

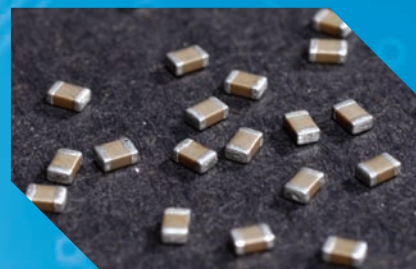
EYANG

宇陽控股(集團)有限公司

EYANG HOLDINGS (GROUP) CO., LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 117)



EYANG HOLDINGS (GROUP) CO., LIMITED



PLACING AND PUBLIC OFFER

Sponsor, Bookrunner and Lead Manager

 **CAF Securities**
wholly owned subsidiary of Agricultural Bank of China

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

EYANG

EYANG HOLDINGS (GROUP) CO., LIMITED

宇陽控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING AND PUBLIC OFFER

Number of Offer Shares	:	100,000,000 new Shares (subject to the Over-allotment Option)
Number of Placing Shares	:	90,000,000 new Shares (subject to adjustment and the Over-allotment Option)
Number of Public Offer Shares	:	10,000,000 new Shares (subject to adjustment)
Offer Price	:	HK\$1.30 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund)
Nominal Value	:	HK\$0.01 each
Stock Code	:	117

Sponsor, Bookrunner and Lead Manager



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

A copy of this prospectus, having attached to it the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of other documents referred to above.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, in particular, the risk factors set out in the section headed "Risk factors" of this prospectus.

The obligations of the Underwriters under the Underwriting Agreement to subscribe for, and to procure subscribers to subscribe for, the Offer Shares, are subject to termination by the Lead Manager (for itself and on behalf of the Underwriters) if certain grounds of termination arise prior to 8:00 a.m. (Hong Kong time) on the day trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" of this prospectus. It is important that you refer to that section for further details.

EXPECTED TIMETABLE

2007
(Notes 1, 2 and 3)

Application lists of the Public Offer open (Note 2)	11:45 a.m. on Friday, 14 December
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Friday, 14 December
Latest time to give electronic application instructions to HKSCC (Note 4)	12:00 noon on Friday, 14 December
Latest time to complete electronic applications under the White Form eIPO service through the designated website at www.eipo.com.hk (Note 5)	11:30 a.m. on Friday, 14 December
Latest time to complete payment of White Form eIPO applications	12:00 noon on Friday, 14 December
Application lists of the Public Offer close (Notes 2 and 3)	12:00 noon on Friday, 14 December
Announcement of the level of applications in the Public Offer, the indication of interests in the Placing and the basis of allotment of the Public Offer Shares to be published in <i>The Standard</i> (in English) and <i>Sing Tao Daily</i> (in Chinese) on or before	Thursday, 20 December
Results of allocations in the Public Offer (including the level of applications in the Public Offer, the indication of interests in the Placing, the basis of allotment of the Public Offer Shares and the successful applicants’ identification document numbers, where appropriate) to be available through a variety of channels (see “How to apply for the Public Offer Shares — 9. Results of allocations” in this prospectus) from	Thursday, 20 December
Refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be posted on or before (Note 6)	Thursday, 20 December
Share certificates (in respect of wholly or partially successful applications) to be posted or deposited into CCASS on or before (Note 6)	Thursday, 20 December
Dealings in the Shares on the Main Board commence on	Friday, 21 December

EXPECTED TIMETABLE

Notes:

1. All times and dates refer to Hong Kong local times and dates. In the event of any change to the expected timetable as set out in this prospectus, an announcement will be made accordingly.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on Friday, 14 December 2007, the application lists of the Public Offer will not open and close on that day. Further information is set out in the paragraph headed “Effect of bad weather conditions on the opening of the application lists” under the section headed “How to apply for the Public Offer Shares” in this prospectus.
3. If the application lists do not open and close on Friday, 14 December 2007, the dates mentioned in this section headed “Expected timetable” may be affected. A press announcement will be made by the Company in such event.
4. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to apply for the Public Offer Shares — How to apply by giving electronic application instructions to HKSCC” in this prospectus.
5. Applicants will not be permitted to submit their application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. Applicants who have already submitted their application and obtained an application reference number from the designated website prior to 11:30 a.m., will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
6. Applicants who apply for 1,000,000 or more Public Offer Shares and indicate on their Application Forms that they wish to collect their share certificates and/or refund cheques (if any) in person may do so from the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. and 1:00 p.m. on Thursday, 20 December 2007. Applicants being individuals who opt for personal collection must not authorise any other person to collect their share certificates and/or refund cheques (if any) on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the company’s chop. Identification documents and (where applicable) authorisation documents acceptable to Computershare Hong Kong Investors Services Limited must be produced at the time of collection of share certificates and/or refund cheques (if any). Further information is set out in the paragraph headed “If your application for Public Offer Shares is successful (in whole or in part)” under the section headed “Terms and conditions of the Public Offer” in this prospectus.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares may collect their refund cheques (if any) in person but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS participants’ stock accounts or investor participants stock accounts, as appropriate. The procedure for collection of refund cheques (if any) for applicants who apply on **YELLOW** Application Forms is the same as that for applicants who apply on **WHITE** Application Forms.

Uncollected share certificates and/or refund cheques (if any) will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the Application Forms as soon as practicable after the expiry of the time for their collection. Further information is set out in the paragraph headed “If your application for Public Offer Shares is successful (in whole or in part)” under the section headed “Terms and conditions of the Public Offer” in this prospectus.

No temporary documents of title will be issued. Share certificates for Public Offer Shares are expected to be issued on Thursday, 20 December 2007 but will only become valid certificates of title after 8:00 a.m. on Friday, 21 December 2007 provided that (i) the Share Offer becomes unconditional in all respects and (ii) the right of termination as described in the paragraph “Grounds for termination” in the section headed “Underwriting” in this prospectus has not been exercised and has lapsed. No dealing should take place in the Offer Shares prior to the commencement of dealing in the Shares on the Stock Exchange. Investors who trade on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title will do so entirely at their own risk.

Prospective investors of the Offer Shares should note that the Lead Manager (for itself and on behalf of the Underwriters) is entitled to terminate the Underwriters’ obligations under the Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set forth in the paragraph headed “Grounds for termination” under the section headed “Underwriting” in this prospectus at any time prior to 8:00 a.m. on Friday, 21 December 2007.

Details of the structure of the Share Offer, including its terms and conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus and/or the Application Forms.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or affiliates, or any other person or party involved in the Share Offer.

	<i>Page</i>
Expected timetable	i
Summary	1
Definitions	26
Glossary	35
Risk factors	38
Waivers from compliance with the Listing Rules	55
Information about this prospectus and the Share Offer	57
Directors and parties involved in the Share Offer	61
Corporate information	66
Industry overview	68
Regulations	81
Business	
Overview	85
Business strategies	88
Competitive strengths	89
History and development	91
Business model	125
Products	129
Production	142
Production facilities and capacity	153
Suppliers	155
Customers	157

CONTENTS

	<i>Page</i>
Distribution and marketing	160
Pricing policy	168
Inventory control	169
Research and development	171
Quality control	177
Intellectual property rights	180
Competition	181
Awards, accreditations and aids	183
Insurance	185
Environmental protection	186
Legal and regulatory	189
Non-competition undertaking	201
Independence from Controlling Shareholder	202
Connected transactions	203
Future plans and use of proceeds	
Future plans	209
Use of proceeds	212
Directors, senior management and staff	
Directors	213
Senior management	215
Company secretary and qualified accountant	216
Management presence	216
Audit committee	217
Remuneration committee	217
Remuneration of directors	217
Compliance adviser	218
Staff	218
Benefits	219
Substantial shareholders	220
Share capital	222

CONTENTS

	<i>Page</i>
Financial information	
Indebtedness	224
Liquidity, financial resources and capital structure	225
Foreign exchange	229
Disclosure under rules 13.13 to 13.19 of the Listing Rules	229
Trading record	230
Critical accounting policy	235
Management discussion and analysis of the results of the Group	241
Tax	268
Related party transactions	270
Property valuation	271
Distributable reserve	271
Profit forecast	271
Dividend policy	272
Unaudited pro forma adjusted net tangible assets	273
No material adverse change	274
Underwriting	275
Structure of the Share Offer	280
How to apply for Public Offer Shares	285
Terms and conditions of the Public Offer	298
Appendix I — Accountants' report	I-1
Appendix II — Unaudited pro forma financial information	II-1
Appendix III — Profit forecast	III-1
Appendix IV — Property valuation	IV-1
Appendix V — Summary of the constitution of the Company and Cayman Islands Company Law	V-1
Appendix VI — Statutory and general information	VI-1
Appendix VII — Documents delivered to the Registrar of Companies and available for inspection	VII-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS MODEL

The Group focuses on two principal businesses, namely MLCC business and mobile phone related business.

MLCC business

The Group is engaged in the manufacture, sale and trading of MLCC, a type of capacitor which is a basic electronic component that has been widely used in information technology, communication and consumer electronic products.

During the Track Record Period, MLCC products of the Group were principally sold to electronic product manufacturers. In addition, the Group also sold MLCC products to distributors for their onward sale. During the Track Record Period, the revenue generated from the sale to these manufacturers was approximately RMB104.6 million, RMB126.5 million, RMB148.8 million and RMB129.8 million respectively, accounting for approximately 90.6%, 83.4%, 81.6% and 79.0% of the total revenue generated from the MLCC business of the Group respectively, whereas the revenue generated from the sale to the MLCC distributors was approximately RMB10.9 million, RMB25.2 million, RMB33.6 million and RMB34.5 million respectively, representing approximately 9.4%, 16.6%, 18.4% and 21.0% of the total revenue generated from the MLCC business of the Group respectively.

The sale of MLCC products to distributors was sale as principal and not as agent, i.e. the distributors purchase MLCC products from the Group for their onward sale and assume all losses of any unsold MLCC products purchased from the Group.

The Group only allows sales return from its MLCC customers, i.e. the manufacturers and MLCC distributors, for confirmed defective products. During the Track Record Period, the total sales return of MLCC products amounted to approximately RMB124,000, RMB157,000, RMB162,000 and RMB59,000 respectively, representing approximately 0.1%, 0.1%, 0.1% and 0.04% of the total revenue of the MLCC business of the Group respectively.

Mobile phone related business

During the Track Record Period, the mobile phone related business of the Group can be divided into two categories: mobile phones and mobile phone components. It was the Group's business objective to engage in the manufacture and distribution of mobile phones of its own brand to capture the market potential of mobile phones in the PRC. As such, the business focus of the mobile phone related business

SUMMARY

of the Group had been shifted from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones. As at the Latest Practicable Date, the Group focused on the manufacture and sale of mobile phones.

Mobile phones

The Group is engaged in the manufacture and sale of mobile phones. As at the Latest Practicable Date, the Group only manufactured mobile phones under its own brand name — “EY”.

During the Track Record Period, mobile phones produced by the Group were all sold to mobile phone distributors for their onward sale through their own distribution networks.

The sale of mobile phones to mobile phone distributors was sale as principal and not as agent, i.e. the distributors purchase the mobile phone products from the Group for their onward sale and assume all losses of any unsold mobile phone products purchased from the Group.

All mobile phones are sold to the mobile phone distributors without recourse and sales return is not allowed. In case of confirmed defective mobile phones, the Group would provide replacement, after sales repair and maintenance service for these defective mobile phones. The Group made provisions for the one-year warranties on the mobile phones sold to the Group’s customers, under which defective products were repaired or replaced. During the Track Record Period, the Group recorded a gross provision of approximately RMB1.4 million, RMB8.2 million, RMB19.2 million and RMB19.7 million respectively. Of the said gross provision made during the Track Record Period, the additional provision made in the corresponding period was approximately RMB1.4 million, RMB6.8 million, RMB16.7 million and RMB10.6 million, representing approximately 2.6%, 2.9%, 3.4% and 2.6% of total turnover generated from the Group’s mobile phone segment during the Track Record Period respectively. As at 31 December 2004, 2005 and 2006 and 30 September 2007, approximately nil, RMB5.6 million, RMB10.1 million, and RMB11.3 million of the provision was utilized. It mainly represented expenses incurred for replacement, repair and maintenance services provided for the mobile phones produced by the Group.

The mobile phone production of the Group generally comprises the following stages : stage 1 — appearance and structural designs involving design of mobile phone appearance and design of structural positioning of mobile phone components; stage 2 — mobile phone hardware and software designs involving the design of the circuit board inside the mobile phones and design of operational platform of mobile phones; stage 3 — procurement of various mobile phone components, including but not limited to chipsets, LCD and IC; stage 4 — assembling of electronic and mobile phone components through SMT procedures into PCBs; stage 5 — downloading of the software into the mobile phones; stage 6 — assembling of all mobile phone components into a mobile phone and IMEI selection; and stage 7 — packaging and delivery.

Amongst the abovementioned seven mobile phone production stages, there are two stages involving outsourcing arrangements, namely, stage 2 — mobile phone hardware and software designs and stage 4 — SMT procedures, whereas the remaining five mobile phone production stages are retained and conducted by the Group. During the Track Record Period, mobile phone hardware and software designs involving the design of circuit board and general operational platform of mobile phones on stage 2 of the production processes were outsourced by the Group to Jingwei and Lingying in respect of several mobile phone models, whereas SMT procedures on stage 4 were principally outsourced to Yixu. Detailed information on the software and hardware designs and SMT procedures is set out in the paragraph headed “Stage 2” and “Stage 4” under the “Business” section in this prospectus.

SUMMARY

As hardware and software designs, i.e. electronic circuit design and the operating systems and the relevant application software, are relatively standard products and have a developed segment to provide such service in the mobile phone industry, the Directors consider that it is more operationally effective to outsource such part of research and development of mobile phones in respect of several mobile phone models, which enables the Group to allocate more resources and efforts to the appearance and structural designs of mobile phones. In addition, in order to reduce the capital expenditure of the Group and to focus on the promotion of mobile phones under its own brand name, the relatively more capital-intensive SMT procedures are outsourced to several Independent Third Parties. Given that there are plenty of suppliers in the PRC to provide SMT services and the SMT procedures are common procedures in the production of electronic products, the Directors are of the view that it is a common practice and is commercially viable to outsource such production process to the suppliers who are specialized in the provision of such services.

With the said outsourcing arrangements, the Directors consider that the Group is able to operate its mobile phone business more effectively and is able to concentrate the resources and efforts on other important aspects, i.e. mobile phone appearance and structural designs which directly reflect the market positioning, brand awareness and characteristics of the mobile phones produced by the Group, assembly of mobile phone components into a complete mobile phone set and quality control.

Mobile phone components

The Group was engaged in the manufacture, sale and trading of mobile phone components. The mobile phone components manufactured and sold by the Group were PCBAs, which is a PCB product to be installed inside a mobile phone on which the relevant electronic components used in a mobile phone, such as chipset and IC, are assembled together according to the pre-designed electronic circuit, whereas the components sourced and sold by the Group include but are not limited to chipsets. During the Track Record Period, the customers of the mobile phone components sold by the Group were principally manufacturers who are engaged in the production of mobile phone related products.

It was always the Group's business objective to engage in the manufacture and distribution of mobile phones with its own brand to capture the market potential for mobile phones in the PRC. As such, the business focus of the mobile phone related business had been shifted from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones during the Track Record Period. The Directors consider that such a shift in the business focus is in line with the Group's long-term business objective in its mobile phone related business. In addition, the Directors also consider that the profit margin for the manufacture and sale of mobile phones is relatively higher than that for the manufacture, sale and trading of mobile phone components. The Directors therefore believe that mobile phone segment would provide a better return to the Group as compared with that of the mobile phone components segment.

As at the Latest Practicable Date, the Group had ceased the sale of mobile phone components to its external customers. Nevertheless, the Group continues to manufacture mobile phone components, namely PCBA, and source the relevant mobile phone components such as chipset and IC for the manufacture of the Group's own mobile phones.

Detailed analysis of the profit margin for the different business segments of the Group is set out in the paragraph headed "Management discussion and analysis of the results of the Group" under the section headed "Financial information" of this prospectus.

SUMMARY

The following table shows the breakdown of revenue of the Group during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
MLCC business <i>(Note 1)</i>	115,470	151,737	182,402	136,142	164,346
Mobile phone related business					
<i>Mobile phones</i> <i>(Note 2)</i>	51,924	235,844	484,428	358,579	401,256
<i>Mobile phone components</i> <i>(Note 3)</i>	<u>491,218</u>	<u>67,829</u>	<u>14,787</u>	<u>12,400</u>	<u>3,289</u>
Total	<u><u>658,612</u></u>	<u><u>455,410</u></u>	<u><u>681,617</u></u>	<u><u>507,121</u></u>	<u><u>568,891</u></u>

Notes:

1. The revenue generated from the MLCC business is revenue derived from the manufacture, sale and trading of MLCC products.
2. The revenue generated from the mobile phone segment of the Group's mobile phone related business is revenue derived from the manufacture and sale of mobile phones.
3. The revenue generated from the mobile phone components segment of the Group's mobile phone related business is revenue derived from the manufacture, sale and trading of mobile phone components.

OVERVIEW OF THE GROUP'S BUSINESS

MLCC business

MLCC is a type of capacitor which is a basic electronic component that has been widely used in information technology, communication and consumer electronic products. During the Track Record Period, the Group was principally engaged in the manufacture, sale and trading of the MLCC products. In addition, during the Track Record Period, certain MLCC products required by the customers of the Group were not MLCC products produced by the Group. As such, from time to time, the Group would help the customers to source, according to the customers' requirements, MLCC products mainly from Japanese and Korean manufacturers. Except packaging, the Group would not process such MLCC products and would directly sell these sourced MLCC products to the relevant customers.

During the Track Record Period, the revenue generated from the MLCC business was approximately RMB115.5 million, RMB151.7 million, RMB182.4 million and RMB164.3 million respectively, representing approximately 17.5%, 33.3%, 26.8% and 28.9% of the total revenue of the Group respectively. Among the revenue generated from the MLCC business of the Group, during the Track Record Period, approximately RMB17.2 million, RMB15.8 million, RMB10.3 million and

SUMMARY

RMB4.8 million were generated from the sourcing and sale of the MLCC products for the Group's customers respectively, which accounted for approximately 14.9%, 10.4%, 5.6% and 2.9% of the total revenue generated from the MLCC business of the Group for the corresponding period.

The Group was a pioneer in the PRC to develop 0402 mini MLCC by using the BME technology. According to the Science and Technology Achievement Appraisal Certificate (科學技術成果鑒定證書) dated 24 October 2002 issued by the Shenzhen Bureau of Science and Technology (深圳市科學技術局), currently known as Shenzhen Bureau of Technology and Information (深圳市科技和信息局), Eyang Shenzhen, a wholly-owned subsidiary of the Company, was accredited by the Shenzhen Bureau of Science and Technology as the first PRC manufacturer which successfully developed 0402 mini MLCC by using the BME technology in the PRC.

The Group's MLCC research and development team have co-operated with Tsinghua University in the development of MLCC production technology under the National High Technology Research and Development Program of the PRC (國家高科技研究發展項目) (commonly known as the "863 Project").

In view of the trend of sophistication in functionality and increasing portability of consumer electronic products, the Group's strategy is to focus on the research and development of mini size and high capacitance MLCC with competitive pricing.

Mobile phone related business

In view of the uprising popularity of mobile phones and demand of mobile phones in the PRC, it was always the Group's business objective to engage in the manufacture and distribution of mobile phones with its own brand to capture business opportunities.

In order to accumulate experience in the manufacture and sale of mobile phones and their related products and lay down the foundation for mobile phone related business, the development of the Group's mobile phone related business has gone through several major stages, which included (i) minority equity investment in companies principally engaged in software and hardware designs of mobile phones in 2002 to understand the general mobile phone market environment in the PRC; (ii) engaging in the manufacture, sale and trading of mobile phone components in 2003 to accumulate manufacturing experience and understand the market of mobile phone components; (iii) cooperating with a mobile phone manufacturer to produce, distribute and market mobile phones for that manufacturer's brand in the PRC in 2004 by conducting marketing activities such as providing promotion posters and leaflets to distributors; and (iv) obtaining the approval of NDRC to directly engage in the manufacture of mobile phones for the Group's own brand since December 2005.

In May 2002, the Group invested in approximately 22.02% equity interest in Jingwei to first engage in research and development of hardware and software designs of mobile phones in order to gain an understanding of the general mobile phone market environment, particularly the market trend of mobile phone hardware and software design solutions in the PRC.

Since 2003, the Group commenced manufacturing, sale and trading of mobile phone components in order to accumulate experience in the manufacture of mobile phones and related components. The mobile phone components manufactured and sold by the Group were PCBAs, a PCB product to be installed inside a mobile phone on which relevant electronic components such as chipset and IC used in

SUMMARY

a mobile phone have been assembled together according to the pre-designed electronic circuit, whereas the components sourced and sold by the Group included chipsets, microphones, casings, diodes, capacitors and ICs.

In August 2003, the Group invested in 15% equity interest in Weike which is principally engaged in manufacture and sale of mobile phones in order to gain experience in the manufacture of whole set mobile phone products.

In March 2004, with relevant experience and understanding in the mobile phone industry, the Group decided to set up a wholly-owned subsidiary, Eycom, to directly enter into the mobile phone market. In June 2004, the Group began to set up its first production line for mobile phones.

Since the establishment of Eycom, the Group has directly engaged in the manufacture of mobile phones. Although the NDRC had not granted an approval to the Group to manufacture mobile phones under the Group's own brand name at that time, the Group cooperated with a mobile phone manufacturer, an Independent Third Party that had been approved by NDRC to manufacture mobile phones under its own brand name, to produce, distribute and market mobile phones under such manufacturer's own brand name (the "Mobile Phone Production Arrangement") from April 2004 to December 2005. Details of the Mobile Phone Production Arrangement are set out in the paragraph headed "Mobile Phone Production Arrangement before 2006" in this section.

In October 2004, the Group decided to set up its then non-wholly owned subsidiary, Lingying, of which the Group held 60% equity interest, to engage in the provision of hardware and software design solutions for mobile phones. Since the establishment of Eycom and Lingying, the Group has directly engaged in the mobile phone business, and subsequently, the Group completed its disposal of equity interests in Jingwei and Weike in mid 2006.

In December 2005, the Group successfully obtained an approval from NDRC which allowed the Group to manufacture mobile phones under its own brand name — "EY". Subsequently, the Group ceased the Mobile Phone Production Arrangement. During the Track Record Period, the Group's strategy for its mobile phone business is to focus on customers with low purchasing power, such as customers in the rural market, who generally look for inexpensive mobile phones with common mobile phone functions. In addition, the Group is also expanding its product mix of mobile phones by introducing mobile phones equipped with more sophisticated functions to better serve potential customers with relatively higher purchasing power, such as customers in the urban market in the PRC. As such, the Group developed its first mobile phone with PDA functions which was launched in May 2007.

