidation, amalgamation or otherwise;
  - (d) authorise, create, allot, issue or permit to exist any class or series of equity securities, or any shares of any class or series of equity securities, or any securities convertible into or exercisable for any class or series of equity securities, redeemable mandatorily or redeemable at the option of the holder thereof at any time on or prior to the conversion of the Preference Shares (whether or not only upon the occurrence of a specified event, or by merger, consolidation, amalgamation or otherwise);
  - (e) amend, alter or repeal any provision of these Bye-laws, or authorise or take any other action which would require the approval of the Shareholders, to alter or change the powers, preferences, designations, rights, qualifications, limitations or restrictions of the Preference Shares or any other securities of the Company so as to affect the

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Preference Shares in any material adverse respect (whether by merger, consolidation, amalgamation or otherwise); or

- (f) amend, alter or repeal this Bye-law 9A.

### **9A.11 Partly Paid-up Preference Shares**

Notwithstanding any provisions to the contrary in these Bye-laws, Bye-law 9A.2 to 9A.10 shall at all times apply to any partly paid-up Preference Share as if such shares were fully paid-up, and for the avoidance of doubt, partly paid-up Preference Shares shall confer on the holders thereof at all times all rights and benefits which would otherwise be conferred on such holders if such Preference Shares were fully paid-up, except that, for the purpose of conversion of any partly paid-up Preference Share into an Ordinary Share, such holder shall be required to pay the outstanding unpaid amount of such Preference Share prior to being entitled to conversion.”;

- (l) amending Bye-law 66 by:
- (i) inserting the words “voting by way of a poll is required by the rules of the Designated Stock Exchange or” after the words “on a show of hands unless” in the third sentence of Bye-law 66; and
  - (ii) deleting the full-stop at the end of Bye-law 66(d) and replacing therewith a semicolon and the word “or” and inserting the following as new Bye-law 66(e):
    - “(e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.”
- (m) deleting the second sentence of Bye-law 68 and substituting therefor the following:
- “The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange.”
- (n) inserting the words “or at any special general meeting” after the words “in accordance with Bye-law 87” in the third sentence of Bye-law 86(1).



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- (o) deleting the existing Bye-law 87(1) in its entirety and substituting therefor the following:

“87. (1) Notwithstanding any other provisions in the Bye-laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.”

By Order of the Board  
**North Asia Strategic Holdings Limited**  
**Savio Chow Sing Nam**  
*Executive Director and Chief Executive Officer*

Hong Kong, 24th January, 2006

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head Office and Principal*

*Place of Business in Hong Kong:*  
78th Floor  
The Center  
99 Queen's Road Central  
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or, if he holds two or more Shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the relevant power of attorney or other authority (if any) under which it is signed (or a certified true copy thereof) must be deposited at the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. The Bye-laws of the Company are written in English. There is no official Chinese translation in respect thereof. Therefore, the Chinese version of resolution no. 7 above on amendments of the Bye-laws is purely a translation only. Should there be any discrepancies, the English version will prevail.