Mobile phones produced by the Group were all sold to mobile phone distributors principally for further distribution in the PRC. Nevertheless, in addition to distributing the Group's mobile phones in the PRC, one local mobile phone distributor in 2006 and two local mobile phone distributors in 2007 had overseas clientele as well. From time to time, these mobile phone distributors placed purchase orders to the Group and requested the Group to deliver the relevant mobile phone products to Hong Kong for their onward distribution. For the three years ended 31 December 2006 and the nine months ended 30 September 2007, the sale of mobile phones by the Group to the said distributors under the said arrangement amounted to approximately nil, nil, RMB17.4 million and RMB52.5 million, representing approximately nil, nil, 3.6% and 13.1% of the revenue generated from the sale of mobile phones by the Group during the corresponding period.

SUMMARY

To further broaden revenue sources of the Group's mobile phone business, in May 2007, the Group entered into agreements with a Hong Kong distributor, an Independent Third Party, pursuant to which the mobile phone distributor purchased the mobile phones produced by the Group which contained the logo provided by such distributor. For the nine months ended 30 September 2007, the sale of the Group's mobile phones to such mobile phone distributor amounted to approximately RMB4.0 million, representing approximately 1.0% of the revenue generated from the sale of mobile phones by the Group during the corresponding period. As the sale amount of such mobile phone products did not contribute significantly to the Group's mobile phone business and it was considered not operationally efficient to directly oversee such sale activities given the fact that most of sale of mobile phones was conducted in the PRC during the Track Record Period, the Group ceased the sale of these mobile phone products to the said mobile phone distributor as at the Latest Practicable Date.

As the mobile phone related business of the Group evolved from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones in 2004, the business focus of the Group's mobile phone related business had also been shifted from the former to the latter during the Track Record Period.

As at the Latest Practicable Date, the Group had ceased its sale of the mobile phone components to customers. Nevertheless, the Group continues to manufacture mobile phone components, i.e. PCBA, and source mobile phone components such as chipset and IC for the manufacture of the Group's own mobile phones.

Mobile Phone Production Arrangement before 2006

Prior to obtaining approval from NDRC in December 2005 to allow the Group to produce mobile phones of its own brand (the "Mobile Phone Approval"), the Group cooperated with a mobile phone manufacturer (the "Mobile Phone Partner"), an Independent Third Party that had obtained approval from NDRC to produce mobile phones of its own brand, to manufacture and distribute mobile phones of such manufacturer's brand (the "Mobile Phone Production Arrangement") for the period from April 2004 to December 2005. Under the Mobile Phone Production Arrangement, Eyang Dongguan was principally responsible for the manufacture of the mobile phones, whereas Eycom was principally responsible for the distribution and marketing of the mobile phones. The principal terms of the Mobile Phone Production Arrangement are set out below:

Sourcing

The Mobile Phone Partner sourced various kinds of mobile phone components including PCBAs manufactured by the Group, LCDs, cases and batteries, as well as mobile phone design solutions such as hardware and software design solutions for mobile phones, from third party suppliers designated by Eycom. These third party suppliers included Eyang Shenzhen. In respect of each purchase for mobile phone components from such third party suppliers, the third party suppliers would notify Eycom of the relevant amount of payment and Eycom would then pay the Mobile Phone Partner, so that the Mobile Phone Partner could settle account directly with the relevant third party suppliers. Such payments were made on a back-to-back basis and were settled at the same time. The relevant amounts in payments were calculated with reference to the number of mobile phones to be produced under the Mobile Phone Production Arrangement.

SUMMARY

The mobile phone components sourced by the Mobile Phone Partner were then delivered to Eyang Dongguan or other designated third party for assembling into mobile phones under the Mobile Phone Partner's own brand.

As the Mobile Phone Production Arrangement commenced in April 2004 while the Group began to set up its first mobile phone production line in June 2004, the Mobile Phone Partner and the Group jointly appointed an Independent Third Party (the "Third Party Contractor") to assist in assembling mobile phone products for the period from April 2004 to October 2004. The principal terms of the arrangement included the following:

1. the Third Party Contractor should assist in assembling mobile phones in accordance with the design, technology standards and quality requirements as instructed by the Group; and
2. The Third Party Contractor would notify the Group of the relevant assembly fee and the Group would then pay the Mobile Phone Partner, so that the Mobile Phone Partner could settle account directly with the Independent Third Party. Such payments were made on a back-to-back basis and were settled at the same time. The assembly fee was determined after the arm's length negotiation with reference to the number of mobile phones to be assembled by the Third Party Contractor with price range of approximately RMB15 per unit to RMB50 per unit. Assembly fee of approximately RMB2.1 million had been paid by the Group in respect of the said arrangement. For the period from April 2004 to October 2004, the Third Party Contractor produced two mobile phone models under the said arrangement.

The mobile phone production was fully taken up by Eyang Dongguan after the Group fully completed the set-up of its first mobile phone production line in October 2004. The Directors confirm that the Group has not engaged the Third Party Contractor for the production of mobile phones since cessation of the said arrangement in October 2004. No compensation was paid either by the Group or the Mobile Phone Partner to the Third Party Contractor for cessation of the said arrangement.

In addition, under the Mobile Phone Production Arrangement, the SMT procedures of the mobile phone production were also outsourced to Independent Third Parties including Yixu. Details of the outsourcing arrangement are set out in the paragraph headed "Production — mobile phone related business — mobile phones" under the section headed "Business" of this prospectus.

Quality control requirements

The mobile phones produced under the Mobile Phone Production Arrangement were required to comply with the PRC national quality standards. If the quality of the mobile phones produced under the Mobile Phone Production Arrangement did not meet the relevant PRC national quality requirements, the Mobile Phone Partner had the right to terminate the Mobile Phone Production Arrangement and the relevant mobile phones produced under the Mobile Phone Production Arrangement were not allowed to be launched into the market.

SUMMARY

The Directors confirm that no mobile phones produced under the Mobile Phone Production Arrangement had been prohibited from being launched into the market during the term of the cooperation, i.e., from April 2004 to December 2005.

Technology specifications of mobile phones

The technology specifications of the mobile phones produced under the Mobile Phone Production Arrangement were provided by the Group and were required to comply with the PRC national quality standards. The Group had outsourced the hardware and software designs for six mobile phones developed under the Mobile Phone Production Arrangement, three to each of Jingwei and Lingying. On the other hand, the appearance and structural designs for these mobile phones were conducted by the Group. For details of the outsourcing arrangement, please refer to the paragraphs headed “Agreement with Jingwei” and “Agreements with Lingying” under the section headed “Business” in this prospectus.

Guarantee deposit

Eycom was required to pay a product brand guarantee deposit to the Mobile Phone Partner under the Mobile Phone Production Arrangement. The total product brand guarantee deposit paid by the Group under the Mobile Phone Production Arrangement amounted to RMB700,000. The Mobile Phone Partner had a right to forfeit the product brand guarantee deposit if: (a) Eycom sourced identical mobile phone models through other channels for onward sale outside of the Mobile Phone Production Arrangement, (b) Eycom used fake labeling on the mobile phones produced under the Mobile Phone Production Arrangement, or (c) the reputation of the Mobile Phone Partner’s brand had been adversely damaged due to the handling of after sale services by Eycom. If Eycom did not pay the Mobile Phone Partner another amount equivalent to the product brand guarantee deposit within three days after such forfeiture, the Mobile Phone Partner was entitled to terminating the Mobile Phone Production Arrangement.

As confirmed by the Directors, the said product brand guarantee deposit had not been forfeited by the Mobile Phone Partner and all product brand guarantee deposits paid by Eycom had been repaid by the Mobile Phone Partner.

Sales

Eycom was responsible for the onward sale of the mobile phones to customers and to provide them with after sales services. The mobile phones that were sold may not be refunded and Eycom’s general practice was to replace those mobile phones found to be defective.

Profit and cost sharing

Eycom was responsible for all production costs. The Mobile Phone Partner required Eycom to pay an agreed profit for each unit of mobile phones produced, which ranged from approximately RMB17 to RMB32 per unit and varied between different mobile phone models. Such agreed profit was arrived at after arm’s length negotiation between the Group and the Mobile Phone Partner with reference to, among others, the mobile phone production volume under the Mobile Phone Production Arrangement for each model. Such payments were settled by cash on delivery with no credit terms. Total amount of such agreed profit paid to the Mobile Phone Partner was

SUMMARY

approximately RMB2.1 million and RMB6.6 million for the years ended 31 December 2004 and 2005, respectively. There had not been any further production arrangement with the Mobile Phone Partner after the Group obtained the Mobile Phone Approval in December 2005.

Pricing

The retail prices for the onward sale of the mobile phones were determined by Eycom with reference to the market conditions from time to time. Eycom was required to notify the Mobile Phone Partner within two working days after the retail prices were fixed and to inform the Mobile Phone Partner prior to making any substantial adjustment to the retail prices.

Termination

The Mobile Phone Partner was entitled to terminate the Mobile Phone Production Arrangement if, among others, the mobile phones produced were found to have material quality defects, the quality of mobile phones failed to meet the PRC national quality standards or the mobile phones did not conform with the agreed appearance and trademark requirements or there was any adverse impact on the Mobile Phone Partner's brand resulting from the mobile phones produced under the Mobile Phone Production Arrangement.

In addition to the above, all the relevant expenses, such as the fees required to be paid to the relevant authorities for permission to sell the mobile phones produced under the Mobile Phone Production Arrangement in the PRC, should be borne by the Group. The Group was also responsible for the transportation, insurance, after sales services and related expenses for the mobile phones ordered and sold by the Group under the Mobile Phone Production Arrangement.

The Mobile Phone Production Arrangement ceased in December 2005 as the Group obtained the Mobile Phone Approval. No compensation was paid by the Group to the Mobile Phone Partner for cessation of the Mobile Phone Production Arrangement. After cessation of the Mobile Phone Production Arrangement, the Mobile Phone Partner continued to produce its mobile phones but did not source any mobile phone components from the Group as at the Latest Practicable Date.

Compliance with the PRC laws and regulations

The PRC legal advisers to the Company advise that, based on the Several Provisions on Approval of Mobile Telecommunication Systems and Terminals Investment Project (移動通信系統及終端投資項目核准的若干規定) (the "Old Measure") issued by NDRC, NDRC's approval was required for the investment in mobile telecommunication systems and terminals.

However, the PRC legal advisers to the Company advise that, pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the relevant requirement for obtaining the approval for investment in mobile phone production as set out in the Old Measure was cancelled.

Under the Mobile Phone Production Arrangement, Eyang Dongguan was principally responsible for the manufacture of mobile phones. The PRC legal advisers to the Company advise that the relevant PRC laws and regulations, including the Old Measure do not prohibit a manufacturer from being engaged by any eligible mobile phone manufacturer to produce mobile phones for that eligible mobile

SUMMARY

phone manufacturer. Nevertheless, Eyang Dongguan's engagement in the mobile phone production under the Mobile Phone Production Arrangement may constitute non-compliance with the relevant requirements in the Old Measure.

Under the Mobile Phone Production Arrangement, Eycom was principally responsible for distribution and marketing of the mobile phones. The PRC legal advisers to the Company consider that it is not required to obtain approval from relevant government authorities to engage in distribution and marketing of mobile phones. As such, the distribution and marketing of the mobile phones produced under the Mobile Phone Production Arrangement by Eycom complies with the PRC laws and regulations.

The principal supervising authorities in respect of Eyang Dongguan's engagement in the mobile phone production under the Mobile Phone Production Arrangement and their respective duties and responsibilities

The principal supervising authorities in respect of Eyang Dongguan's engagement in the mobile phone production for the period from April 2004 to December 2005 were NDRC, MII and Dongguan Administration for Industry and Commerce. They are different PRC governmental departments with different duties and responsibilities, details of which are set out below:

- (i) under the Old Measure, NDRC was the authority responsible for reviewing the relevant investment in mobile phone production projects and assessing, among others, the feasibility of the said investment projects and determining whether to grant approval for the implementation of such investment projects;
- (ii) MII is the government authority overseeing the mobile phone industry and is responsible for supervising the mobile phone production within the industry, and permitting the connection of the mobile phones into the public communication networks;
- (iii) according to the relevant PRC laws and regulations, MII would provide its opinion as a supervising authority for mobile phone industry to NDRC in respect of the relevant investment project. Nevertheless, NDRC had the right to make the final decision whether or not to grant an approval for the relevant mobile phone production project; and
- (iv) based on the PRC company law (中華人民共和國公司法) and the Revocation Method For Operations Without License (無照經營查處取締辦法), the administration for industry and commerce is responsible for supervising and investigating illegal operations of registered companies. According to the PRC Company Registration Management Regulation (中華人民共和國公司登記管理條例), it states that "city administration for industry and commerce, county administration of industrial and commerce, the branch of municipality administration for industry and commerce and district administration for industry and commerce are responsible for the company registration of their respective jurisdiction (except for the relevant aspects as stipulated under the management of State Administration for Industry and Commerce, or provincial administration for industry and commerce, or autonomy district administration for industry and commerce or municipality administration for industry and commerce) ("設區的市(地區)工商行政管理局、縣工商行政管理局, 以及直轄市的工商行政管理分局、設區的市工商行政管理局的區分局, 負責本轄區內(除法律規定由國家工商行政管理總局或省、自治區、直轄市工商行政管理局負責管理以外)公司的登記"). In view of the fact that Dongguan Administration for Industry and Commerce is the registration administration of Eyang Dongguan, the PRC legal advisers

SUMMARY

to the Company consider that Dongguan Administration for Industry and Commerce is the competent authority to supervise whether Eyang Dongguan violates any relevant industrial and commercial laws and regulations in its daily production and operations.

In summary, the aforesaid three authorities are responsible for the different stages of the mobile phone production projects. NDRC is responsible for assessing the mobile phone production investment project and granting approval for implementation of the project under the Old Measure. After the approval is granted and mobile phone production is commenced, MII is responsible for supervision and management of the mobile phone production and permitting the connection of the mobile phones into the public communication networks. Dongguan Administration for Industry and Commerce is responsible for supervising the compliance of the relevant PRC laws and regulations by Eyang Dongguan in its daily production and operations.

The PRC legal advisers to the Company opine that according to the relevant PRC laws and regulations, NDRC, MII and Dongguan Administration for Industry and Commerce do not belong to each other and each of them has different functionality and responsibility as mentioned above. As such, Dongguan Administration for Industry and Commerce is the competent authority to issue an opinion on whether Eyang Dongguan violates any relevant industrial and commercial laws and regulations. According to the relevant PRC laws and regulations, NDRC and MII have no right to overturn the legal and valid opinion issued by Dongguan Administration for Industry and Commerce.

Legal consequence in respect of Eyang Dongguan's engagement in the mobile phone production under the Mobile Phone Production Arrangement

Although Eyang Dongguan's engagement in the mobile phone production under the Mobile Phone Production Arrangement for the period from April 2004 to December 2005 may constitute non-compliance with the relevant requirements under the Old Measure, the PRC legal advisers to the Company consider that Eyang Dongguan will not be penalised for its engagement in mobile phone production under the Mobile Phone Production Arrangement based on the following reasons:

- (i) Eyang Shenzhen, the direct holding company of Eyang Dongguan, has obtained the Mobile Phone Approval since December 2005. It is also noted that Eyang Shenzhen has already disclosed in the application for the Mobile Phone Approval that the Group has been already engaged in the mobile phone production prior to obtaining the Mobile Phone Approval. Based on the relevant PRC laws and regulations, NDRC had sought the opinion from MII in respect of the application for the Mobile Phone Approval. Both NDRC and MII, after reviewing the application for the Mobile Phone Approval submitted by the Group, did not impose any penalty in this regard, and granted the Mobile Phone Approval to Eyang Shenzhen. Eyang Dongguan now is able to produce the mobile phone for the Group's own brand;
- (ii) the relevant PRC laws and regulations, including the Old Measure do not stipulate any fine, i.e., the maximum amount of fine, penalty or administrative punishment that may be imposed by the relevant authorities in respect of the Mobile Phone Production Arrangement. According to the general principle of the PRC laws, if the laws and regulations do not stipulate any penalty, fine or administrative punishment, the relevant authorities have no right to impose any penalty, fine or administrative punishment on Eyang Dongguan;

SUMMARY

In view of the above, the PRC legal advisers to the Company consider that Eyang Dongguan will not be penalised by NDRC and MII for its engagement in mobile phone production under the Mobile Phone Production Arrangement;

- (iii) pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the relevant requirement for obtaining the approval for the relevant investment in mobile phone production as set out in the Old Measure was cancelled.

In view of the above and according to the general principle of the PRC laws, the PRC legal advisers to the Company consider that Eyang Dongguan will not be penalised for its engagement in the mobile phone production under the Mobile Phone Production Arrangement; and

- (iv) based on the confirmation letter dated 19 April 2007 issued by Dongguan Administration for Industry and Commerce, Eyang Dongguan had not been found violating any relevant PRC rules and regulations. Eyang Dongguan had never been questioned or penalised in respect of the Mobile Phone Production Arrangement. Furthermore, Dongguan Administration for Industry and Commerce, as the direct supervising authority in respect of Eyang Dongguan's compliance with relevant industrial and commercial laws and regulations, is the competent authority to issue the said confirmation letter on whether Eyang Dongguan violates any relevant industrial and commercial laws and regulations, and the said confirmation letter issued by Dongguan Administration for Industry and Commerce will not be overturned by NDRC and MII.

Based on the above, the PRC legal advisers to the Company consider that Eyang Dongguan will not be penalised by Dongguan Administration for Industry and Commerce for its engagement in the mobile phone production under the Mobile Phone Production Arrangement.

Notwithstanding the above, the Controlling Shareholder, i.e. Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date, namely, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen, have provided an indemnity in favour of the Group to cover any loss, damage or cost that the Group may suffer or incur in relation to the above Mobile Phone Production Arrangement. Details of such indemnity are set out in the paragraph headed "Other information" in Appendix VI to this prospectus.

BUSINESS STRATEGIES

- Expansion of MLCC production capacity.
- Continue to invest in the research and development capability for MLCC products.
- Development of relatively low cost mobile phone products equipped with common functions.
- Development of 3G mobile phones by way of acquisition of 3G mobile phone solutions.
- Expansion of mobile phone production capacity.

SUMMARY

- Strengthening the marketing, sale and distribution of mobile phones with “EY” brand.
- Upgrade the computer system to further enhance business management.

Details of the business strategies of the Group are set out in the paragraph headed “Business strategies” under the section headed “Business” of this prospectus.

COMPETITIVE STRENGTHS

MLCC business

- The Group possesses technology in manufacturing mini size and high capacitance MLCC.
- The Group offers MLCC products with competitive pricing.
- The close proximity of the Group to the manufacturing base of consumer electronics companies enables the Group to provide timely and better services.
- The Group maintains strong research and development capabilities to continuously develop advanced MLCC products.

Mobile Phones related business

- Sale of mobile phones to mobile phone distributors enables the Group to maintain a relatively low distribution cost.
- The Group maintains an efficient product development cycle that enables it to respond to the fast changing mobile phone market.

Details of the competitive strengths of the Group are set out in the paragraph headed “Competitive strengths” under the section headed “Business” of this prospectus.

SUMMARY

TRADING RECORD

The following table is a summary of the audited combined results of the Group during the Track Record Period, together with its unaudited comparative figures for the nine months ended 30 September 2006, which is extracted from the accountants' report set out in Appendix I to this prospectus. The summary has been prepared on the basis that the current structure of the Group had been in place throughout the Track Record Period. This summary should be read in conjunction with the full text of the accountants' report set out in Appendix I to this prospectus.

	Notes	Year ended 31 December			Nine months ended 30 September	
		2004 RMB'000 (Audited)	2005 RMB'000 (Audited)	2006 RMB'000 (Audited)	2006 RMB'000 (Unaudited)	2007 RMB'000 (Audited)
REVENUE	(2)	658,612	455,410	681,617	507,121	568,891
Cost of sales		<u>(601,615)</u>	<u>(385,663)</u>	<u>(575,459)</u>	<u>(433,327)</u>	<u>(483,261)</u>
Gross profit	(3)	56,997	69,747	106,158	73,794	85,630
Other income and gains		2,183	4,461	4,048	2,354	2,869
Selling and distribution costs		(9,769)	(16,970)	(22,624)	(15,452)	(13,936)
Administrative expenses		(11,510)	(13,356)	(17,629)	(12,069)	(12,920)
Research and development costs		(2,668)	(12,403)	(9,745)	(4,865)	(7,319)
Write-back of provision against slow-moving inventories		—	—	—	—	3,825
Other expenses		(4,963)	(6,280)	(6,745)	(6,432)	(9,505)
Finance costs		<u>(1,272)</u>	<u>(2,666)</u>	<u>(1,779)</u>	<u>(1,138)</u>	<u>(2,392)</u>
PROFIT BEFORE TAX		28,998	22,533	51,684	36,192	46,252
Tax		<u>(504)</u>	<u>(3,412)</u>	<u>(3,545)</u>	<u>(2,319)</u>	<u>(4,146)</u>
PROFIT FOR THE YEAR		<u>28,494</u>	<u>19,121</u>	<u>48,139</u>	<u>33,873</u>	<u>42,106</u>
Attributable to:						
Equity holders of the Company		29,877	19,826	48,176	33,977	42,106
Minority interests	(5)	<u>(1,383)</u>	<u>(705)</u>	<u>(37)</u>	<u>(104)</u>	<u>—</u>
DIVIDENDS	(4)	<u>—</u>	<u>—</u>	<u>70,160</u>	<u>—</u>	<u>4,500</u>
		<u>28,494</u>	<u>19,121</u>	<u>48,139</u>	<u>33,873</u>	<u>42,106</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(6)					
Basic		<u>RMB0.100</u>	<u>RMB0.066</u>	<u>RMB0.161</u>	<u>RMB0.113</u>	<u>RMB0.140</u>

Notes:

- (1) The financial information of the Group included in the accountants' report as set out in Appendix I to this prospectus has been prepared to reflect the Reorganization is under common control, in which Mr. Chen and the Concert Parties together had collective power to govern the financial and operating policies of the Company, Eyang Management,

SUMMARY

Hong Kong Eyang and Eyang Shenzhen throughout the Track Record Period. The financial information of the Group has been prepared on a combined basis as prescribed by Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA by applying the principles of merger accounting.

Accordingly, the combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Track Record Period, have been prepared on a combined basis and include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment, whichever is the shorter period.

The combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 September 2007 have been prepared to present the assets and liabilities of the Group as at those dates as if the current group structure had been in existence at those dates or since their respective dates of incorporation/registration where they did not exist at those dates or acquisition.

All material intra-group transactions and balances have been eliminated on combination.

Although Mr. Chen held less than 50% of equity interests in Eyang Shenzhen during the Track Record Period, Mr. Chen obtained the controlling power in Eyang Shenzhen throughout the Track Record Period by virtue of his direct or indirect equity interest in Eyang Shenzhen together with the voting rights in favour of him by Mr. Cheng Wusheng, Mr. Luo Chaoen, Shanghai Pudong Meiling Plastic Factory, Shenzhen Chuangce Investment Development Co., Ltd., Ms. Shuang Mei, Mr. Zhang Zhilin and Mr. Zhou Penghong pursuant to the concert party arrangements entered into between them as detailed in the section headed “History and development — Corporate development” to this prospectus.

Mr. Chen and the relevant concert parties as aforementioned together had collective power to govern the financial and operating policies of the Company, Eyang Management, Hong Kong Eyang and Eyang Shenzhen throughout the Track Record Period and the power was not transitory. A business combination involving entities under common control is outside the scope of IFRS 3 “Business Combinations”. Accordingly, the principle of merger accounting has been applied. Eyang Shenzhen was treated as a subsidiary of the Company during the Track Record Period. Its results are then consolidated in the financial statements of the Group for the Track Record Period.

(2) The following table shows the breakdown of revenue of the Group during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September	
	2004 <i>RMB'000</i> <i>(Audited)</i>	2005 <i>RMB'000</i> <i>(Audited)</i>	2006 <i>RMB'000</i> <i>(Audited)</i>	2006 <i>RMB'000</i> <i>(Unaudited)</i>	2007 <i>RMB'000</i> <i>(Audited)</i>
MLCC business <i>(Note 1)</i>	115,470	151,737	182,402	136,142	164,346
Mobile phone related business					
<i>Mobile phones</i> <i>(Note 2)</i>	51,924	235,844	484,428	358,579	401,256
<i>Mobile phone components</i> <i>(Note 3)</i>	491,218	67,829	14,787	12,400	3,289
Total	<u>658,612</u>	<u>455,410</u>	<u>681,617</u>	<u>507,121</u>	<u>568,891</u>

Notes:

1. The revenue generated from the MLCC business is revenue derived from the manufacture, sale and trading of MLCC products.

SUMMARY

The revenue generated from the Group's MLCC business increased in 2005 as compared to that in 2004, which was mainly because more MLCC products were produced and sold by the Group after it continued to increase its MLCC production capacity in 2005 to meet the increasing demand for the Group's MLCC products from the customers.

The revenue generated from the Group's MLCC business increased in 2006 as compared to that in 2005, which was mainly due to continuing demand for the MLCC products of the Group in 2006 as the demand for various consumer electronic products continued to increase due to the growth of global economy.

The revenue generated from the Group's MLCC business increased during the nine months ended 30 September 2007 as compared to that for the nine months ended 30 September 2006, which was mainly due to the fact that more MLCC products were produced and sold by the Group after it continued to increase its MLCC production capacity in 2007 to meet the increasing demand for the Group's MLCC products from the customers.

2. The revenue generated from the mobile phone segment of the Group's mobile phone related business is revenue derived from the manufacture and sale of mobile phones.

The revenue generated from the Group's mobile phone business increased in 2005 as compared to that in 2004, which was mainly because it had always been the Group's intention to directly engage in the business of manufacturing of mobile phones. Accordingly, after the Group accumulated relevant production experience regarding the mobile phone components and mobile phones since 2003 and 2004, the business focus of the Group's mobile phone related business had been shifted from the mobile phone component segment to the mobile phone segment and more efforts had been allocated by the Group into the manufacturing and sale of the mobile phones in 2005. As such, the turnover generated from the Group's mobile phone business increased in 2005 as compared to that in 2004.

The revenue generated from the Group's mobile phone business increased in 2006 as compared to that in 2005 because the Group focused more resources and efforts of the Group to enlarge the market shares for its own brand and more marketing and promotional efforts were spent on its own brand since the Group obtained the approval from NDRC to manufacture the mobile phones for its own brand in December 2005.

The revenue generated from the Group's mobile phone business increased during the nine months ended 30 September 2007 as compared to that for the nine months ended 30 September 2006 because several new models such as the mobile phones with PDA functions launched in 2007 have been received by the customers in the market, which stimulated the sale of mobile phones of the Group in the second half of 2007.

3. The revenue generated from the mobile phone components segment of the Group's mobile phone related business is revenue derived from the manufacture, sale and trading of mobile phone components.

The revenue generated from the Group's mobile phone component business decreased in 2005 as compared to that in 2004 because the business focus of the Group's mobile phone related business had been shifted from the mobile phone component segment to the mobile phone segment and more efforts have been allocated by the Group into the manufacture and sale of the mobile phones since 2005.

SUMMARY

- (3) Details of the Group's gross profit and gross profit margin for each of the three years ended 31 December 2006 and the nine months ended 30 September 2006 and 2007 are set out below:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
MLCC business					
<i>Gross profit (RMB'000)</i>	34,033	33,338	53,281	37,131	44,689
<i>Gross profit margin</i>	29.5%	22.0%	29.2%	27.3%	27.2%
Mobile phone related business					
<i>Mobile phones</i>					
<i>Gross profit (loss) (RMB'000)</i>	(4,051)	32,312	51,885	35,314	40,546
<i>Gross profit margin</i>	N/A	13.7%	10.7%	9.9%	10.1%
<i>Mobile phones components</i>					
<i>Gross profit (RMB'000)</i>	27,015	4,097	992	1,349	395
<i>Gross profit margin</i>	5.5%	6.0%	6.7%	10.9%	12.0%

(i) MLCC business

Both the gross profit and gross profit margin generated from the Group's MLCC business decreased in 2005 as compared with that in 2004, which was mainly due to (i) the decline in the price of one of the MLCC products, namely 0603 MLCC, during 2005, resulting from saturation in supply, which in turn reduced the Group's MLCC business' gross profit margin; and (ii) the increase in the depreciation of the production facilities given the fact that more production facilities for the MLCC production were purchased and used in 2005.

Both the gross profit and gross profit margin generated from the Group's MLCC business increased in 2006 as compared with that in 2005, which was mainly due to increase in the sale of 0402 MLCC products in 2006, which have higher profit margin than other MLCC products because of its relatively low unit cost as a result of its relatively smaller size.

The gross profit generated from the Group's MLCC business increased for the nine months ended 30 September 2007 when compared to that for the nine months ended 30 September 2006, which was mainly due to the increase in the sale of MLCC products during the period under review as explained in the Note 2(i) above. The gross profit margin generated from the Group's MLCC business for the nine months ended 30 September 2007 was comparable to that for the nine months ended 30 September 2006.

(ii) Mobile phone related business

Mobile phones

The Group recorded gross loss in the mobile phone segment in 2004 because the Group only commenced its business of mobile phones in March 2004 and thus the Group incurred relatively larger initial cost to manufacture mobile phones and had not reached economies of scale. The Group recorded gross profit in 2005, which was mainly due to increase in the revenue generated from the mobile phone segment in 2005.

The gross profit generated from the Group's mobile phone segment increased in 2006 as compared with that in 2005, which was mainly due to the fact that since the Group obtained the approval from NDRC to manufacture mobile phones of its own brand in December 2005, the Group focused more resources and efforts to enlarge the market shares for its own brand and more marketing and promotional efforts were spent on its own brand as well in 2006. Accordingly, the sale of mobile phones increased in 2006 as compared with that of 2005. Nevertheless, the gross profit margin generated from the Group's mobile phone segment decreased from 2005 to 2006, which was mainly due to intense competition of the PRC mobile phone market in 2006.

SUMMARY

The gross profit generated from the Group's mobile phone segment increased for the nine months ended 30 September 2007 when compared with that for the nine months ended 30 September 2006, which was mainly due to increase in revenue generated from the Group's mobile phone segment as explained in note (3)(ii) above. The gross profit margin of mobile phone segment for the nine months ended 30 September 2007 slightly increased as compared with that for the nine months ended 30 September 2006 because several new models were launched in 2007, such as the mobile phones with PDA functions, have a relatively higher pricing due to its new function and appearance, and such models have been received by the customers in the market in 2007.

Mobile phone components

The gross profit generated from the Group's mobile phone component segment decreased in 2005 as compared with that in 2004, which was mainly due to decrease in revenue generated from the Group's mobile phone component segment as the business focus of the Group's mobile phone related business has been shifted from the mobile phone component segment to the mobile phone segment and more efforts have been allocated by the Group into the manufacture and sale of the mobile phones since 2005. Nevertheless, the gross profit margin of mobile phone component segment remained stable in 2005 compared with that of 2004.

The gross profit generated from the Group's mobile phone component segment decreased in 2006 as compared with that in 2005, which was mainly due to further decrease in revenue generated from the Group's mobile phone component segment as the business focus of the Group's mobile phone related business has been shifted from the mobile phone component segment to the mobile phone segment since 2005. Nevertheless, the gross profit margin of mobile phone component segment remained stable in 2006 compared with that of 2005.

The gross profit generated from the Group's mobile phone component segment decreased for the nine months ended 30 September 2007 as compared with that for the nine months ended 30 September 2006 as a result of further shift of the business focus of the Group's mobile phone related business from the mobile phone component segment to the mobile phone segment.

The gross profit margin slightly increased for the nine months ended 30 September 2007 as compared with that for the nine months ended 30 September 2006. Such increase was because the Group's remaining mobile phone component inventories on hand was relatively in short in supply during the nine months ended 30 September 2007, the Group could sell out these inventories at relatively higher prices than that in 2006, which increased its gross profit margin.

- (4) During each of the three years ended 31 December 2006 and the nine months ended 30 September 2007, dividends of approximately nil, nil, RMB70 million and RMB4.5 million were declared by Eyang Shenzhen to its then shareholders. All these dividends had been paid in cash out of the internal resources of the Group as at the Latest Practicable Date.
- (5) For the year ended 31 December 2004, the minority interests included (i) 10% equity interest in Eyang Dongguan held by 東莞市鳳崗實業總公司 (Dongguan Fenggang Industrial Co., Ltd.*); (ii) 1% equity interest in Eyang Hong Kong held by Mr. Ma Jianhui and Mr. Chen respectively; (iii) 15% equity interest in Lingying held by Mr. Li Zhanpeng; and (iv) 25% equity interest in Lingying held by Ms. Luo Zhanli.

For the each of the two years ended 31 December 2006, the minority interests included 10% equity interest in Eyang Dongguan held by Dongguan Fenggang Industrial Co., Ltd.

- (6) The calculation of the basic earnings per Share is based on the profit attributable to equity holders of the Company for the Track Record Period and on 300,000,000 Shares in issue and issuable comprising 5,000,000 Shares in issue as at the date of this prospectus and 295,000,000 Shares to be issued pursuant to the Capitalisation Issue.

DIVIDEND POLICY

The Company has not declared or paid any dividends since its incorporation. However, dividend in the amount of RMB70,160,000 was declared and paid by Shenzhen Eyang in July 2006 and dividend in the amount of RMB4,500,000 was declared by Shenzhen Eyang for the nine months ended 30 September 2007 and paid in November 2007.

SUMMARY

In the future, the declaration of dividends is subject to the discretion of the Directors and any final dividend for the year is subject to Shareholders' approval. The amounts of dividends actually paid to holders of Shares will depend upon a number of factors, including the Company's earnings, the future capital requirements of the Group, the required distributable reserve for payment of such dividends, its general financial condition, the provisions of relevant laws and other factors considered relevant by the Directors. There can be no assurance that dividend distributions will be made by the Company or other members of the Group in the future. The past dividend distribution record of members of the Group should not be used as a reference or basis to determine or predict the amount of any dividends which may be payable in the future.

In the future, in the absence of any special circumstances or unforeseen events and subject to the aforesaid factors, it is the Company's intention to pay not less than 30% of the Group's consolidated profit attributable to its Shareholders as dividends.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2007

Forecast combined profit attributable to equity holders of the Company (<i>Note 1</i>)	not less than RMB68 million (equivalent to approximately HK\$70 million)
Fully diluted forecast earnings per Share (<i>Note 2</i>)	not less than RMB0.17 (equivalent to approximately HK\$0.175)

STATISTICS OF THE SHARE OFFER

Offer Price	HK\$1.30 per Offer Share
Market capitalisation of the Shares (<i>Note 3</i>)	approximately HK\$520 million
Unaudited pro forma adjusted net tangible assets per Share (<i>Note 4</i>)	approximately RMB0.89 (equivalent to approximately HK\$0.92)
Prospective fully diluted price/earnings multiple (<i>Note 5</i>)	approximately 7.4 times

Notes:

1. The bases and assumptions on which the forecast combined profit attributable to the equity holders of the Company for the year ending 31 December 2007 are set forth in Appendix III to this prospectus.
2. The calculation of the forecast earnings per Share on a fully diluted basis is based on the forecast combined profit attributable to the equity holders of the Company for the year ending 31 December 2007 and on the basis of 400,000,000 Shares to be in issue immediately after completion of the Share Offer and the Capitalisation Issue, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme and any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the issue or repurchase of shares granted to the Directors referred to in the sub-section headed "Written resolutions of all the Shareholders passed on 30 November 2007" under the section headed "Further information about the Company" in Appendix VI to this prospectus.

SUMMARY

3. The market capitalisation of the Shares is based on a total of 400,000,000 Shares expected to be in issue immediately after the completion of the Share Offer and the Capitalisation Issue. Such number of Shares does not take into account any Shares which may fall to be issued pursuant to any exercise of the Over-allotment Option or the exercise of options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the sub-section headed “Written resolutions of all the Shareholders passed on 30 November 2007” under the section headed “Further information about the Company” in Appendix VI to this prospectus.
4. The unaudited pro forma adjusted net tangible assets per Share have been arrived at after making the adjustments referred to in Appendix II “Unaudited pro forma financial information” to this prospectus and are based on a total of 400,000,000 Shares in issue and expected to be issued immediately after the completion of the Share Offer and the Capitalisation Issue but take no account of any Shares which may fall to be issued pursuant to any exercise of the Over-allotment Option or the exercise of options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased pursuant to the general mandates for the issue or repurchase of Shares granted to the Directors referred to in the sub-section headed “Written resolutions of all the Shareholders passed on 30 November 2007” under the section headed “Further information about the Company” in Appendix VI to this prospectus.
5. The calculation of the prospective price/earnings multiple on a fully diluted basis is based on the forecast earnings per Share attributable to the equity holders of the Company for the financial year ending 31 December 2007 and on the basis of 400,000,000 Shares in issue at the Offer Price of HK\$1.30 per Offer Share immediately following completion of the Share Offer and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.

FUTURE PLANS

MLCC business

The Group aims at becoming a leading MLCC manufacturer severing local and international major consumer electronic appliances, computers and computer peripherals and telecommunication manufacturers. As such, the Group intends to use part of the net proceeds derived from the Share Offer to implement its business strategies of the MLCC business as follows:

- (i) Expansion of MLCC production capacity.
- (ii) Enhancement of the research and development capability of MLCC products.

Mobile phone related business

The Group’s long-term objective is to become a major mobile phone manufacturer in the PRC. Accordingly, in addition to continuing development of low cost mobile phones for the customers with relatively lower purchasing power in the rural market, the Group is also expanding its product mix of mobile phones by introducing mobiles phones equipped with more sophisticated functions to better serve potential customers with relatively higher purchasing power, such as customers in the urban market in the PRC. Besides, the Group also plans to increase its mobile phone production capacity and allocate more resources to marketing and brand building of the Group’s mobile phones. Therefore, part of the net proceeds derived from the Share Offer is planned to be used as follows:

- (i) Developing 3G mobile phone business by way of acquisition of 3G mobile phone solutions.
- (ii) Expansion of mobile phone production capacity.
- (iii) Strengthening the marketing, sale and distribution of mobile phones with “EY” brand.

SUMMARY

General

Upgrade the computer system to further enhance the business management.

USE OF PROCEEDS

The net proceeds from the Share Offer will be utilised to finance the implementation of the future plans of the Group and to strengthen the capital base of the Group.

Based on the Offer Price of HK\$1.30 per Offer Share, the net proceeds from the Share Offer, after deduction of related expenses payable by the Company, are estimated to be approximately HK\$100 million. The Directors intend to apply the net proceeds from the Share Offer as followings:

- as to approximately HK\$59 million to acquire MLCC production facilities to expand the production capacity of MLCC products;
- as to approximately HK\$12 million to enhance the research and development capability of MLCC products;
- as to approximately HK\$6 million to acquire third party solutions designated for the applications of 3G mobile phones;
- as to approximately HK\$9 million to acquire mobile phones production facilities to expand the production capacity of mobile phones;
- as to approximately HK\$9 million to further strengthen the marketing, sale and distribution of mobile phones with “EY” brand;
- as to approximately HK\$3 million to upgrade the existing computer system; and
- the remaining balance of approximately HK\$2 million will be used as general working capital.

In the event that the Over-allotment Option is exercised in full, the Group will receive additional net proceeds of approximately HK\$19 million and the Directors intend to allocate approximately HK\$16 million to further acquire production facilities of MLCC products and mobile phones and approximately HK\$3 million for the Group’s general working capital.

To the extent that the net proceeds from the Share Offer are not immediately applied for the above purposes, it is the present intention for the Group that such proceeds will be placed on short-term deposits with authorised financial institutions in Hong Kong and/or the PRC.

Please refer to the section headed “Future plans and use of proceeds” of this prospectus for further details of the above plans.

SUMMARY

RISK FACTORS

The operations of the Group involve certain risks. Prospective investors should read carefully the section headed “Risk factors” of this prospectus rather than rely solely on this summary. These risks can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to the Share Offer; and (v) risk relating to statements made in this prospectus, and are summarised below:

Risks relating to the Group

- The Group may lose its market share if it fails to develop new technologies and products with enhanced features in response to rapidly changing technologies and customer preferences or such technologies and products fail to suit market demands or meet governmental product standards.
- The operating results of the business may fluctuate due to seasonality.
- The Group’s growth may be adversely affected if it cannot respond to the introduction of 3G technologies in China in a timely manner or provide 3G products well accepted by the market.
- The Group’s business may be materially and adversely affected if any licenses or permits granted to the Group has been terminated or fails to be renewed.
- The Group relies on its executive Directors and its operations or businesses may be impaired if it fails to attract or retain its personnel.
- The profitability and the operations of the Group may be adversely affected if it fails to maintain its production arrangements with the relevant services providers and manufacturers.
- The Group may be penalised by the PRC regulatory authorities in respect of the Mobile Phone Production Arrangement during the period from April 2004 to December 2005.
- The Mobile Phone Partner may compete with the Group and may adversely affect the Group’s market share and businesses.
- The profitability and operations of the Group may be adversely affected if the Group fails to maintain the purchase cost of the raw materials.
- Intense competition in the Group’s markets may lead to reduced prices, revenue, gross profit margins and market share.
- Defect in legal title in respect of leased properties in the PRC may affect the Group’s ability to use the properties.
- Lack of inspection examination on construction completion and building title certificate for certain constructions on the Group’s property may adversely affect the operations of the Group’s businesses.

SUMMARY

- The loss of any of the Group's significant customers could have an adverse impact on the Group's business.
- The Group relies on distributors for the sale of mobile phones and adverse changes in relationship between the Group and the distributors may have an adverse effect on the business and operations of the Group.
- The Group has limited experience in the mobile phone manufacturing industry and the Group's business and financial position may be adversely affected if it fails to maintain and obtain sufficient experience and knowledge in the industry.
- The Group's business and operations would be adversely affected if the Group fails to maintain business relationships with its major suppliers.
- The Group could face a liquidity problem in the future.
- The Group could become involved in intellectual property rights or other similar disputes.
- There is no assurance that members of the Group will continue to benefit from preferential tax treatment, and changes in tax benefits available to the Group in China could reduce the Group's net profit.
- Third party(ies)'s inappropriate use of the Group's tradenames or trademarks or infringement of the Group's intellectual property rights by third party(ies) could negatively affect the Group's results of operations and financial condition.
- The Group does not maintain certain insurance, such as product liability insurance and business interruption insurance.
- The Company is a holding company and it depends on its operating subsidiaries for its ability to declare and pay dividends. Therefore, the Company cannot assure that there will be dividends available for distribution to the Shareholders.
- Dividends declared by members of the Group in the past may not be indicative of the dividend policy of the Group in the future.

Risks relating to the industry

- The telecommunications industry in China is subject to extensive government regulation, which is still evolving.
- The telecommunications industry in China is a highly competitive industry.

Risks relating to conducting business in the PRC

- Adverse changes in the PRC's economic, political and social conditions and government policies could have a material adverse impact on the overall economic growth of the PRC, which could adversely affect the results of operations and financial condition of the Group.
- Macroeconomic measures taken by the PRC government may cause the Chinese economy to slow down.

SUMMARY

- The PRC legal system is continuously evolving and has inherent uncertainties.
- Future movements in exchange rates may have a material adverse effect on the Group's financial condition and results of operations.
- The national and regional economies in China may be adversely affected by a recurrence of severe acute respiratory syndrome, or an outbreak of other epidemics such as avian flu, thereby affecting our prospects.
- Occurrence of any acts of God, war, terrorist attacks and contagious diseases may adversely and materially affect the business and operations of the Group.
- The Group's businesses may be adversely affected by interruptions in the supply of electricity and the Group's gross profit margins of the Group's products may be adversely affected by increases in the cost of electricity.

Risks relating to the Share Offer

- There has been no prior public market for the Offer Shares. The liquidity and market price of the Offer Shares following the Share Offer may be volatile.
- The Shareholders' interests may be diluted as a result of additional equity fund-raising.
- Forward-looking information included in this prospectus may not materialise.

Risk relating to statements made in this prospectus

- Certain facts and statistics derived from the official government publications included in this prospectus may not be relied upon.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary” of this prospectus.

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or, where the context so requires, any of them, relating to the Public Offer
“Articles of Association” or “Articles”	the articles of association of the Company as amended from time to time
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CAF Securities” or “Sponsor” or “Lead Manager”	CAF Securities Company Limited, a corporation licensed under transitional arrangements to conduct types 1, 4 and 6 of the regulated activities under the SFO, and is the sponsor to, and the bookrunner and lead manager of the Share Offer
“CAGR”	compound average growth rate
“Capitalisation Issue”	the issue of Shares to be made upon the capitalisation of part of the share premium account of the Company referred to in the paragraph headed “Written resolutions of all the Shareholders passed on 30 November 2007” under the section headed “Further information about the Company” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Internet System”	the website operated by HKSCC for enabling CCASS Investor Participants and, upon authorization by a CCASS Clearing Participant or a CCASS Custodian Participant, SSA Statement Recipients of that CCASS Clearing Participant or CCASS Custodian Participant to access CCASS
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“CCASS Phone System”	the interactive voice response system operated by HKSCC for enabling CCASS Investor Participants and, upon authorization by a CCASS Clearing Participant or a CCASS Custodian Participant, SSA Statement Recipients of that CCASS Clearing Participant or CCASS Custodian Participant to access CCASS
“China” or “PRC”	the People’s Republic of China, except where the context requires, references in this prospectus to the PRC or China excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Companies Law”	the Companies Law, Chapter 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time
“Company”	EYANG Holdings (Group) Co., Limited (宇陽控股 (集團) 有限公司), a company incorporated in the Cayman Islands under the Companies Law with limited liability on 6 March 2007
“Concert Parties”	certain holders of the equity interests in Eyang Shenzhen immediately prior to Eyang Shenzhen being reorganised into a wholly foreign-owned enterprise and who had entered into concert party agreements with Mr. Chen in relation to the exercise of their voting rights in Eyang Shenzhen, being 深圳市創策投資發展有限公司 (Shenzhen Chuangce Investment Development Co., Ltd.*), Ms. Shuang Mei (霜梅), Mr. Zhang Zhilin (張志林), 上海浦東美靈塑料製品廠 (Shanghai Pudong Meiling Plastic Factory*), 深圳市銀潤實業發展有限公司 (Shenzhen Yinrun Industrial Development Co., Ltd.*), Mr. Zhou Penghong (周鵬鴻), Mr. Cheng Wusheng (程吳生), Mr. Liao Jie (廖杰) and Mr. Luo Chaoen (羅朝恩). Further details are contained in the paragraph headed “History and development” in the section headed “Business” of this prospectus
“Connected Person”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to (i) Mr. Chen and the Shareholders who are also members of the Concert Parties during the Track Record Period; or (ii) Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date, namely Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Liao Jie, Mr. Cheng Wusheng, Mr. Zhou Penghong and Mr. Luo Chaoen.

DEFINITIONS

“Corporate Investors”	the group of corporate investors that held equity interests in Eyang Shenzhen from time to time prior to it being reorganised into a wholly foreign-owned enterprise and, immediately prior to its acquisition by Hong Kong Eyang, comprised of 深圳市金潤實業發展有限公司 (Shenzhen Jinrun Industrial Development Co., Ltd.*), 珠海市盈達信有限公司 (Zhuhai Yingdaxin Co., Ltd.*), 東莞市鳳崗實業總公司 (Dongguan Fenggang Industrial Co., Ltd.*), 太原彩星電器有限公司 (Taiyuan Caixing Electric Appliance Co., Ltd.*), 深圳市中商隆投資有限公司 (Shenzhen Zhongshanglong Investment Co., Ltd.*), 深圳市瑞聯投資有限公司 (Shenzhen Ruilian Investment Co., Ltd.*), 深圳市得潤電子股份有限公司 (Shenzhen Deren Electronics Co., Ltd.*), 聯想投資有限公司 (Legend Investment Co., Ltd.) and 深圳市勝旭實業發展有限公司 (Shenzhen Shengxu Industrial Development Co., Ltd.*). Further details are contained in the paragraph headed “History and development” in the section headed “Business” of this prospectus
“Director(s)”	the director(s) of the Company
“eIPO Service Provider”	Industrial and Commercial Bank of China (Asia) Limited
“Ever-win”	Ever-win Management Limited, a company incorporated with limited liability in the BVI on 10 August 2006 as an investment holding company, and a Shareholder. Further details are contained in the paragraph headed “History and Development” in the section headed “Business” of this prospectus
“EY Ocean”	EY OCEAN Management Limited, a company incorporated with limited liability in the BVI on 10 August 2006 as an investment holding company, and a Shareholder. Further details are contained in the paragraph headed “History and development” in the section headed “Business” of this prospectus
“Eyang Dongguan”	東莞市宇陽科技發展有限公司 (Dongguan Eyang Technology Development Co. Ltd.*), a limited liability company incorporated under the laws of the PRC on 22 March 2001, and an indirect wholly-owned subsidiary of the Company
“Eyang HK”	Hong Kong Eyang Technology Co. Limited (香港宇陽科技有限公司), a limited liability company incorporated in Hong Kong on 12 October 2001, and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Eyang Management”	Eyang Management Co., Limited, a company incorporated with limited liability in the BVI on 10 August 2006, and a direct wholly-owned subsidiary of the Company
“Eyang Shenzhen”	深圳市宇陽科技發展有限公司 (Eyang Technology Development Co., Ltd.*), a WFOE, incorporated under the laws of the PRC on 22 February 2001, and an indirect wholly-owned subsidiary of the Company
“Eycom”	深圳市億通科技有限公司 (Eycom Technology Co., Ltd.*), a limited liability company incorporated under the laws of the PRC on 24 March 2004, and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the subsidiaries of the Company at the time
“Guangtong”	東莞市光通實業有限公司 (Dongguan Guangtong Industrial Co., Ltd.*), a limited liability company incorporated in the PRC, and a Connected Person of the Company.
“HK\$” or “HK dollars” and “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Eyang”	Hong Kong Eyang Holdings (Group) Co., Limited (香港宇陽控股(集團)有限公司), a limited liability company incorporated in Hong Kong on 11 August 2006, and an indirect wholly-owned subsidiary of the Company
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“Independent Third Party/Parties”	a person(s) or company/companies which is/are independent of and not connected with any Directors, chief executive or substantial shareholders (within the meaning under the Listing Rules) of the Company or any of their respective subsidiaries or associates

DEFINITIONS

“Individual Investors”	the group of individual that held equity interests in Eyang Shenzhen from time to time prior to it being reorganised into a wholly foreign-owned enterprise and, immediately prior to its acquisition by Hong Kong Eyang, comprised of Du Binxu (杜彬許), Lou Yinin (樓一民), Qiu Jianmin (邱建民), Ma Jianhui (馬堅輝), Chen Jijin (陳集進), Li Heqiu (李賀球), Zheng Jinshun (鄭錦順) and Zhou Pengying (周鵬鷹). Further details are contained in the paragraph headed “History and development” in the section headed “Business” of this prospectus
“Infineon”	Infineon Technologies AG and its subsidiaries, who are Independent Third Parties and whose principal business is the design, development, manufacturing and marketing of a broad range of semiconductors and system solutions targeted at selected industries
“Jingwei”	深圳市經緯科技有限公司 (Shenzhen Jingwei Technology Co., Ltd.*), a limited liability company incorporated under the laws of the PRC on 31 May 2002
“Latest Practicable Date”	6 December 2007, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Legend New-Tech”	Legend New-Tech Investment Limited, a company incorporated with limited liability in the BVI on 30 December 1999 as an investment holding company, and a Shareholder. Further details are contained in the paragraph headed “History and development” in the section headed “Business” of this prospectus
“Lingying”	深圳市凌鷹軟件技術有限公司 (Shenzhen Lingying Software Technology Co., Ltd.*), a limited liability company incorporated under the laws of the PRC on 12 October 2004
“Listing”	the listing of the Shares on the Main Board
“Listing Date”	the date on which dealings in the Shares first commence on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

DEFINITIONS

“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of the Growth Enterprise Market of the Stock Exchange (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange
“MII”	中華人民共和國信息產業部 (The Ministry of Information Industry of the PRC)
“Mr. Chen”	Mr. Chen Weirong, the chairman of the Company and a Controlling Shareholder
“NDRC” or “SDPC”	國家發展和改革委員會 (The National Development and Reform Commission) or, its predecessor, 國家發展計劃委員會 (The State Development Planning Commission), as appropriate to the context
“Offer Price”	HK\$1.30 per Offer Share (exclusive of a brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer
“Offer Shares”	the Public Offer Shares and the Placing Shares together, where relevant, with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by the Company to the Lead Manager under the Underwriting Agreement and pursuant to which, the Company may be required to allot and issue the Over-allotment Shares to cover over-allocations in the Placing, if any
“Over-allotment Shares”	up to 15,000,000 new Shares which the Company may be required to issue at the Offer Price, representing 15% of the initial number of the Offer Shares
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters with professional, institutional and/or other investors at the Offer Price as described in the section headed “Structure of the Share Offer” of this prospectus
“Placing Shares”	the 90,000,000 new Shares being initially offered under the Placing (subject to adjustment described in the section headed “Structure of the Share Offer” of this prospectus and the Over-allotment Option)
“Placing Underwriters”	the underwriters of the Placing named in the paragraph headed “Placing Underwriters” in the section headed “Underwriting” of this prospectus

DEFINITIONS

“Public Offer”	the offer of the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions stated in this prospectus and in the Application Forms as further described in the section headed “Structure of the Share Offer” of this prospectus
“Public Offer Shares”	the 10,000,000 new Shares being initially offered under the Public Offer (subject to adjustment as described in the section headed “Structure of the Share Offer” of this prospectus)
“Public Offer Underwriters”	the underwriters of the Public Offer named in the paragraph headed “Public Offer Underwriters” in the section headed “Underwriting” of this prospectus
“Reorganisation”	the reorganisation of the Group in anticipation of the Listing as more particularly described in the paragraph headed “Corporate reorganisation” of Appendix VI to this prospectus
“Repurchase Mandate”	the general unconditional mandate relating to the repurchase of the Shares, granted to the Directors, further details of which are contained in the paragraph headed “Repurchase by the Company of its own shares ” in Appendix VI to this prospectus
“Ritong”	東莞市日通實業有限公司 (Dongguan Ritong Industrial Co, Ltd.*), a limited liability company incorporated under the laws of the PRC on 24 September 2004
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“RoHS Directive”	The European Union Directives on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment 2002/95/EC, a directive issued by the European Parliament, which restricts the use of six hazardous materials in the manufacture of various types of new electrical and electronic equipments on the European Union market
“SAFE”	國家外匯管理局 (The State Administration of Foreign Exchange)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares
“Share Offer”	the Placing and the Public Offer
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 30 November 2007, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus
“Shengxue”	SHENGXUE Management Limited, a company incorporated with limited liability in the BVI on 10 August 2006 as an investment holding company, which is 90% owned by Zhai Qingzhang and 10% owned by Zhai Qian
“Shenzhen Yinrun”	深圳市銀潤實業發展有限公司 (Shenzhen Yinrun Industrial Development Co., Ltd.*), a limited liability company incorporated under the laws of the PRC on 12 September 2002, and formerly a member of the Group
“sq.m.”	square metres
“SSA Statement Recipient”	in relation to a SSA with Statement Service of a CCASS Clearing Participant or a CCASS Custodian Participant, the persons or persons named and/or maintained by such CCASS Participant in the manner prescribed by HKSCC in respect of that SSA with Statement Service, as referred to in Section 3.4A of the operational procedures of HKSCC in relation to CCASS
“SSA with Statement Service”	a stock segregated account of a CCASS Clearing Participant of a CCASS Custodian Participant in relation to which SSA Statement Recipient is named and/or maintained by such CCASS Participant
“State” or “PRC government”	the central government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities), organs and instrumentalities of it or, as the context requires, any of them
“State Council”	中華人民共和國國務院 (The State Council of the PRC)
“Stock Borrowing Agreement”	a stock borrowing agreement entered into between the Lead Manager and EY Ocean
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the three years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2007

DEFINITIONS

“Underwriters”	the Placing Underwriters and the Public Offer Underwriters
“Underwriting Agreement”	the underwriting agreement dated 10 December 2007 relating to the Share Offer entered into between, among others, the Lead Manager, the Public Offer Underwriters, the Placing Underwriters and the Company
“United States” or “US”	the United States of America
“US\$” or “US dollar(s)”	United States dollar(s), the lawful currency of the United States
“Weike”	深圳市維科通信科技有限公司 (Shenzhen Weike Communication Technology Co., Ltd*), a limited liability company incorporated under the laws of the PRC on 8 August 2003 and formerly known as 深圳市福瑞德通信科技有限公司 (Shenzhen Furuide Communication Technology Co., Ltd*)
“WFOE”	wholly foreign-owned enterprise established in the PRC
“White Form eIPO”	applying for Public Offer Shares to be issued in your own name by submitting applications online through the designated website at www.eipo.com.hk
“White Form eIPO Service Provider”	the White Form eIPO service provider designated by the Company as specified on the designated website www.eipo.com.hk
“Yixu”	深圳市溢旭電子有限公司 (Shenzhen Yixu Electron Co., Ltd.*), an Independent Third Party, which provides processing services for the Group’s mobile phones
“%”	per cent

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated for the purpose of illustration only into Hong Kong dollars in this prospectus at the following rates:

HK\$1.00 : RMB0.97

HK\$7.81 : US\$1.00

US\$1.00 : RMB7.756

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

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

In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translation, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.*

GLOSSARY

“CSTN”	color super-twist nematic display, a color form of passive matrix LCD for electronic display screens
“CRM”	customer relationship management, a software which addresses the needs of marketing, sales and distribution, and customer services and support within an organization
“DSC”	digital shadow camera
“E-book”	electronic book, is an electronic (or digital) equivalent of a conventional printed book
“EMS”	electronic manufacturing services, services which include the provision of contract design, testing, manufacturing, distribution and related product support services for electronic components to OEMs
“GSM”	global system for mobile communications, a second generation digital cellular telephone system that operates in the 900 MHz frequency band, as well as the 1800 MHz or 1900 MHz bands based on digital transmission and cellular network architecture with roaming. It uses a TDMA access radio interface combined with frequency division multiple access
“IC”	integrated circuit, a microelectronic semiconductor device consisting of active or passive elements built onto a single piece of substrate and enclosed in a small package
“IMEI”	International Mobile Equipment Identity, a digital code to identify an individual mobile station to a GSM network
“ISO”	a network of national standards published by the International Organisation for Standardization, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems or business organisations
“LCD”	liquid crystal display, a display technology that uses rod-shaped molecules (liquid crystals)
“MLCC”	multi-layer ceramic capacitor
“MMS”	multimedia messaging service, a technology that allows users to receive and transmit multimedia objects such as text, graphics, audio and video clips using their mobile phones

GLOSSARY

“MP3”	MPEG Audio Layer-3, an audio compressed format that compresses a sound sequence into a very small file (about one-twelfth the size of the original file) while preserving much of the original sound quality
“MPEG”	the Moving Picture Experts Group
“MPEG-4”	a graphic and video compression algorithm standard developed by MPEG with synthesis of speech and video, fractal compression, computer visualisation and artificial intelligence-based image processing techniques
“PCB”	printed circuit board, a flat plate or base of insulating materials containing a pattern of conducting materials. The plate or base becomes an electrical circuit when components are attached and soldered to it
“PCBA”	a PCB assembled with mobile phone components, including but not limited to chipsets and ICs for component mounting and interconnecting purposes
“PDA”	personal digital assistant, a kind of handheld device equipped with microprocessor that is used for storing and organizing data
“SD Card”	secure digital memory card, a memory device for consumer electronic device
“SMD”	surface mount device, an electronic component that mounts on the surface a PCB
“SMS”	short message service, a technology that allows users to transmit or receive short alphanumeric messages using their mobile phones
“SMT”	SMT is a technology applied to the assembling of PCBs by soldering electrical components directly to above a board substrate
“T-Flash Card”	a kind of removable flash memory card used in mobile phones
“TFT”	thin film transistor, a kind of transistor made by depositing thin films for the metallic contacts, semiconductor active layer and dielectric layer
“WLAN”	wireless local-area network

GLOSSARY

“USB”	universal serial bus, an external bus connection that is widely used to connect peripheral devices to a computer
“NME”	noble metal electrodes, a kind of technology applied in the manufacturing of MLCC, using metals such as Palladium (Pd), or Pd/Silver (Ag) alloy

RISK FACTORS

You should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below, before making an investment in the Offer Shares. The business, financial condition or results of operations of the Group could be materially and adversely affected by any of these risks. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO THE GROUP

The Group may lose its market share if it fails to develop new technologies and products with enhanced features in response to rapidly changing technologies and customer preferences or such technologies and products may fail to suit market demands or meet governmental product standards.

The principal businesses of the Group focus on manufacturing and sales of MLCC products and mobile phones and related products. Market demands and preferences in these industries change from time to time and, in particular for the mobile phone industry, there are rapid and significant changes in technology, frequent new product introductions and evolving industry standards.

Despite that the Group will continue to focus on technology application and development, the Group cannot guarantee that all of its products will meet the rapidly changing demands of the market, suit the preferences of the consumers and generate the revenue the Group expects. There can be no assurance that the Group can improve the features, functionality and reliability of its products to meet the changing demands of its customers.

Any possible failure of the Group in the development of the production technologies or products in the future may result in the Group losing its market share and may adversely affect the Group's profitability. In addition, the development of new technologies and products may result in the incurrence of higher costs in administration, distribution and marketing and the Group cannot guarantee that such expenditure will generate the return that the Group expects, hence the Group's operation and profitability may be adversely affected.

In addition, the Directors consider that there are rapid technological changes and short product lifecycles in the mobile phone and consumer communication product industry. The Directors consider that it is important for the Group to be able to adapt to the short product lifecycles and provide mobile phone products to its customers in as short a time frame as possible. In the event that the Group fails to respond adequately to the market changes, the Group's inventories may become obsolete and it may cause material write downs in the Group's inventory value and the Group's profitability and operations may be adversely affected.

The operating results of the business may fluctuate due to seasonality.

The MLCC and mobile phone businesses of the Group are seasonal in nature. In respect of the MLCC business, the period of one to two months before the Chinese New Year holiday tend to experience higher sales than the other months mainly due to the impact of the year-end holiday period on the demand for electronic products. In respect of the mobile phone business, higher sales volumes are recorded approximately a month before the calendar New Year, the Chinese New Year holiday, the

RISK FACTORS

Labour Day holiday in May and the PRC National Day holiday in October. Sales volumes are comparatively lower in other months. In addition to the impact on the sales of the Group, seasonality may also impact financial statement items such as trade and bill receivables of the Group at each year/period end. For instance, Chinese New Year holiday is a peak season for the sale of many consumer electronic products (including mobile phones). As such, most customers of the Group's MLCC products, who are consumers electronics products manufacturers, and the customers of the Group's mobile phones, who are mobile phone distributors, will generally purchase the MLCC products and mobile phones at least one month before Chinese New Year holiday in order to maintain sufficient inventory for meeting the sale demand in the coming Chinese New Year holiday. Given that the Chinese New Year holiday in 2005 was in February 2005 (while the Chinese New Year holiday of 2006 was in January 2006), more sale of the MLCC products and mobile phones were made in late 2005 as compared with that of late 2004 and hence more trade and bills receivables were recorded as at 31 December 2005. Accordingly, the decrease in the balance of trade and bills receivables recorded as at 31 December 2006 as compared with that of 2005 was because relatively less sale were made in late 2006 as the Chinese New Year holiday in 2007 was in February 2007.

In view of the above, any change in consumer demands or market trends or timing of festival seasons may intensify such fluctuations and adversely affect the Group's turnover and financial performance. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of the Group's performance. Any seasonal fluctuations reported in the future may not match the expectations of investors. This could cause the trading price of the Shares to fluctuate. In addition, if the Group fails to respond to any change in consumer preferences and market trends by adjusting the product mix and developing new products for a particular season, the Group's sales performance for that season or period may be adversely affected.

The Group's growth may be adversely affected if it cannot respond to the introduction of 3G technologies in China in a timely manner or provide 3G products well accepted by the market.

With respect to the Group's mobile phone business, the Group focuses on developing products that target the tastes and preferences of various users with emphasis on users with lower purchasing power during the Track Record Period. In order to meet consumers' demands and subject to the granting of 3G licenses by the PRC government to mobile communication operators to officially operate 3G services in the PRC, the Group plans to extend its product range to cover 3G mobile phones. However, there is no assurance that the Group will succeed in introducing their own 3G mobile phones in China or that their 3G products will be well accepted by the market. If the Group fails to introduce 3G mobile phones in a timely manner or if its 3G products are not well accepted by the market, it may incur additional costs without generating the expected return which, in turn, may adversely affect the Group's financial position.

The Group's business may be materially and adversely affected if any licences or permits granted to the Group has been terminated or fails to be renewed.

In addition to the business licences of the members of the Group for its general operations, the Group also obtained approval from NDRC in December 2005 for the manufacturing of mobile phones under its own brand, "EY", in the PRC. The Group is required to comply with the applicable standards

RISK FACTORS

in relation to its production processes and the relevant regulatory authorities would carry out regular inspections to ascertain our compliance with applicable regulations. The PRC legal advisers to the Company also advise that, pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the relevant requirement for obtaining approval for the certain investment in mobile phone production as set out in the Several Provisions on Approval of Mobile Telecommunications System and Terminals Investment Project (移動通信系統及終端投資項目核准的若干規定) has been cancelled. If the Group loses or fails to renew any of the essential licenses or approvals, the Group's mobile phone business and/or other business operations may be adversely affected which in turn may adversely affect the Group's financial conditions and profitability.

The Group relies on its executive Directors and its operations or businesses may be impaired if it fails to attract or retain its personnel.

The Group's success is attributable to the expertise and experience of its executive Directors, who are core members of the senior management of the Group, namely, Mr. Chen, Mr. Liao Jie and Ms. Shuang Mei. Details of their biographies are set out in the section headed "Directors, senior management and staff" of this prospectus. In addition, all the executive Directors and the majority of the existing senior management have an average of 10 years of experience in the operational and management of electronic products business. Should any of the executive Directors or the existing key management personnel cease to render their services to the Group, the Group may not be able to replace, retain, attract or hire other suitable replacement on a timely basis in the future and it could be disruptive to the Group's business development and there may be a material and adverse impact on the Group's operations and profitability.

The profitability and the operations of the Group may be adversely affected if it fails to maintain its production arrangements with the relevant services providers and manufacturers.

During the Track Record Period, the Group outsourced part of the mobile phone manufacturing process to third parties, namely, (a) the hardware and software designs of mobile phones to Jingwei and Lingying in respect of several mobile phone models; and (b) the SMT procedures principally to Yixu, details of the arrangement are set out in the paragraph headed "Production — mobile phone related business — mobile phones" under the section headed "Business" of this prospectus. For each of the three years ended 31 December 2006 and the nine months ended 30 September 2007, the Group paid a total of approximately RMB3.6 million, RMB9.7 million, RMB23.6 million and RMB23 million for the said arrangements. There is no assurance that the Group's business or operations would not be adversely affected if there is any disruption in the supply of its parts and services from these services providers and manufacturers. Furthermore, there is no assurance that the Group will be able to identify suitable services providers and manufacturers as replacement for the business operations on a timely basis. If the Group is unable to secure adequate and timely supply of the relevant outsourcing services for its mobile phone products, the Group's operations and financial results may be adversely affected.

The Group may be penalised by the PRC regulatory authorities in respect of the Mobile Phone Production Arrangement during the period from April 2004 to December 2005.

Before obtaining approval from NDRC in December 2005 to allow the Group to produce mobile phones of its own brand (the "Mobile Phone Approval"), the Group cooperated with a mobile phone manufacturer (the "Mobile Phone Partner"), an Independent Third Party who had obtained approval

RISK FACTORS

from NDRC to produce mobile phones of its own brand, to manufacture and distribute mobile phones of such manufacturer's brand (the "Mobile Phone Production Arrangement") from April 2004 to December 2005.

The PRC legal advisers to the Company advise that, in respect of the Mobile Phone Production Arrangement, despite that the relevant PRC laws and regulations, including the Several Provisions on Approval of Mobile Telecommunications System and Terminals Investment Project (移動通信系統及終端投資項目核准的若干規定), do not prohibit a manufacturer to be engaged by eligible mobile phone manufacturers to produce mobile phones for that eligible mobile phone manufacturer, Eyang Dongguan's engagement in mobile phone production under the Mobile Phone Production Arrangement may constitute non-compliance of the relevant requirements for the period from April 2004 to December 2005.

Nevertheless, the PRC legal advisers to the Company consider that Eyang Dongguan will not be penalised for its engagement in mobile phone production under the Mobile Phone Production Arrangement based on the reasons set out in the paragraph headed "Legal and Regulatory" in the section headed "Business" of this prospectus.

Notwithstanding the above, Mr. Chen, and the Concert Parties who were indirectly holding shares of the Company, have provided an indemnity in favour of the Group to cover any loss, damage or cost that the Group may suffer or incur in relation to the above Mobile Phone Production Arrangement. Details of such indemnity are set out in the paragraph headed "Other Information" in Appendix VI to this prospectus. Nevertheless, should the relevant PRC regulatory authority imposes any penalty on the Group for the Mobile Phone Production Arrangement, the financial results and operations of the Group may be adversely affected.

The Mobile Phone Partner may compete with the Group and may adversely affect the Group's market share and businesses.

The Mobile Phone Partner carries on the business of mobile phone production and continues to manufacture mobile phones under its own brand. From time to time, the Mobile Phone Partner may engage or hold shares in a business which may compete directly or indirectly with the business that the Group is engaged or will be engaged in. If the Group fails to properly respond to the competition or to maintain its market position, its market share and thus its businesses and profitability may be adversely affected.

The profitability and operations of the Group may be adversely affected if the Group fails to maintain the purchase cost of the raw materials.

During the Track Record Period, the cost of raw materials for manufacturing amounted to approximately RMB97.4 million, RMB253.8 million, RMB468.3 million and RMB441.7 million, representing 16.2%, 65.9%, 81.6% and 91.5% of the total cost of sales of the Group during the Track Record Period.

During the Track Record Period, the raw materials purchased by the Group for the MLCC production included ceramic powder, electrode paste and polyethylene terephthalate, whereas the raw materials purchased by the Group for the mobile phone related business included chipsets, LCDs and ICs.

RISK FACTORS

During the Track Record Period, the average cost of ceramic powder was approximately RMB186/kg, RMB178/kg, RMB178/kg, and RMB136/kg respectively; the average cost of electrode paste was approximately RMB1,500/kg, RMB1,460/kg, RMB1,290/kg, and RMB874/kg respectively; and the average cost of polyethylene terephthalate was approximately RMB1,238/roll, RMB1,108/roll, RMB1,062/roll, and RMB580/roll respectively.

During the Track Record Period, the average cost of chipsets was approximately RMB36.3/unit, RMB29.4/unit, RMB26/unit, and RMB25/unit respectively; the average cost of ICs was approximately RMB85/unit, RMB60/unit, RMB33/unit, and RMB22/unit respectively; the average cost of LCDs was approximately RMB289/unit, RMB150/unit, RMB96/unit, and RMB80/unit respectively.

Should the cost of the raw materials for the Group's operation experience any material fluctuation which in turn increases the production cost of the Group, the profitability and operations of the Group may be adversely affected.

Intense competition in the Group's markets may lead to reduced prices, revenue, gross profit margins and market share.

The Directors believe that the Group faces competition from not only PRC manufacturers but also worldwide manufacturers in both MLCC and mobile phone markets. For instance, the gross profit margin for the sale of mobile phones decreased from approximately 13.7% in 2005 to 10.7% in 2006, which was principally due to increasing competition in the mobile phone market in 2006 in the PRC. It is also noted that, pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the requirement for obtaining the approval for investment in mobile phone production has been cancelled. Such cancellation will lower the entry barriers to the mobile phone market in the PRC and will further intensify market competition. The major players in the MLCC industry are Japanese manufacturers who are generally larger, possess more advanced MLCC production technologies with greater brand name recognition and/or larger customer bases than the Group. Further details of the competition the Group faces are set out in the paragraph headed "Competition" under the section headed "Business" of this prospectus. The Directors consider that the Group is competing with its competitors in the MLCC and mobile phone market mainly on functions, quality and pricing of the relevant products. The Group acknowledges that certain competitors have better financial resources than the Group. To the extent that the competitors are able to improve their products or expand their business more aggressively than the Group, there is no assurance that the Group will be able to maintain its market position against its competitors. As such, increasing competition could result in fewer customer orders, reduced revenues, reduced profit margins and loss of market share, any one of which could adversely affect the business of the Group and the Group's future growth and profitability may also be adversely affected.

Defect in legal title in respect of leased properties in the PRC may affect the Group's ability to use the properties.

Eyang Shenzhen and Eycom respectively occupy a leased property (the "Meihua Properties") located at Level 3, Block 2, Duoli Industrial Area, Meihua Road, Futian District, Shenzhen, Guangdong Province, the PRC as mentioned in property numbered 3 of the property valuation report set out in Appendix IV to this prospectus. Eyang Shenzhen and Eycom have respectively leased a unit with a total gross floor area of approximately 105 sq.m. and 150 sq.m. respectively in Meihua Properties for the packaging and taping of MLCC products and software installation for mobile phones during the Track

RISK FACTORS

Record Period. The Meihua Properties are leased by a landlord, Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資有限公司). According to the PRC legal advisers of the Group, the current registered owner of the Meihua Properties is Shenzhen Futian Investments Development Company (深圳福田投資發展公司). According to the “Notice regarding allocation of the assets of Shenzhen Futian Investments Development Company” (關於劃撥深圳福田投資發展公司資產的通知) issued by Futian District national assets management committee office (福田區國有資產管理委員會辦公室) dated 15 November 2005 and a notice dated 31 December 2005 jointly issued by Shenzhen Futian City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司)與Shenzhen Investments Development Company (深圳市福田投資發展公司) to leasees, including Eyang Shenzhen and Eycom, the Meihua Properties are allocated to Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司). The Directors confirm that the legal title of the Meihua Properties is currently being transferred from Shenzhen Futian Investments Development Company (深圳福田投資發展公司) to Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司). However, the Group cannot guarantee that the transfer of the ownership will be successfully completed. If Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資有限公司) fails to complete the transfer and obtain the legal title to the Meihua Properties, the status of the leases of the Meihua Properties may become uncertain and Shenzhen Eyang and Eycom’s right to use and occupy the premises may be affected.

Eycom has leased from Wuhan Yancao (Group) Company Limited (武漢煙草(集團)有限公司), an Independent Third Party, a property (the “Defective Leased Property”) with a total area of 1,000 sq.m. located at 27 Floor, Hubai Mansion, no. 9003 Binhe Road, Futian District, Shenzhen, Guangdong, the PRC as its general administrative office. Eycom subsequently leased a gross floor area of 150 sq.m. of the Defective Leased Property to Eyang Shenzhen as its general administrative office. Details of Defective Leased Property are set out in property numbered 4 of the property valuation report in Appendix IV to this prospectus. The lease agreements have been registered with the relevant PRC authorities. However, Wuhan Yancao (Group) Company Limited (武漢煙草(集團)有限公司) failed to provide the Group with the proper authorisation from the owner of this property to authorise it to lease such property to the Group. In view of the above, the PRC legal advisers to the Company are unable to confirm whether the lessor has the legal rights to execute the relevant lease agreements, whether such lessor has the legal rights to let or sub-let the relevant property, or whether they can assume duties and responsibilities as the legal landlords under such lease. Accordingly, the PRC legal advisers to the Company are unable to confirm the lessor has the legal rights to execute the relevant lease agreements, whether such lessor has the legal right to let or sub-let the relevant property, or whether they can assume duties and responsibilities as the legal landlords under such lease. Accordingly, the PRC legal advisers to the Company are unable to confirm whether the Group is able to legally use the Defective Leased Property. Eycom, and consequently, Eyang Shenzhen’s ability to use and occupy the premises may be affected. If the Group ceases to use the property, the Group might need to relocate to alternative premises. As a result, additional costs would be incurred, including relocation cost.

Lack of inspection examination on construction completion and building title certificate for certain constructions on the Group’s property may adversely affect the operations of the Group’s businesses.

The Group owns a property comprising a parcel of land with a site area of approximately 83,000 sq.m. located in Dongguan, the PRC, with five buildings as its production base. The Group has obtained the valid land use rights for the land for 50 years expiring on 30 May 2052 for industrial use. The five

RISK FACTORS

buildings erected thereon include a factory, three dormitories and a canteen. Details of the land, buildings and structures are set out in the paragraph headed “Group I — Property interest held and occupied by the Group in the PRC” of the property valuation report, the text of which is set out in Appendix IV to this prospectus.

As at the Latest Practicable Date, all construction of the five buildings had been completed. In addition, among the five buildings, the factory, two dormitories and the canteen already obtained the relevant property ownership certificates, while the remaining dormitory (the “Defective Property”) had not obtained relevant property ownership certificate as at the Latest Practicable Date. Details of the Defective Property is as follows:

The construction proposal for the Defective Property has been submitted to relevant authorities; however, no construction permit, examination for construction completion or registration of such examination has been obtained, conducted or made for the Defective Property. According to the PRC legal advisers to the Company, in view of the situation as mentioned above and the relevant PRC laws and regulations, the Group is subject to (i) a maximum penalty of 2% of the total construction price of the Defective Property for not obtaining a construction permit; (ii) a maximum penalty of 4% of the total construction price of the Defective Property for not conducting an examination for construction completion; and (iii) a maximum penalty of RMB500,000 for no registration of passing results of examination for construction completion. Based on the total construction price of the Defective Property of approximately RMB2.3 million, the Group is subject to a maximum penalty of approximately RMB0.6 million for the Defective Property.

In view of the above, the PRC legal advisers to the Company are of the view that, prior to obtaining relevant property ownership certificate for the Defective Property, there is legal impediment for the Group to use the Defective Property. It cannot be assured that the real estate authorities will eventually grant the Group with the appropriate building title certificate in a timely manner. If any disputes arise in connection with the legal title of the Defective Property, the Group may not be able to continue to use them. It cannot be assured that its ownership right would not be adversely affected in respect of the Defective Property for which the Group was unable to obtain the relevant title certificate. If the Group were forced to relocate any of the operations it conducts on the Defective Property, the Group may incur additional costs as a result of such relocation.

The loss of any of the Group’s significant customers could have an adverse impact on the Group’s business.

During the Track Record Period, the Group’s sales attributable to its five largest customers amounted to approximately RMB255 million, RMB73 million, RMB146 million and RMB133 million, which accounted for approximately 38.7%, 15.9%, 21.4% and 23.4% of the total turnover of the Group, respectively. For each of the three years ended 31 December 2006 and the nine months ended 30 September 2007, the sales of the Group attributable to the largest customer of the Group was approximately RMB85 million, RMB18 million, RMB35 million and RMB35 million, representing approximately 12.9%, 4.0%, 5.2% and 6.1% of the total sales of the Group during the relevant periods. There can be no assurance that the Group’s major customers will continue to purchase the Group’s products. In the event that any of these customers cease to purchase the products of the Group and the Group fails to replace such customers, the Group’s business and financial position may be materially and adversely affected.

RISK FACTORS

The Group relies on distributors for the sale of mobile phones and adverse changes in the relationship between the Group and the distributors may have an adverse effect on the business and operations of the Group.

During the Track Record Period, all the mobile phones manufactured by the Group were sold to mobile phone distributors for their onward sale. During the Track Record Period, the Group cooperated with 30, 36, 24 and 58 distributors, which contributed approximately RMB52 million, RMB236 million, RMB484 million and RMB401 million respectively, representing 7.9%, 51.8%, 71.1% and 70.5% of the total turnover of the Group respectively. The Group also sold some of its MLCC products to distributors for their onward sale. During the Track Record Period, the revenue generated from sales to MLCC distributors were RMB10.9 million, RMB25.2 million, RMB33.6 million and RMB34.5 million, respectively, representing approximately 9.4%, 16.6%, 18.4% and 21.0% of the total revenue generated from the MLCC business of the Group, respectively.

Should the majority of these distributors cease the business relationship with the Group and the Group fails to locate suitable replacements on a timely basis, the Group's business operations and profitability may be adversely affected. Furthermore, these distributors are not exclusive to the Group and therefore may sell products that compete with our products. The Group also does not enter into any long-term agreements with its mobile phone distributors. There are no formal agreements entered into between the Group and its MLCC distributors as sale is normally made by purchase orders placed by these MLCC distributors from time to time.

There is no assurance that the Group will be able to renew the distributorship with its distributors on terms that are mutually acceptable. Further, the distributors are not required to pay a lump sum payment to the Group to secure their business with the Group and all the products sold to the distributors are without recourse. The Group does not have any sales incentive policy related to the distributors. The Group has limited controls over the operations of the distributors and the manner in which they sell its products to third parties. The Group may not be able to effectively manage the sales network and its brand image and as a result, its business, results of operations and financial condition may be adversely affected.

There is a risk that the distributors may give higher priority to products of, or form alliances with, its competitors. If our distributors do not continue to distribute the Group's products, or provide the Group's products with similar levels of promotional support as that provided for the Group's competitors' products, its sales performance may not maintain or improve as the Group expects or could even decline and the Group's financial results could be adversely affected.

The Group has limited experience in the mobile phone manufacturing industry and the Group's business and financial position may be adversely affected if it fails to maintain and obtain sufficient experience and knowledge in the industry.

The Group has devoted its resources to the mobile phone business since 2002. Since 2003, the Group commenced manufacturing, sale and trading of mobile phone components in order to accumulate experience in the manufacturing of mobile phones and related components and the relevant market supply and demand conditions. It began its cooperation with a mobile phone manufacturer to produce and market mobile phones of that manufacturer's brand in the PRC in 2004. The Group obtained the approval from NDRC to directly engage in the manufacturing of mobile phones of the Group's own brand only since December 2005. The Group, therefore, is relatively new to the industry and has limited

RISK FACTORS

experience in the manufacture of mobile phones despite that it has nevertheless devoted considerable resources to the development of this business line. The Group's business and financial position may be adversely affected if it fails to maintain and obtain sufficient experience and knowledge in the industry.

The Group's business and operations would be adversely affected if the Group fails to maintain business relationships with its major suppliers.

During the Track Record Period, the total purchase of the Group from its largest five suppliers were approximately RMB388.9 million, RMB127.5 million, RMB166.9 million and RMB129.4 million respectively, accounting for 70.3%, 28.9%, 29.8% and 25.6% of the total purchase of the Group during the corresponding periods. For each of the three years ended 31 December 2006 and the nine months ended 30 September 2007, the total purchase of the Group from the largest supplier was approximately RMB326.1 million, RMB53.6 million, RMB67.3 million and RMB31.2 million respectively, accounting for 59.0%, 12.1%, 12.0% and 6.2% of the total purchases of the Group during the corresponding periods. Should the major suppliers of the Group cease their business relationship with the Group and the Group fails to locate suitable replacements on a timely basis, the Group's business operations and profitability may be adversely affected. In addition, the Group purchased and/or used hardware and software solutions for mobile phones from other third parties, details of which are set out in the paragraphs headed "Agreement with Jingwei", "Agreements with Lingying" and "Cooperation with Infineon" under the "Business" section of this prospectus. Should the software and hardware solutions providers of the Group cease their business relationship with the Group and the Group fails to locate suitable replacements on a timely basis, the Group's business operations and profitability may be adversely affected.

For the year ended 31 December 2006 and the nine months ended 30 September 2007, 79.5% and 54.4% of mobile phone casings of the Group's mobile phones were sourced from Guangdong. As such, there is no assurance that the Group's business or operations would not be adversely affected if there is any disruption in the supply of services from Guangdong. Furthermore, there is no assurance that the Group will be able to identify suitable mobile phone casing manufacturers with comparable terms to that of Guangdong as the replacement on a timely basis. If the Group is unable to identify suitable replacements of Guangdong on a timely basis for production of the Group's mobile phone products, the Group's operations and financial condition may be adversely affected.

The occurrence of natural disasters (such as droughts, sandstorms, snowstorms, earthquakes and floods), energy shortages or disruptions in transportation infrastructure may interrupt the supply of raw materials and services by the Group's suppliers to the Group to meet its present and future production demands and its quality requirements. Any interruptions to or decline in the supply of the raw materials and services could materially disrupt its production which may in turn adversely affect the Group's operation and profitability.

The Group could face a liquidity problem in the future.

The Group recorded a net operating cash outflow of approximately RMB14 million for the nine months ended 30 September 2007 which was principally because there was an increase in the trade and bills receivables from approximately RMB52.6 million as at 31 December 2006 to approximately RMB152.0 million as at 30 September 2007. Such increase was principally because more orders of MLCC and mobile phone products had been made with the Group to meet the increasing demand of mobile phones in the peak season of National Day holiday, i.e. 1 October. Particularly, more sales of

RISK FACTORS

mobile phones were made by the Group on credit before the National Day holidays and more purchase of mobile phones were settled by way of banker's acceptance (承兌匯票), which in effect increased the balance of trade and bills receivables as at 30 September 2007 as compared with that as at 31 December 2006. Detailed explanation is set out below:

The Group normally requires its mobile phone distributors to settle the purchase amount either by cash or by banker's acceptance (承兌匯票) before product delivery. However, to facilitate the sales operation of the Group during the peak season of National Day holiday, more sales of mobile phone products were made by the Group by granting credit periods of no more than 60 days to the relevant mobile phone distributors. Among the trade and bills receivables of RMB152.0 million as at 30 September 2007, RMB83.4 million was attributable to the sales of mobile phones. In particular, out of the said RMB83.4 million, approximately RMB49.8 million was the sales of mobile phones made by the Group by granting credit periods of no more than 60 days to the relevant mobile phone distributors, the remaining approximately RMB33.6 million, which was accounted as bills receivable, was payment made by the relevant mobile phone distributors by way of banker's acceptance (承兌匯票). Banker's acceptance (承兌匯票) is a payment made by the relevant payees and guaranteed by relevant accepting banks and is easily discounted to cash if required. As such, assuming that all the said RMB33.6 million of bills receivable was discounted to cash as at 30 September 2007 and other operating cash inflow and outflow activities remained unchanged, approximately RMB23.2 million cash inflow would be recorded which in effect will render a positive net cash inflow from operating activities of the Group for the nine months ended 30 September 2007. As at the Latest Practicable Date, all of the said RMB83.4 million was settled.

Among the trade and bills receivables of RMB152.0 million as at 30 September 2007, RMB68.6 million was attributable to the sales of MLCC products. As at the Latest Practicable Date, approximately RMB27.4 million out of the said RMB68.6 million was settled. Should net operating cash outflow continue to persist for a long period of time with the Group not being able to replenish cash inflows shortly, the Group may face liquidity problems in the future.

The Group could become involved in intellectual property rights or other similar disputes.

The Group has applied for registration of the trademark "EY" in the PRC and has applied for registration of other trademarks applied in its products. The Group believes that the trademarks it registered or applied for registration have significant value and are important to its brand building and marketing. Notwithstanding the foregoing, it may be possible for a third party to unlawfully obtain and use the Group's intellectual property rights, which may adversely affect the Group's business and profitability.

The Group has not applied for patents in respect of its production technologies, including but not limited to, the BME technology applied by the Group during the manufacturing process of the Group's MLCC products. Other companies or manufacturers may develop similar technologies as those of the Group and may obtain patents for such technologies in the PRC or other jurisdictions. This will create competition against the Group and the profitability of the Group may be adversely affected. In addition, the Group may need to resort to litigation to claim for or defend any proprietary rights to such intellectual property and such litigation may be costly. The outcome of such litigation may not be in the Group's favour which may adversely affect the Group's operation and profitability.

RISK FACTORS

The Group may infringe third party's intellectual property rights in its production process or apply protected technology to any of its MLCC and mobile phone products. There is no assurance that infringement claim from third parties will not occur in these respects. Should there be any infringement claim from third parties in these aspects, the Group's business and financial position may be adversely affected. In addition, should any infringement claim from third parties occur, the Group may incur significant legal expenditure to defend its rights and interests or be required to pay substantial damages and be forced to develop non-infringing technology or obtain licences for such technology. The Group may not be able to develop non-infringing technology or obtain licences acceptable to the Group and as a result, the business of the Group may be adversely affected.

There is no assurance that members of the Group will continue to benefit from preferential tax treatment, and changes in tax benefits available to the Group in China could reduce the Group's net profit.

The basic enterprise income tax rate for enterprises in the PRC is currently 33.0% (30.0% state tax and 3.0% local tax). The PRC government has provided various incentives to foreign invested enterprises and domestic enterprises meeting the relevant requirements, including reduced tax rates and other measures.

According to the relevant laws and regulations, Eyang Shenzhen and Eycom, as manufacturing enterprises registered and operating in Shenzhen Special Economic Zone, are entitled to a tax rate of 15% and a tax holiday of two-year exemption from enterprise income tax for the first two profitable years of operation, and thereafter entitled to a 50.0% relief from enterprise income tax for the succeeding three years. However, the Group cannot assure that the current preferential tax treatments and the current level of the enterprise income tax enjoyed by its PRC operating subsidiaries will continue, and any legislative changes to the tax regime could discontinue any preferential tax treatment and increase the enterprise income tax rate applicable to the Group's principal subsidiaries in the PRC.

Specifically, the PRC Enterprise Income Tax Law, or the EIT Law, was enacted on 16 March 2007. Under the EIT Law which will become effective on 1 January 2008, China will adopt a uniform tax rate of 25.0% for all enterprises (including foreign-invested enterprises and domestic enterprises) and revoke the current tax exemption, reduction and preferential treatments. However, the enterprise income tax on important high- and new-tech enterprises which are necessary to be supported by the State are still levied at the reduced tax rate of 15%. The enterprises which have already been established prior to the promulgation of the EIT Law and enjoyed low tax rates according to the provisions of the tax laws and administrative regulations in force at that time may, according to the provisions of the State Council, continue to enjoy the preferential treatments within five years after the EIT Law is promulgated and gradually increase to the tax rate as provided for in the EIT Law. Those which enjoy the preferential treatment of tax exemption for a fixed term may, according to the provisions of the State Council, continue to enjoy such treatment after the promulgation of the EIT Law until the fixed term expires and for those that have failed to enjoy the preferential treatment due to failure to make profits, the term of preferential treatment shall be deemed to commence from 1 January 2008, the first year when EIT Law comes into effect. The EIT Law will apply to all of the Company's subsidiaries in the PRC. Any future increase in the enterprise income tax rate applicable to the Company's PRC operating subsidiaries or other adverse tax treatments, such as the discontinuation of preferential tax treatments, would have a material adverse effect on the Group's results of operations and financial condition.

RISK FACTORS

Third party(ies)'s inappropriate use of the Group's tradenames or trademarks or infringement of the Group's intellectual property rights by third party(ies) could negatively affect the Group's results of operations and financial condition.

As at the Latest Practicable Date, the Group has registered a number of trademarks and the registration applications of certain trademarks were in progress, details of which are set out in the paragraph headed "Intellectual property rights of the Group" in Appendix VI to this prospectus. If any entities use the Group's tradenames or trademarks in ways that negatively affect such trade name or trademark or infringe the Group's intellectual property rights, the reputation of the Group could suffer harm and it could have a material adverse effect on the financial condition and results of operations of the Group.

The Group does not maintain certain insurance, such as product liability insurance and business interruption insurance.

According to the PRC legal advisers to the Group, there is no statutory requirement to require mobile phone manufacturers to maintain insurance for third party liability or liability in relation to product liability. Sale of defective products (if any) may expose the Group to potential claims from customers. The Group may be sued or held liable for damages due to any tortuous acts. The Group does not have any insurance cover for business interruptions, including loss of profits from such interruptions. If the Group suffers from any losses, damages and liabilities arising from these mentioned causes, it may affect the Group in terms of financial resources and/or reputation and/or its operations which may constitute a material impact to the Group.

The Company is a holding company and it depends on its operating subsidiaries for its ability to declare and pay dividends. Therefore, the Company cannot assure that there will be dividends available for distribution to the Shareholders.

The Company's cash flow mainly depends on the operating results and cash flows of its operating subsidiaries. Each of these subsidiaries is a separate and distinct legal entity and has no obligation, contingent or otherwise, to pay dividends or otherwise provide financial benefits to the Company. In addition, each of PRC law, Hong Kong law, Cayman Islands law and BVI law limits the ability of a subsidiary to pay dividends for various reasons including the absence of surplus, sufficient distributable reserves or profits. If there are little or no profit distributions by such subsidiaries, or if such subsidiaries invest profits available for distribution in their operations and development, the Company may not be able to make dividend payments to the Shareholders. Even if profits are available for distribution by the Company to the Shareholders, the Directors may decide that such a distribution would not be in the best interests of the Company. In the event of any insolvency, bankruptcy, liquidation or similar proceedings of such subsidiaries, the respective creditors of such subsidiaries would generally be entitled to priority over the Company with respect to claims on their respective assets.

Dividends declared by members of the Group in the past may not be indicative of the dividend policy of the Group in the future.

No dividend has been paid or declared by the Company since the date of its incorporation. Eyang Shenzhen declared dividends of RMB70,160,000 in 2006 and RMB4,500,000 in 2007 to its shareholders. There can be no assurance that dividend distributions will be made by the Company or

RISK FACTORS

other members of the Group in the future. The past dividend distribution record of members of the Group should not be used as a reference or basis to determine or predict the amount of any dividends which may be payable in the future.

RISKS RELATING TO THE INDUSTRY

The telecommunications industry in China is subject to extensive government regulation, which is still evolving.

The PRC telecommunications industry is regulated by, among others, MII which has broad discretion and authority to regulate all aspects of the telecommunications and information technology industry in China, including arranging the setting of electronic information products specifications and standards, approving equipment for access to telecommunications networks, directing the supervision and administration of quality of electronic information products and formulating policies and regulations related to the telecommunications and information technology industry. In addition, the telecommunications regulatory framework in China is still developing. If MII sets standards with which the Group is unable to comply or which render the Group's products non-competitive, the Group's ability to sell products in China may be limited.

The telecommunications industry in China is a highly competitive industry.

The telecommunications industry in China is characterised by intense competition. Increased competition may result in price reductions, reduced gross profit margin and loss of market share. The average selling price of mobile phones in China has been declining since 2003. Although the total sales volume and the rate of growth in the mobile phone industry in China in 2004 increased compared to the corresponding period in 2003, some mobile phone producers have been reducing mobile phone prices to avoid accumulating end-product inventories, which has resulted in a vicious cycle of price competition. This continuing decrease in product prices will directly or indirectly affect the price at which the Group is able to sell its products or services. If China's mobile phone market demand decreases or does not grow as quickly as the Group expects, the growth potential of the Group may be materially hindered.

The Directors consider that an important way to maintain competitiveness is to constantly introduce new mobile phones with new features and good style and functionality at a competitive price. This means that one of the key factors attributable to the Group's success is the ability to develop new mobile phone products and to shorten new product development time. The Group cannot guarantee that it will be able to continue to develop new mobile phone products or shorten development time in the future and in turn it may have an adverse impact on the Group's profitability and operations in the future.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The business and assets of the Group are substantially located in the PRC. Accordingly, the Group's results of operations, financial position and prospects are subject to a significant degree to economic, political and legal developments in the PRC.

RISK FACTORS

Adverse changes in the PRC's economic, political and social conditions and government policies could have a material adverse impact on the overall economic growth of the PRC, which could adversely affect the results of operations and financial condition of the Group.

The PRC economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of capital reinvestment, growth rate, control of foreign exchange, allocation of resources and balance of payments position. While the PRC economy has experienced significant growth in the past 20 years, such growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may have a negative effect on the Group. For example, the Group's business, results of operations and financial condition may be adversely affected by changes in tax regulations that are applicable to the Group. Any slowdown in growth of the PRC economy could have a negative effect on the Group's business.

The PRC economy has been transforming from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since late 1970s emphasising the use of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, the government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government has implemented a number of measures designed to prevent the economy from overheating. These actions, as well as future actions and policies of the PRC government, could result in a decrease in the overall level of economic activity, and consequently, have an adverse impact on our business, results of operations and financial condition.

Moreover, there can be no assurance that economic reform measures adopted by the PRC government, or other policies adopted in the future, will be effective or consistently applied. Furthermore, some of these measures and policies may benefit the overall economy of the PRC, but may also have a negative impact on the Group's business. For example, the Group's results of operations and financial condition may be adversely affected by government control over capital investments or changes in tax regulations applicable to the Group.

Macroeconomic measures taken by the PRC government may cause the Chinese economy to slow down.

In response to concerns relating to China's high growth rate in industrial production, bank credit, fixed investment and money supply and growing inflationary pressures, the PRC government has taken measures to slow down the economic growth to a more manageable level. Among the measures that the PRC government has taken are restrictions on bank loans in certain sectors and the increase of interest rates. The effect of such measures was not apparent as China's economy continued to expand at a high growth rate, with a growth of 10.7% in gross domestic product from 2005 to 2006. However, there can be no assurance that those measures will not result in a slowdown in economic growth and hence a reduction in demand for consumer products in China. These measures and such other measures that may be adopted in the PRC could contribute to a slowdown in the Chinese economy and could potentially cause the economy to enter an economic recession.

RISK FACTORS

The PRC legal system is continuously evolving and has inherent uncertainties.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little value as precedents. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and in particulars, forms of foreign investment (including wholly foreign-owned enterprises and joint ventures). These laws, regulations and legal requirements are relatively new and are often changing and their interpretation and enforcement involve uncertainties. There can be no assurance that changes in the PRC laws and regulations and the PRC governments interpretation thereof will not adversely affect the Group's business. The Group cannot predict the effect of future developments in the PRC legal system. The Group may be required in the future to procure additional permits, authorisations and approvals for its existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorisations may have a material adverse effect on the Group's business and results of operations.

Future movements in exchange rates may have a material adverse effect on the Group's financial condition and results of operations.

Prior to 1994, Renminbi experienced a significant net devaluation against most major currencies, and there was significant volatility in the market-based exchange rate during certain periods. Since 1994, the Renminbi to U.S. dollar exchange rate has largely stabilised. On 21 July 2005, the People's Bank of China announced that the exchange rate of U.S. dollar to Renminbi would be adjusted from US\$1 to RMB8.27 to US\$1 to RMB8.11, and it ceased to peg the Renminbi to the U.S. dollar. Instead, the Renminbi is now pegged to a basket of currencies, which components are adjusted based on changes in market demand and supply under a set of systematic principles. On 23 September 2005, the Chinese government widened the daily trading band for Renminbi against non-U.S. dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. The Renminbi may be revalued further against the U.S. dollar or other currencies or, may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the U.S. dollar or other currencies. During the Track Record Period, the Group's MLCC products were principally sold to the manufacturers. Among the total revenue generated from the MLCC business during the Track Record Period, approximately RMB70.4 million, RMB92.2 million, RMB118.9 million and RMB89.9 million were the export sales which were all sold to the manufacturers respectively. Among these export sales, approximately RMB53.9 million, RMB84.0 million, RMB108.6 million and RMB86.6 million were the export sales made through factory transfer arrangements. As the sale by way of factory transfer arrangement are required to undergo customs clearance process for export approval, such sales are regarded as the export sales and therefore are settled in foreign currencies in accordance with the relevant laws and regulations in the PRC. The Group also imports certain machinery and raw materials for the production of MLCC and mobile phone businesses, any fluctuation in exchange rate could give rise to uncertainties in the Group's financial condition and results of operation. In addition, since the Group's income and profits are denominated in Renminbi, any appreciation (or depreciation) of Renminbi would increase (or decrease) the value of, and any dividends payable on, the Group's shares in foreign currencies. Hence, any fluctuation in exchange rate or any shortage of foreign currency may also have an adverse impact on the Group's ability to pay dividends. During the Track Record Period, the Group recorded foreign exchange loss of approximately RMB0.6 million, RMB1.5 million, RMB1.2 million and RMB2.0 million respectively.

RISK FACTORS

The national and regional economies in China may be adversely affected by a recurrence of severe acute respiratory syndrome, or an outbreak of other epidemics such as avian flu, thereby affecting our prospects.

The PRC is susceptible to epidemics such as severe acute respiratory syndrome (“SARS”) or avian-influenza. The outbreak of SARS in 2003 had an adverse impact on a range of businesses in Asia including the Group’s business. A recurrence of SARS, or if avian-influenza infections continue to escalate and to the extent that if the virus transforms to one capable of human-to-human transmission, or if there should be an outbreak of any other serious disease in China, it could result in material disruptions to the Group’s business which, in turn, would materially and adversely affect the Group’s results of operations and financial condition.

Occurrence of any acts of God, war, terrorist attacks and contagious diseases may adversely and materially affect the business and operations of the Group.

The business of the Group is affected by general economic conditions in China and other parts of the world. Acts of God such as natural disasters and outbreaks of highly-contagious diseases such as atypical pneumonia are beyond the control of the Group and may materially and adversely affect the economy, infrastructure and livelihood of people in China and other parts of the world. The Group’s business and profitability may be materially and adversely affected should such acts of God and/or outbreaks occur and/or continue.

War, terrorist attacks and other hostilities may cause damage or disruption to the operations of the Group. Generally, there can be no assurance that any war, terrorist attack or other hostilities in any part of the world, potential, threatened or otherwise will not, directly or indirectly, have a material and adverse impact on the operations and profitability of the Group.

The Group’s businesses may be adversely affected by interruptions in the supply of electricity and the Group’s gross profit margins of the Group’s products may be adversely affected by increases in the cost of electricity.

The Group’s operation requires a stable supply of electricity. During the Track Record Period, the cost for the purchase of electricity directly attributable to the production of the Group amounted to approximately RMB4 million, RMB4.8 million, RMB6.1 million and RMB5.1 million, respectively, accounting for approximately 0.66%, 1.25%, 1.06% and 1.06% of the Group’s cost of sales for the relevant periods, respectively. Although the Group has not experienced any significant interruption or shortage in the supply of electricity, the Group cannot assure that it will not encounter such problems in the future. Any interruption in the supply of electricity may prevent the production facilities from operating at their full capacities and may have an adverse impact on the Group’s businesses. In addition, any increase in the costs of electricity can materially impact the gross profit margins. The Group cannot assure that the costs of electricity will not increase significantly and if the increase in prices of the products cannot fully offset the increases in their manufacturing costs, the profitability of the Group may be adversely affected.

RISK FACTORS

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for the Offer Shares. The liquidity and market price of the Offer Shares following the Share Offer may be volatile.

Prior to the Share Offer, there has been no public market for the Offer Shares. The initial issue price range to the public for the Offer Shares was the result of negotiations between the Company and the Underwriters, and the Offer Price may differ significantly from the market price for the Offer Shares following the Share Offer. There is no assurance that the Share Offer will result in the development of an active, liquid public trading market for the Offer Shares. In addition, the price and trading volumes of the Offer Shares may be volatile. Factors such as overall equity market conditions at the time of the Share Offer and variations in the Group's revenues, earnings and cashflows or any other adverse developments with respect to the Group may affect the volume and price at which the Offer Shares will be traded.

The Shareholders' interests may be diluted as a result of additional equity fund-raising.

The Company may need to raise additional funds in the future to finance expansion of or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in the Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

Forward-looking information included in this prospectus may not materialise.

This prospectus contains certain forward-looking statements and information relating to the members of the Group, that are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this prospectus, the words "anticipate", "believe", "consider", "could", "expect", "going forward", "intend", "may", "plan", "seek", "will", "would", and similar expressions, as they relate to the Group or its management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company's management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the other risk factors described in this prospectus.

Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this prospectus as anticipated, believed or expected.

RISK RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Certain facts and statistics derived from the official government publications included in this prospectus may not be relied upon.

Certain information and statistics contained in this prospectus under the section headed "Industry Overview" are derived from official government publications. While reasonable care has been exercised in the reproduction of such information, it has not been independently verified by the Group, the Sponsor, the Underwriters or any of their respective affiliates or advisers and may not be accurate, complete or up-to-date. The Group makes no representation as to the correctness or accuracy of such information and, accordingly, such information should not be unduly relied upon.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, the Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations and manufacturing facilities are located in the PRC, members of our senior management are and will therefore be expected to continue to be based in the PRC. At present, Mr. Zeng Zhi, the company secretary, qualified accountant and one of the authorised representatives, is ordinarily resident in Hong Kong but none of our executive Directors are Hong Kong residents or based in Hong Kong. The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

The Company has received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) The Company appoints two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives appointed are Mr. Zeng Zhi, who is ordinarily resident in Hong Kong, and Mr. Chen Weirong, an executive Director. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by mobile or residential telephone, facsimile or email. Each of the two authorised representatives has been duly authorised to communicate on behalf of the Company with the Stock Exchange;
- (b) The Company will appoint CAF Securities as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as the Company's communication channel with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which the Company distributes the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules; details of the compliance adviser's duties are set out in the paragraph headed "Compliance adviser" under the section headed "Directors, senior management and staff";
- (c) Both authorised representatives have means to contact all members of the board of Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. The Company will implement a policy whereby (a) each executive Director will provide his or her respective mobile phone number, residential phone number, fax number and email address to the authorised representatives; (b) each executive Director will provide valid phone numbers or means of communication to the authorised representatives when he or she travels; and (c) each executive Director will provide his or her mobile phone number, residential phone number, office phone number, fax number and email address to the Stock Exchange; and

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (d) All executive Directors, non-executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they hold valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required.

CONNECTED TRANSACTIONS

Members of the Group have entered into a transaction which would constitute non-exempt continuing connected transaction for the Company under the Listing Rules after the Listing. The Company has received from the Stock Exchange a waiver from strict compliance with the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules for a non-exempt continuing connected transaction. Further details of such non-exempt continuing connected transaction and the waiver are set out in the section headed "Connected transactions" in this prospectus.

Based on the reason stated in the section headed "Connected transactions" of this prospectus, the Directors (including the independent non-executive Directors) and the Sponsor both confirm that the non-exempt continuing connected transaction has been entered in the ordinary and usual course of business of the Company, on normal commercial terms, and the terms of the non-exempt continuing connected transaction, including the proposed annual caps, are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Future (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and the Application Forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein and the Application Forms must not be relied upon as having been authorised by the Company, CAF Securities and the Underwriters, any of their respective directors or any other person involved in the Share Offer.

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Share Offer. Details of the terms and conditions of the Share Offer are described in the section headed "Structure of the Share Offer" in this prospectus and the Application Forms.

The Share Offer is sponsored and lead managed by CAF Securities. The Offer Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreement. For further information about the Underwriters and underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

Assuming the 100,000,000 Shares are offered to the public and the Over-allotment Option is not exercised at all, 25% of the issued share capital of the Company will be in public hands immediately upon the Listing. If the Over-allotment Option is exercised in full, 15,000,000 Over-allotment Shares will be offered to the public, representing approximately 3.61% of the enlarged issued share capital of the Company.

OFFER SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Offer Shares or the distribution of this prospectus and the Application Forms to the public in any jurisdictions other than in Hong Kong. Accordingly, this prospectus and the Application Forms are not and do not intend to be an offer or invitation in any jurisdiction in which they are not authorised, and are not and do not intend to be an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

Each person acquiring the Offer Shares will be required to confirm, and is deemed by his acquisition of the Offer Shares to have confirmed, that he is aware of the restriction on offers of the Offer Shares described in this prospectus and the Application Forms and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

The following information is provided for guidance only. Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Future Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Offer Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than 200,000 Singapore dollars (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

Cayman Islands

No offer of the Offer Shares may be made to the public in the Cayman Islands.

Each person acquiring Offer Shares in the Share Offer will be required to confirm, or be deemed by its acquisition of Offer Shares to have confirmed, that it is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms. No person is authorised to give any information or to make any representation in connection with the Share Offer not contained in this prospectus and the Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by the Company, CAF Securities, any of their respective directors, agents or advisers or any other persons or parties involved in the Share Offer.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Company has applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

No part of the share capital or loan capital of the Company is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek a listing of, or permission to deal in any of its Shares or loan capital on any other stock exchanges.

PROFESSIONAL TAX ADVICE RECOMMENDED

You are recommended to consult your professional advisers if you are in any doubt as to the taxation implications of the subscription, purchase, holding or disposal of, or dealing in, the Offer Shares or the exercise of any rights in relation to the Shares.

The Company, CAF Securities and any of their respective directors, agents or advisers or any other persons or party involved in the Share Offer do not accept responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, or purchasing, holding, dealing in or disposing the Offer Shares or the exercise of any rights in relation to the Shares.

HONG KONG REGISTERS

All Shares to be issued must be registered on the Company's branch register of members to be maintained in Hong Kong by its branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, the address of which is shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The Company's principal register of members will be maintained by its principal share registrar and transfer office, Bank of Bermuda (Cayman) Limited, in the Cayman Islands. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

STAMP DUTY

Dealings in Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the Company's principal register of members maintained in the Cayman Islands will not be subject to Cayman Islands stamp duty unless the Company holds an interest in land in the Cayman Islands.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Details of the structure of the Share Offer, including its terms and conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Main Board and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made by the Company for the Shares to be admitted into CCASS. If you have any doubt about the settlement arrangement in CCASS and how such arrangement may affect your rights and interests, you should consult your own stockbroker or other professional adviser.

The Company will not issue any temporary documents of title. No receipt will be issued for the application moneys paid.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board are expected to commence on Friday, 21 December 2007. The Shares will be traded in board lots of 2,000 Shares each.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and in the Application Forms.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Chen Weirong	Unit 26A, Yancui Ge Shahe Hubin Huayuan Nanshan District Shenzhen Guangdong, the PRC	Chinese
Ms. Shuang Mei	Room 19C Changle Garden A Tower, No. 3 Road Baihua, Futian District Shenzhen Guangdong, the PRC	Chinese
Mr. Liao Jie	3C Lihai Building Shahe Nanshan District Shenzhen Guangdong, the PRC	Chinese
<i>Non-executive Directors</i>		
Mr. Cheng Wusheng	Room 9C–D, Block B Lihu Garden Hongli Road Shenzhen Guangdong, the PRC	Chinese
Mr. Li Heqiu	No. 302, Block 6 Juxiang Yuan Xinchengshi Zhongxin District Shizhu Road Nancheng District Dongguan Guangdong, the PRC	Chinese
Mr. Zhang Zhilin	Si Dui, Xiangyang Village Heqing Town Pudong District Shanghai, the PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Residential address	Nationality
Mr. Chen Hao	1-601, Jin Di Hai Jing Garden Fu Tian District Shenzhen Guangdong, the PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Pan Wei	No. 1902, Lanqiyang Haidian District Beijing, the PRC	Chinese
Mr. Liu Huanbin	Room 701, Building 21, East 1, South China University of Technology No. 381 Wushan Road Tianhe District Guangzhou Guangdong, the PRC	Chinese
Mr. Chu Kin Wang, Peleus	Flat 1, 10/F, Tower D Galaxia, 3 Lung Poon Street Diamond Hill Kowloon, Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

**Sponsor, Bookrunner and
Lead Manager**

CAF Securities Company Limited
13th Floor
Fairmont House
8 Cotton Tree Drive
Central
Hong Kong

Placing Underwriters

CAF Securities Company Limited
13th Floor
Fairmont House
8 Cotton Tree Drive
Central, Hong Kong

CIMB-GK Securities (HK) Ltd.
19th Floor, Central Tower
28 Queen's Road Central
Central, Hong Kong

CSC Securities (HK) Limited
32nd Floor, Cosco Tower
183 Queen's Road Central
Central, Hong Kong

Taiwan Securities (Hong Kong) Company Limited
Room 2803, Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

VC Brokerage Limited
28th Floor, The Centrium
60 Wyndham Street
Central, Hong Kong

Public Offer Underwriters

CAF Securities Company Limited
13th Floor
Fairmont House
8 Cotton Tree Drive
Central, Hong Kong

CIMB-GK Securities (HK) Ltd.
19th Floor, Central Tower
28 Queen's Road Central
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

CSC Securities (HK) Limited
32nd Floor, Cosco Tower
183 Queen's Road Central
Central, Hong Kong

Taiwan Securities (Hong Kong) Company Limited
Room 2803, Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

VC Brokerage Limited
28th Floor, The Centrium
60 Wyndham Street
Central, Hong Kong

Legal advisers to the Company

As to Hong Kong law:
Coudert Brothers
in association with
Orrick, Herrington & Sutcliffe LLP
39th Floor Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to the PRC law:
Commerce & Finance Law Offices
6th Floor
NCI Tower
A12 Jianguomenwai Avenue
Beijing, the PRC 100022

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal adviser to the Sponsor and the Underwriters	<i>As to Hong Kong law:</i> Kirkpatrick & Lockhart Preston Gates Ellis 35th Floor Two International Finance Centre 8 Finance Street Central Hong Kong
Auditors and reporting accountant	Ernst & Young <i>Certified Public Accountants</i> 18/F Two International Finance Centre 8 Finance Street, Central Hong Kong
Property valuer	Savills Valuation and Professional Services Limited 23/F Two Exchange Square Central Hong Kong
Receiving bankers	Hang Seng Bank Limited Level 3 83 Des Voeux Road Central Hong Kong Industrial and Commercial Bank of China (Asia) Limited 33rd Floor, ICBC Tower 3 Garden Road Central, Hong Kong
Compliance adviser	CAF Securities Company Limited 13th Floor Fairmont House 8 Cotton Tree Drive Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	8th Floor, Tien Chu Commercial Building 173–174 Gloucester Road Wanchai Hong Kong
Principal place of business in the PRC	Floor 27, Hubei Building (North Wing) No. 9003 Bin He Road Futian District Shenzhen, the PRC
Company secretary	Mr. Zeng Zhi, <i>FCCA, HKICPA</i>
Qualified accountant	Mr. Zeng Zhi, <i>FCCA, HKICPA</i>
Authorised representatives	Mr. Chen Weirong Unit 26A, Yancui Ge Shahe Hubin Huayuan Nanshan District Shenzhen Guangdong, the PRC Mr. Zeng Zhi, <i>FCCA, HKICPA</i> Flat A, 9/F, Kingston Heights Belair Gardens Shatin Hong Kong
Members of audit committee	Mr. Chu Kin Wang, <i>Peleus (Chairman)</i> Mr. Pan Wei Mr. Liu Huan Bin
Members of remuneration committee	Mr. Liu Huanbin <i>(Chairman)</i> Mr. Chen Weirong Ms. Shuang Mei Mr. Pan Wei Mr. Chu Kin Wang, <i>Peleus</i>

CORPORATE INFORMATION

**Principal share registrar and
transfer office**

Bank of Bermuda (Cayman) Limited
P.O. Box 513GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

**Hong Kong branch share registrar
and transfer office**

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen’s Road East
Wanchai, Hong Kong

Principal banker

Agricultural Bank of China
Room 501
Shandong Building
Nanhai Road
Nanshan District
Shenzhen
Guangdong, the PRC

INDUSTRY OVERVIEW

Certain information provided in this section is derived from official government publications. The Directors and the Sponsor have exercised reasonable care in reproducing such information from the sources referred to in this prospectus. Such information, however, has not been prepared or independently verified by the Company, the Sponsor, the Underwriters or their respective directors or advisers. The Company, the Sponsor, the Underwriters, their respective directors and advisers or any other parties involved in the Share Offer make no representation as to the accuracy or completeness of this information, which may not be consistent with information compiled from other sources, and accordingly such information contained in this section may not be accurate and should not be unduly relied upon.

INFORMATION ON THE RESEARCH HOUSES

The relevant information quoted in this section is extracted from information and research reports prepared by various research houses, namely Pday Research Centre (“Pday Research”) and CCID Consulting Company Limited (“CCID Consulting”), all of which are Independent Third Parties. The detailed information of the research houses is as follows:

Pday Research

Pday Research, an Independent Third Party based in the PRC, is a consultancy firm providing marketing consultation services focusing on the field of internet, telecommunication and consumer electronics.

CCID Consulting

CCID Consulting, an Independent Third Party based in the PRC, is a company providing market research and management consultancy services including the fields of computer and peripheral equipments, software, telecommunications, telecommunications and consumer electronics. CCID Consulting is currently listed on Hong Kong Growth Enterprises Market of the Stock Exchange with a designated stock code of 8235.

The Group paid a total of RMB9,800 and RMB11,300 to CCID Consulting and Pday Research respectively to purchase the research reports adopted in this prospectus. For the avoidance of doubt, these research reports are not commissioned by the Group and are independently prepared by Pday and CCID Consulting in the ordinary course of their business.

METHODOLOGY OF THE RESEARCH REPORTS

The information contained in the research reports prepared by Pday Research and CCID Consulting adopted in this prospectus is mainly compiled from the PRC government official statistics and various industry statistics, such as MII, China Semiconductor Industry Association, China Video Industry Association and China Mobile Communication Association.

MLCC INDUSTRY

Overview

MLCC is a type of capacitor, which is an electrical device that stores and releases electric charge. Capacitors can be used as moment discharger and voltage stabiliser in electric circuit. Its allows alternate current to pass through which in turn makes it useful for blocking, bypassing, coupling/decoupling, frequency control, timing and filtering. Capacitors are widely used in information technology, communication and consumer electronics products. Capacitors are generally divided into the following types according to the different materials used and the manufacturing process involved: tantalum capacitor, aluminum electrolytic capacitor, MLCC and plastic film capacitor. Since different types of capacitors are made of different materials or manufactured by different processes, they also differ in their electrical performances. The features and applications of various types of capacitors are summarised in the following table.

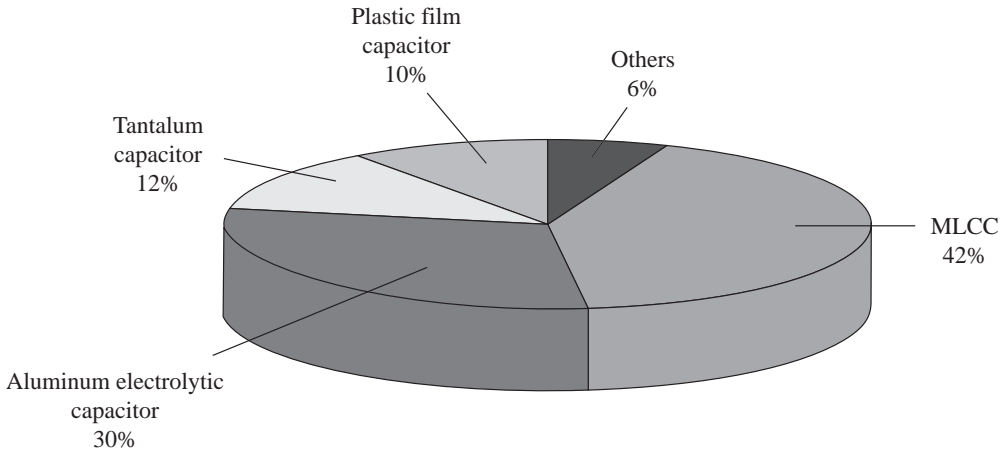
The features and applications of various types of capacitors

Products	Features	Applications
MLCC	High frequency feature and easy for wafer process (薄膜工藝)	Widely used in high frequency circuit and portable electrical products. Also widely used in wireless communication products due to its high frequency feature.
Aluminum electrolytic capacitor	Large capacitance	Used in low frequency power circuit. Given its large capacitance, it is widely used in consumable electrical products.
Tantalum capacitor	Low current leakage and high frequency feature	Used in filtering circuit, noise catcher and coupling circuit. It is widely used in wireless communication products due to its high frequency feature.
Plastic film capacitor	High pressure resistance	Widely used in high pressure resistance circuit. It is suitable for large mechanical products with high efficiency due to its high pressure resistance.

INDUSTRY OVERVIEW

Based on the research report conducted by Pday Research, an Independent Third Party, MLCC accounted for the largest part of the capacitor products in 2005, details of which are set out below:

Market share of capacitor products in the world in 2005



Source: Pday Research, 2006

The continuous growth in the demand for mini size household appliances and mobile phones directly contributes to the development of key internal components. The major development trend of electrical component technology is to decrease in size and become integrated. As a result, the MLCC technology is developing in the direction of achieving minimal size and high capacitance.

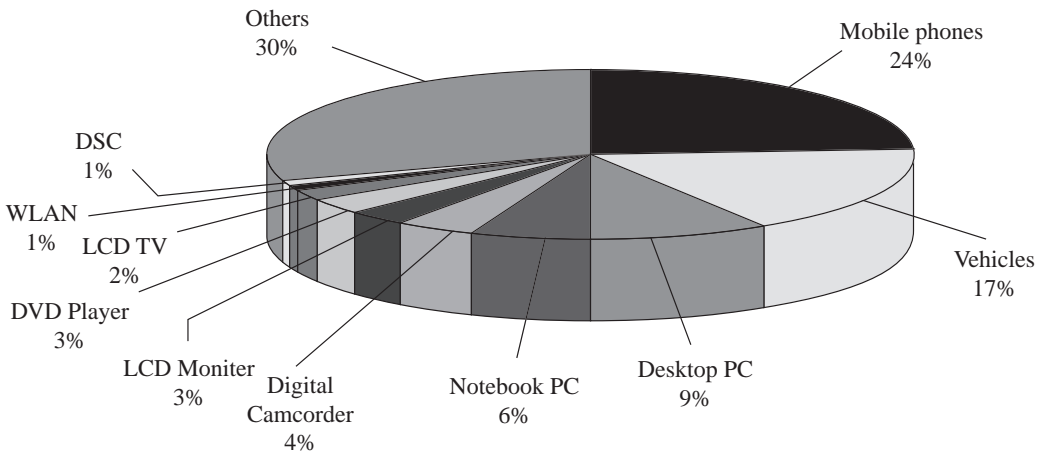
MLCC

MLCC is the short form for multi-layer ceramic chip capacitor, which is a type of capacitor. There are a number of specifications for MLCC with different characteristics and these characteristics are: capacitance (electric charge stored per unit voltage), fineness and size (specifications such as 1210, 0805, 0603, 0402 and 0201), temperature stability (special feature groups such as Y5V, X7R, X5R and NPO), specific working voltage, Q value (quality factor) or DF value (degree of damage against energy input) and ESR (equivalent series resistance).

Specifications of MLCC normally include 1206, 0805, 0603, 0402 and 0201 and these figures represent the size of the MLCC. For example, “12” in 1206 represents a length of 1.2 inch and “06” represents a breadth of 0.6 inch. Similarly, 0402 represents a length of 0.4 inch and a breadth of 0.2 inch.

MLCC is used widely in the consumer electrical products. The quantity of MLCC used varies in different types of products. The same type of product may also use a different number of MLCC due to different design, functionality, complexity and reliability. Mobile phones is the main downstream application which accounted for approximately 24% in total MLCC demand.

Utilisation rate of MLCC in downstream applications in the global market in 2005



Source: Pday Research, 2006

Development of the MLCC industry

1. Size minimisation, wafer process (薄膜工藝) and high capacitance

For MLCC, worldwide manufacturers will focus on developing compact capacitors of minimum size and high capacitance. For product capacitance, the capacitance of relevant products will be increased by developing ceramic material with high electrical reading and by enhancing the multi-layered technology.

2. Lead free

Since the European Union decided to implement the lead free regulation on imported electrical parts, capacitors manufacturers should take it into account in MLCC production. Stannum-lead welding packaging will be eliminated gradually.

3. Integrated products

As the design of mobile phones is becoming compact and modulated, it is necessary to design highly compact multi-layered passive components to fully utilise the product size. At present, ceramic-related passive components are the main components that can achieve such objectives.

4. BME

Since the price of palladium, a raw material used in the production of ceramic capacitor, remains high, manufacturers switched from using expensive metal products to BME technology so as to reduce cost of raw materials. In 2002, the percentage of MLCC using BME technology reached 90% worldwide.

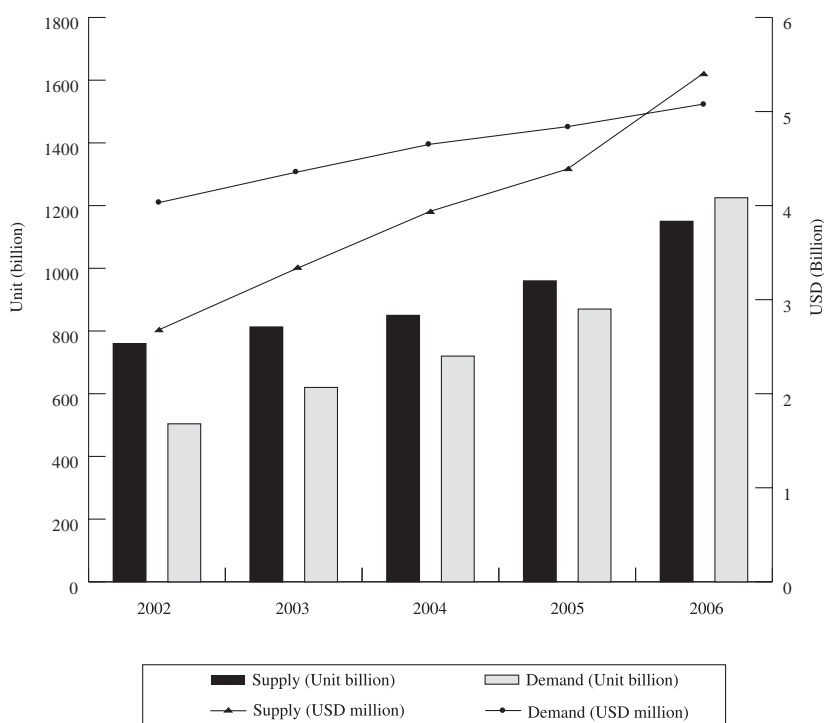
INDUSTRY OVERVIEW

Increasingly smaller capacitor products with more intensive layers are launched continuously due to the trend towards compact products. For MLCC, the major specification in the market at present is changing from 0603 products to 0402 products. This is mainly driven by compact mobile phones and PDAs.

GLOBAL MLCC SUPPLY AND DEMAND

According to Pday research, global MLCC supply has grown at a CAGR of approximately 10.9% from 760 billion units in 2002 to 1,150 billion units in 2006, whereas the global demand has grown at a CAGR of approximately 24.9% from 504 billion units in 2002 to 1,225 billion units in 2006. It is apparent that the global demand of MLCC is growing at a higher rate than the global supply of MLCC during the past 5 years. The details of the supply and demand of MLCC during the period from 2002 to 2006 are illustrated in the following graph:

Global MLCC supply and demand



Source: Pday Research, 2006

Note: According to Pday Research, the global MLCC sales volume in 2006 was approximately 1,200 billion units, and the Group's MLCC sales volume was approximately 14.5 billion units in 2006, representing approximately 1.2% of the total global MLCC sales volume in 2006.

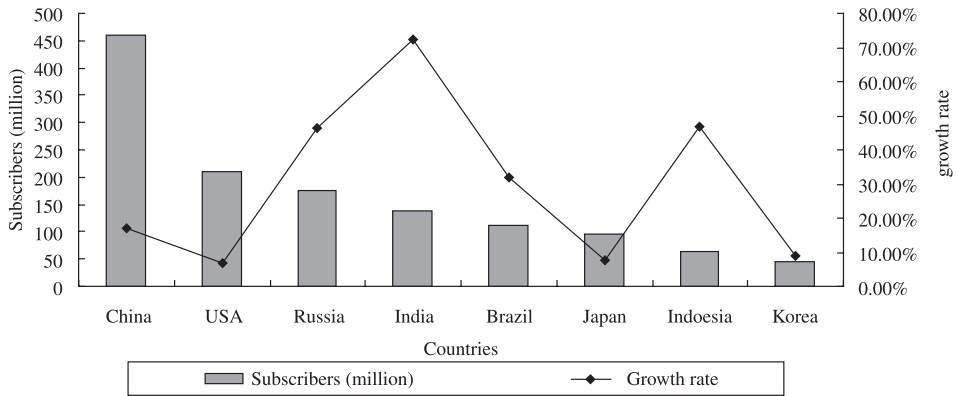
INDUSTRY OVERVIEW

MOBILE PHONE RELATED MARKET

Mobile phone market

According to CCID Consulting, an Independent Third Party, China had the largest number of mobile phone subscribers with a moderate annual growth rate in the number of mobile phone subscribers in 2006 among all the other major countries in the world.

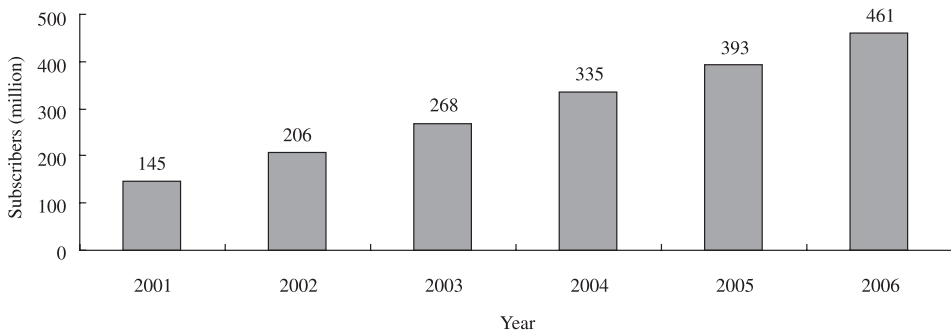
Number of mobile phone subscribers and growth in major countries in 2006



Source: CCID Consulting, January 2007

There is a vast potential demand of mobile phones for middle and low end users in China. Various aggressive strategies from mobile operators and manufacturers has facilitated a faster growth of mobile phone users in China and has led to the popularity rate of mobile phone users in China to reach approximately 34 sets for every 100 people in 2006. China leads among the developing countries in the world in mobile phone users but there is still a large gap when the rate is compared with the developed countries and regions. This indicates a substantial room for growth in the number of mobile phone subscribers in China. According to CCID Consulting, the number of mobile phone subscribers in China increased from approximately 145 million in 2001 to approximately 461 million in 2006, representing a CAGR of approximately 26.0% during this period.

Number of mobile phone subscribers in China from 2001 to 2006

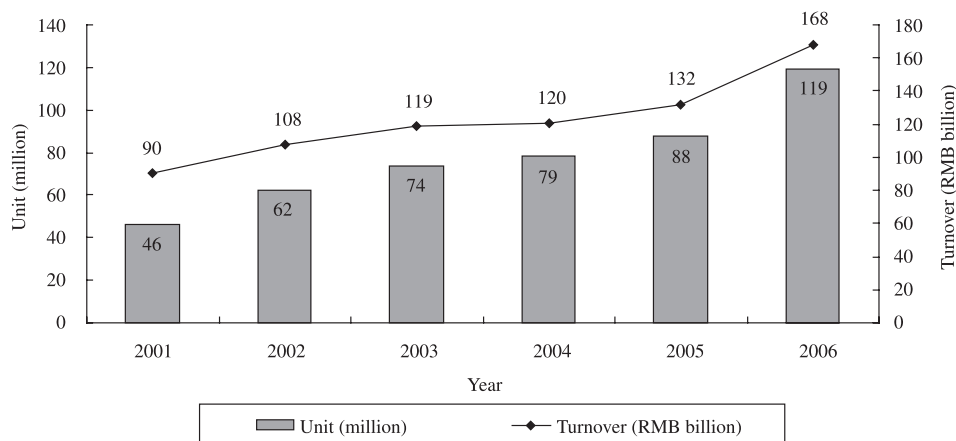


Source: CCID Consulting, January 2007

INDUSTRY OVERVIEW

In terms of turnover, the sales of mobile phones have increased from approximately RMB90 billion in 2001 to approximately RMB168 billion in 2006, representing a CAGR of approximately 13%. Furthermore, according to CCID Consulting, the sales volume of mobile phones reached approximately 119.3 million units in 2006, representing an annual growth rate of 35.2%. This is attributed to a number of factors, including (i) continuous decrease in tariffs charged by mobile phone service providers, (ii) expansion of production of low price range mobile phones and (iii) continuous upgrade in functionality and style of mobile phones.

Mobile phone sales volume and turnover in China from 2001 to 2006



Source: CCID Consulting, January 2007

Note: According to CCID Consulting, the mobile phone sales volume in the PRC in 2006 was approximately 119 million units, and the Group's mobile phone sales volume was approximately 1.2 million units in 2006, representing approximately 1% of the total PRC market demand for mobile phones in 2006.

Market share of domestic mobile phone market

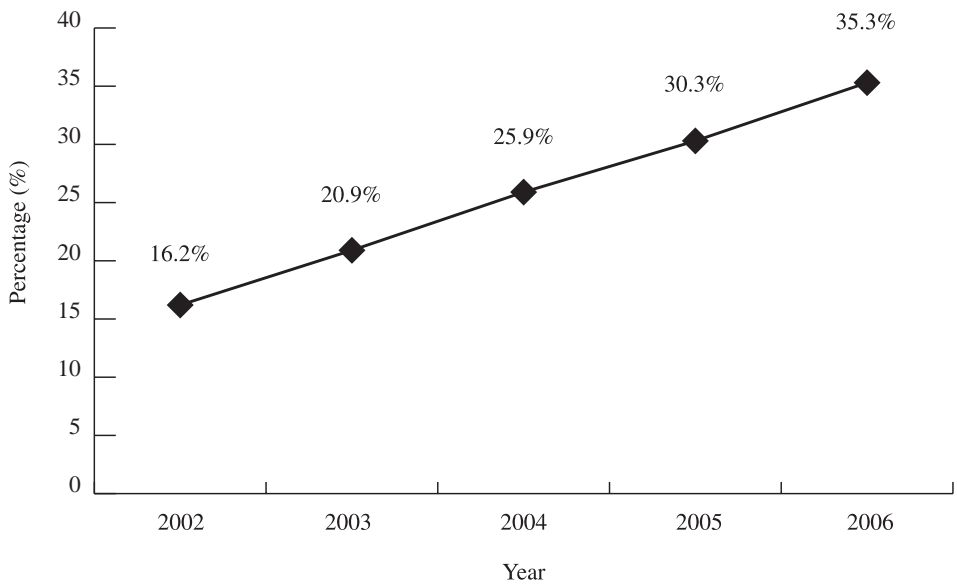
The PRC mobile phone market is dominated by foreign manufacturers and the market share of the PRC mobile phone manufacturers is relatively small. According to CCID Consulting, half of the top 10 mobile phone players are foreign manufacturers. The aggregate turnover of these five foreign manufacturers amounted to approximately RMB120.1 billion in 2006, which represented approximately 71.5% of the mobile phone market in the PRC. The largest five PRC mobile phone manufacturers recorded turnover of approximately RMB23.2 billion in 2006, which represented 13.8% of the mobile phone market in the PRC.

INDUSTRY OVERVIEW

Mobile phone penetration rate

According to Pday Research, there were only 206 million mobile users in the PRC which accounted for approximately 16.2% of the population in 2002, whereas, the mobile phone user increased 1.2 times to approximately 461 million users in 2006 which accounted for approximately 35.3% of the PRC population, representing a CAGR of approximately 22.2% during the period from 2002 to 2006. The Directors believe that increasing coverage of the mobile phone network in the PRC, continuous urbanization and increasing affordability of the mobile phone services contributed to the increased popularity of mobile phones in the PRC for the past few years.

Mobile Phone Popularization Rate in the PRC from 2002 to 2006



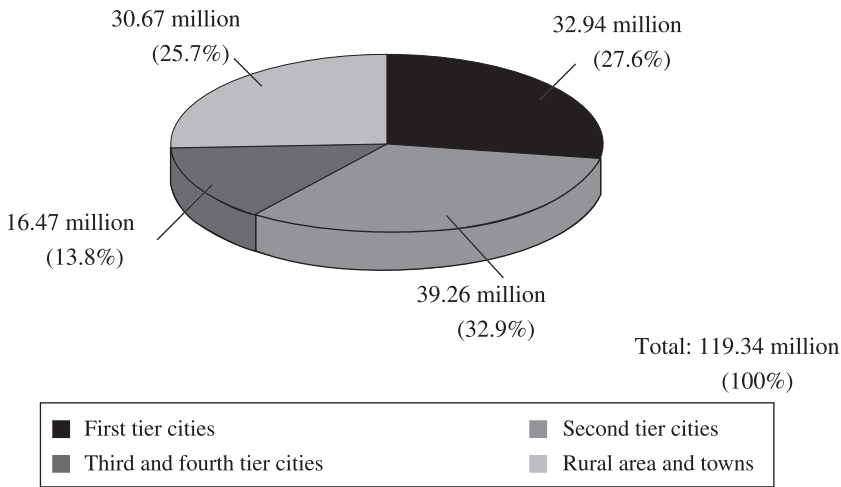
Source: Pday Research, 2006

INDUSTRY OVERVIEW

Market segmentation

The market segmentation is based on the research report of CCID Consulting. The cities of the PRC are divided into five tiers based on the mobile phone sales volume and government administrative hierarchy. The first and second tier cities are characterised by large population and prosperous economy and are major mobile phone distribution points. Customers in these two tiers cities generally prefer new models and more technologically advanced mobile phones. The sales of mobile phones are mainly from the mobile phone replacement market. The bottom tier covers the towns and rural areas of the PRC, where more than half of the total population of the PRC inhabit. The mobile phones sold to customers in towns and rural areas are generally cheaper and are only equipped with simple functions.

Tiering of Mobile Phone Market in China in 2006 (by number of mobile phones sold)



Source: CCID Consulting, January 2007

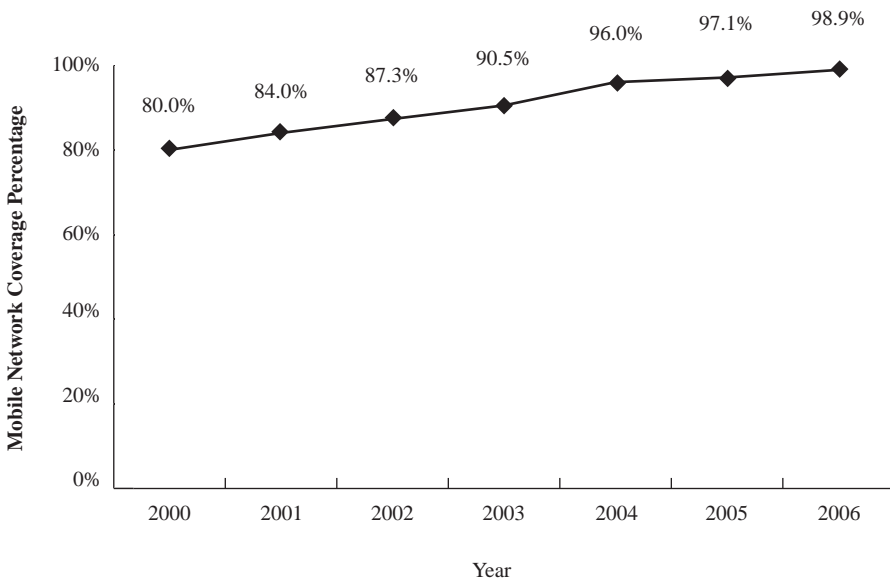
Note: The first tier cities refer to provincial capitals or large cities with the most prosperous economy and the highest cost of living. The monthly mobile phone sales volume in these cities was over 100,000 units in 2005. There are 6 first tier cities in total. The second tier cities refer to medium cities, which also include provincial capitals and covers cities with relatively better developed economy and higher cost of living. The monthly mobile phone sales volume in these cities ranged from 20,000 to 100,000 units in 2005. There are 543 second tier cities in total. The third and fourth tier cities refer to the cities of township level with less developed economy and lower cost of living. The monthly mobile phone sales volume in the third and fourth tier cities was below 20,000 units in 2005. There are 931 third and fourth tier cities in total. The rural areas refer to the villages in the countryside.

Mobile market development

As in 2006 approximately 50% of the total population in China lives in the rural area, the Directors believe that there will be a substantial potential for growth in the mobile phone business in the rural areas of China and such growth is supported by the services offered by mobile service providers and government policies.

According to Pday Research, the mobile network coverage rate in the PRC (including cities, counties, townships and villages) reached approximately 80% in 2000. In 2006, the mobile network coverage rate reached approximately 98.9%, representing that almost the whole country is covered by the mobile network.

Mobile Network Coverage in the PRC (2000–2006)

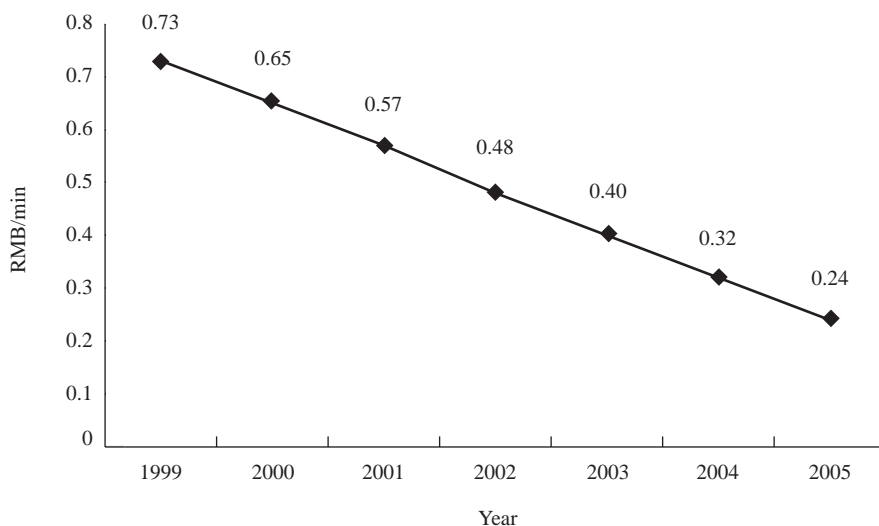


Source: Pday Research, 2006

INDUSTRY OVERVIEW

The average tariff of mobile phones has been decreasing in the past years. According to Pday Research, the average mobile phone tariff was approximately RMB0.73 per minute in 1999 and decreased to approximately RMB0.24 per minute in 2005. The Directors believe that the decreasing trend in mobile phone tariffs potentially increases people's ability to afford mobile phone services in China, in particular, users in the rural areas who may generally be more price sensitive.

Mobile Phone Average Tariff (1999–2005)



Source: Pday Research, 2006

Mobile phone component market

The Group has been engaged in the manufacture, sale and trading of mobile phone components. The mobile phone components manufactured and sold by the Group during the Track Record Period were mainly PCBA, which is a PCB product to be installed inside a mobile phone on which relevant electronic components such as chipset and IC used in a mobile phone have been assembled together according to the pre-designed electronic circuit. As PCBA is an indispensable part of each mobile phone, the Directors consider that the demand and supply of the mobile phone components, i.e. PCBA, should be in tandem with the demand and supply of mobile phones in the PRC. Having taken into account, among others, (i) the continuing economic growth in the PRC in recent years which in turn increase the purchasing power of consumers in the PRC; (ii) the continuous growth in the sale of mobile phones in the PRC; and (iii) and the increasing number of mobile phone subscribers in the PRC since 2001, the Directors consider that there should be development potential in the mobile phone components market in the PRC in the long term.

The entry barrier of the business of manufacturing, sale and trading of mobile phone components is relatively low. As such, there are lots of mobile phone component manufacturers available in the PRC, engaging in different types of mobile phone components, such as PCB, batteries and casings. Due to abundant supply of mobile phone component manufacturers available in the PRC, the Directors consider that competition in the mobile phone component market is intense.

COMPETITION

MLCC business

Most of the customers of MLCC manufacturers are consumer electronics appliances, computers and computer peripherals and telecommunications manufacturing industries around the world. The competition faced by the Group is not only confined to the PRC market, but also includes competitors around the globe, some of which are global industry leaders with the most advanced technical knowledge in MLCC manufacturing with substantial production capacity and market share.

According to Pday Research, an independent research house based in the PRC, Japanese manufacturers and Taiwanese manufacturers consisted of 61% and 14% of global MLCC production in 2006 respectively. As such, the Directors consider that the major competitors of the Group in the MLCC business are mainly Japanese MLCC manufacturers such as MURATA and TDK as well as other manufacturers located in the PRC and Taiwan. The MLCC products of these competitors are generally used in products such as consumer electronics, computers and mobile phones.

Having considered that, (i) during the Track Record Period, the MLCC products manufactured by the Group were mainly sold to the customers who subsequently applied the Group's MLCC products to other electronics products including, consumer electronics, computers and computer peripherals and communication equipments, which are similar to that of other MLCC products manufactured by the Group's competitors; and (ii) based on the opinion as set out in the Science and Technology Achievement Appraisal Certificate (科學技術成果鑒定證書) dated 24 October 2002 issued by the Shenzhen Bureau of Science and Technology (深圳市科學技術局, currently known as Shenzhen Bureau of Technology and Information (深圳市科技和信息局)), (a) the 0402 BME MLCC could substitute other similar imported MLCC products which have already been used on portable consumer electronic products, including mobile phones and digital cordless phones; and (b) 0402 BME MLCC was comparable, in terms of the production technology and functionality, to the MLCC products under the same class manufactured by international MLCC manufacturers, the Directors are of the view that the Group's MLCC products are comparable to the MLCC products produced by the Group's competitors.

In view of the above, the Directors consider that the Group is able to maintain its competitiveness in the market.

Mobile phone related business

The mobile phones market in the PRC, especially in the cities, like provincial capitals and large cities, is highly competitive. It is also noted that, pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the relevant requirement for obtaining the approval for investment in mobile phone production has been cancelled. Such cancellation will lower the entry barriers to the mobile phone market in the PRC and will further intensify market competition. While it is difficult for new local entrants to compete in these market tiers, during the Track Record Period, the Group's strategy for its mobile phone business was to focus on the customers with relatively lower purchasing power, such as the customers in the rural market like towns and counties in the PRC. These customers generally look for inexpensive mobile phones with common mobile phone functions. As such, the Directors believe that direct competition with the major mobile phone markets can be

INDUSTRY OVERVIEW

minimised if the Group's focuses on township and county levels. The Directors also believe that the potential market of these towns and counties is enormous given the penetration rate of mobile phones there is still low when compared with the major cities in the PRC. It is the Group's long-term objective to become a major mobile phone manufacturer in the PRC. As such, in addition to continuing the development of low cost mobile phones for customers with relatively lower purchasing power, the Group is also expanding its product mix of mobile phones by introducing mobile phones equipped with more sophisticated functions, to better serve potential customers with relatively higher purchasing power, such as customers in the urban market in the PRC. As such, the Group developed its first mobile phone with PDA functions which was launched in May 2007. With the abovementioned business strategy for the mobile phone business, the Directors consider that the Group is able to better capture the business opportunities in the mobile phone market in the PRC in the future.

BUSINESS

According to the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) issued by the Ministry of Commerce (“**MOFCOM**”) and the NDRC on 30 November 2004, the foreign investment in the field of mobile phone manufacture is encouraged by the PRC government. Pursuant to the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) issued by the MOFCOM and the NDRC on 31 October 2007 and took effect on 1 December 2007, foreign investment in the field of 3G and the subsequent mobile phone manufacture is encouraged by the PRC government, and foreign investment in other mobile phone manufacture is permitted.

On 25 September 2000, the State Council enacted the PRC Telecommunication Regulations (《中華人民共和國電信條例》), (the “**Regulations**”) and on 10 May 2001, MII issued the Measures for the Administration of Telecommunication Equipment Entering into the Public Telecommunication Networks (《電信設備進網管理辦法》) (the “**Measures**”). According to the Regulations and the Measures, telecommunication terminal equipment, wireless communication equipment and network-interconnection involved equipment are subject to the approval certificate system for entering into networks, under which an approval certificate must be obtained from MII. Without the approval certificate issued by MII, the relevant equipment is forbidden to be connected onto the public telecommunication network, used or sold within the PRC.

According to the Regulations concerning Management of Compulsive Product Certification (《強制性產品認證管理規定》) issued by the State General Administration of Quality Supervision, Inspection and Quarantine (“**AQSIQ**”), which took effect on 1 May 2002, mobile phone, as the product listed in the Catalogue of the First Batch of Products subject to Compulsory Product Certification (《第一批實施強制性產品認證的產品目錄》), must be certified by the designated certification organization of the State. The mobile phone can be sold, imported or used for business only after obtaining the relevant certificate, which is known as China Compulsory Certification.

On 19 February 2005, NDRC issued the Several Provisions on Approval of Telecommunications System and Mobile Terminals Investment Project (《移動通信系統及終端投資項目核准的若干規定》) (the “**Provisions**”). According to the Provisions, projects involving telecommunication systems and mobile terminals, i.e. mobile phone, are required to apply for the approval of NDRC and NDRC shall seek MII’s opinions before deciding whether or not to approve the project.

According to Interim Measures for Examining and Approving Enterprises’ Investment Projects (企業投資項目核准暫行辦法), where the content of the approval for any project needs to be adjusted, the enterprise concerned shall promptly submit a written report to the original approving organ, which shall, in light of the specific circumstances, issue a confirmation letter or require the enterprise to go through the approval formalities anew.

Pursuant to Several Provisions on Approval of Mobile Telecommunications System and Terminals Investment Project (移動通信系統及終端投資項目核准的若干規定) and Interim Measures for the Administration of Examining and Approving Foreign Investment Projects (外商投資項目核准暫行管理辦法), the alteration of an approved mobile phone production investment project shall be applied to the NDRC in case such project is under any of the following circumstances: (i) alteration of construction site; (ii) alteration of investors or their equities; (iii) alteration of main construction items and main products; (iv) the overall investment in excess of 20 percent or more of the approved investment amount;

REGULATIONS

(v) the production of the other standard formats terminals which have not been included in the original approval; or (vi) other circumstances required to be altered by related laws and regulations and industrial policies.

Based on such provisions mentioned above, the enterprise is required to obtain one approval for the individual project unless the content of the approval needs to be adjusted or the certain special situation stipulated by laws and regulations occurs. In case the enterprise invests in other projects, it should obtain another approval and fulfill all the approval procedures required by laws and regulations.

The PRC legal advisers to the Company also advise that, pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the requirement for obtaining the approval for the investment in mobile phone production as set out in the Provisions has been cancelled.

According to the relevant PRC laws and regulations, the PRC legal advisers to the Company consider that it is not required to obtain approval from relevant government authority to engage in distribution and marketing of mobile phones.

The Product Quality Law of the PRC (《中華人民共和國產品質量法》, the “**Product Quality Law**”) was promulgated on 22 February 1993 and amended on 8 July 2000. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

The Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》, the “**Consumer Protect Law**”) was enacted on 31 October 1993 and took effect on 1 January 1994. According to the Consumer Protection Law, the rights and interests of the consumers who buy or use commodities for the purposes of daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties.

The Provisions on the Liabilities of Repair, Replacement and Return of Mobile Telephone Merchandise (《移動電話機商品修理更換退貨責任規定》) promulgated by AQSIQ, SAIC and MII on 17 September 2001 and came into effect on 15 November 2001, emphasise that manufacturers, distributors and repairers shall be liable for repair, replacement and return of the products if they provide the unqualified ones. Within the liability period, consumers are entitled to have the unqualified mobile phone repaired, replaced or returned according to the provisions.

Environmental protection

According to Environmental Protection Law of PRC (《中華人民共和國環境保護法》, the “**Environmental Protection Law**”), the State Administration for Environmental Protection shall establish the national standards for environment quality. The people’s governments of provinces, autonomous regions and municipalities directly under the Central Government may establish their local standards for environment quality for items not specified in the national standards for environment quality and shall report them to the State Administration for Environmental Protection for record.

REGULATIONS

Environmental Protection Law requires all operations that cause environmental pollution and other public hazards to incorporate the work of environmental protection into their plans and establish a responsibility system for environmental protection. These operations must adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution are examined and considered up to the standard by the competent department of environmental protection administration that examined and approved the environmental impact statement.

According to the Measures for the Control of Pollution from Electronic Information Products (《電子信息產品污染控制管理辦法》) issued by NDRC, MOFCOM, Customs General Administration, State Administration for Industry and Commerce, MII, AQSIQ, State Administration for Environmental Protection on 28 February 2006 and came into effect on 1 March 2007, a producer of electronic communication products shall, when producing or manufacturing these products, meet the national or industrial standards for control of toxic or noxious substances or elements of electronic communication products, and use the materials, technologies and techniques with high resource utilisation rate, easy for recycling and treatment, and beneficial to environmental protection.

Labour and safety matters

The Group is also subject to various labour and safety laws and regulations in the PRC including the PRC Labour Law (《中華人民共和國勞動法》), the PRC Production Safety Law (《中華人民共和國安全生產法》), the Regulation of Insurance for Labor Injury (《工傷保險條例》), the Regulation of Insurance for Unemployment (《失業保險條例》), the Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》), Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), Regulations on Management of Housing Fund (《住房公積金管理條例》) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

According to the PRC Labour Law (《中華人民共和國勞動法》), labour contracts shall be concluded if labour relationships are to be established between the employees and any member of the Group. The Group must provide wages which are not lower than the local minimum wage payable to the employees from time to time. The Group is required to establish a system for labour safety and sanitation, strictly abide by relevant rules and standards and provide relevant education to the Group's employees. The Group also required to provide the employees with labour safety and sanitation conditions meeting relevant rules and standards and carry out regular health examinations of the employees engaged in hazardous occupations.

The PRC Production Safety Law (《中華人民共和國安全生產法》) requires that the Group shall maintain conditions for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities. The Group is required to offer education and training programs to the employees regarding

REGULATIONS

production safety. The design, manufacture, installation, use, checking and maintenance of the Group's safety equipment are required to conform to applicable national or industrial standards. In addition, the Group is required to provide labour protection equipment that meets the national or industrial standards to the employees and to supervise and educate them to wear or use such equipment according to the prescribed rules.

According to Regulations on Management of Housing Fund (《住房公積金管理條例》), the Group should undertake registration at the competent managing centre of housing fund and then, upon the examination by such managing centre of housing fund, undergo the procedures of opening the account of housing fund for the employees at the relevant bank. The Group is also obliged to timely pay and deposit housing fund in full amount.

As required under Regulation of Insurance for Labor Injury (《工傷保險條例》), Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》), Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Group is obliged to provide the employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

Maternity insurance

According to the Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》), the Group should be obliged to timely pay and deposit maternity insurance fund in full amount for its female employees to the special account established by the competent authority of maternity insurance and then, upon the examination by such competent authority of maternity insurance. The amount of the maternity insurance fund should be undertaken by the Group per employee will not exceed 1% of the employee's total salary.

OVERVIEW

The Group focuses on two principal businesses, namely the MLCC business and the mobile phone related business.

MLCC business

MLCC is a type of capacitor which is a basic electronic component that has been widely used in information technology, communication and consumer electronics products. During the Track Record Period, the Group was principally engaged in the manufacture, sale and trading of the MLCC products. In addition, during the Track Record Period, certain MLCC products required by the customers of the Group were not produced by the Group. As such, from time to time, the Group will help the customers to source, according to the customers' requirements, MLCC products mainly from Japanese and Korean manufacturers. Except packaging, the Group would not process such MLCC products and would directly sell them to the customers.

During the Track Record Period, the revenue generated from the MLCC business was approximately RMB115.5 million, RMB151.7 million, RMB182.4 million and RMB164.3 million respectively, representing approximately 17.5%, 33.3%, 26.8% and 28.9% of the total revenue of the Group respectively. Among the revenue generated from the MLCC business of the Group, during the Track Record Period, approximately RMB17.2 million, RMB15.8 million, RMB10.3 million and RMB4.8 million were generated from the sourcing and sale of the MLCC products for the Group's customers respectively, which accounted for approximately 14.9%, 10.4%, 5.6% and 2.9% of the total revenue generated from the MLCC business of the Group for the corresponding period.

The Group was a pioneer in the PRC to develop 0402 mini MLCC by using the BME technology. According to the Science and Technology Achievement Appraisal Certificate (科學技術成果鑒定證書) dated 24 October 2002 issued by the Shenzhen Bureau of Science and Technology (深圳市科學技術局), currently known as Shenzhen Bureau of Technology and Information (深圳市科技和信息局), Eyang Shenzhen was accredited as the first PRC manufacturer which successfully developed 0402 mini MLCC by using the BME technology in the PRC.

The Group's MLCC research and development team have co-operated with Tsinghua University in the development of MLCC production technology under the National High Technology Research and Development Program of the PRC (國家高科技術研究發展項目), commonly known as the "863 Project".

In view of the trend of sophistication in functionality and increasing portability of consumer electronic products, the Group's strategy is to focus on the research and development of mini size and high capacitance MLCC with competitive pricing.

Mobile phone related business

In view of the uprising popularity of mobile phones and demand of mobile phones in the PRC, it was always the Group's business objective to engage in the manufacture and distribution of mobile phones with its own brand to capture business opportunities.

In order to accumulate experience in the manufacture and sale of mobile phones and their related products and lay down the foundation for mobile phone related business, the development of the Group's mobile phone related business has gone through several major stages, which included (i) minority equity investment in companies principally engaged in software and hardware designs of mobile phones in 2002 to understand the general mobile phone market environment in the PRC; (ii) engaging in the manufacture, sales and trading of mobile phone components in 2003 to accumulate manufacturing experience and understand the market of mobile phone components; (iii) cooperating with a mobile phone manufacturer to produce, distribute and market mobile phones for that manufacturer's brand in the PRC in 2004 by conducting marketing activities such as providing promotion posters and leaflets to distributors; and (iv) obtaining the approval of NDRC to directly engage in the manufacture of mobile phones for the Group's own brand since December 2005.

In May 2002, the Group invested in approximately 22.02% equity interest in Jingwei to first engage in research and development of hardware and software designs of mobile phones in order to gain an understanding of the general mobile phone market environment, particularly the market trend of mobile phone hardware and software design solutions in the PRC.

Since 2003, the Group commenced manufacture, sale and trading of mobile phone components in order to accumulate experience in the manufacture of mobile phones and related components. The mobile phone components manufactured and sold by the Group were PCBAs, a PCB product to be installed inside a mobile phone on which relevant electronic components such as chipset and IC used in a mobile phone have been assembled together according to the pre-designed electronic circuit, whereas the components sourced and sold by the Group included chipsets, microphones, casings, diodes, capacitors and ICs.

In August 2003, the Group invested in 15% equity interest in Weike which is principally engaged in manufacture and sale of mobile phones in order to gain experience in the manufacture of whole set mobile phone products.

In March 2004, with relevant experience and understanding in the mobile phone industry, the Group decided to set up a wholly-owned subsidiary, Eycom, to directly enter into the mobile phone market. In June 2004, the Group began to set up its first production line for mobile phones.

Since the establishment of Eycom, the Group has directly engaged in the manufacture of mobile phones. Although the NDRC had not granted an approval to the Group to manufacture mobile phones under the Group's own brand name at that time, the Group cooperated with a mobile phone manufacturer, an Independent Third Party that had been approved by NDRC to manufacture mobile phones under its own brand name, to produce, distribute and market mobile phones under such manufacturer's own brand name (the "Mobile Phone Production Arrangement") from April 2004 to December 2005. Details of the Mobile Phone Production Arrangement are set out in the paragraph headed "Mobile Phone Production Arrangement before 2006" in this section.

In October 2004, the Group decided to set up its then non-wholly owned subsidiary, Lingying, of which the Group held 60% equity interest, to engage in the provision of hardware and software design solutions for mobile phones. Since the establishment of Eycom and Lingying, the Group has directly engaged in the mobile phone business, and subsequently, the Group completed its disposal of equity interests in Jingwei and Weike in mid 2006.

In December 2005, the Group successfully obtained an approval from NDRC to manufacture mobile phones under its own brand name — “EY”. Subsequently, the Group ceased the Mobile Phone Production Arrangement. During the Track Record Period, the Group’s strategy for its mobile phone business is to focus on customers with low purchasing power, such as customers in the rural market, who generally look for inexpensive mobile phones with common mobile phone functions. In addition, the Group is also expanding its product mix of mobile phones by introducing mobile phones equipped with more sophisticated functions, to better serve potential customers with relatively higher purchasing power, such as customers in the urban market in the PRC. As such, the Group developed its first mobile phone with PDA functions which was launched in May 2007.

Mobile phones produced by the Group were all sold to mobile phone distributors principally for further distribution in the PRC. Nevertheless, in addition to distributing the Group’s mobile phones in the PRC, one local mobile phone distributor in 2006 and two local mobile phone distributors in 2007 had overseas clientele as well. From time to time, these mobile phone distributors placed purchase orders to the Group and request the Group to deliver the relevant mobile phone products to Hong Kong for their onward distribution. For the three years ended 31 December 2006 and the nine months ended 30 September 2007, the sale of mobile phones by the Group to the said distributors under the said arrangement amounted to approximately nil, nil, RMB17.4 million, RMB52.5 million, representing approximately nil, nil, 3.6% and 13.1% of the revenue generated from the sale of mobile phones by the Group during the corresponding period.

To further broaden revenue sources of the Group’s mobile phone business, in May 2007, the Group entered into cooperation agreements with a Hong Kong distributor, an Independent Third Party, pursuant to which the mobile phone distributor purchased the mobile phones produced by the Group which contained the logo provided by such distributor. For the nine months ended 30 September 2007, the sale of the Group’s mobile phones to such mobile phone distributor amounted to approximately RMB4.0 million, representing approximately 1.0% of the revenue generated from the sale of mobile phones by the Group during the corresponding period. As the sale amount of such mobile phone products did not contribute significantly to the Group’s mobile phone business and it was considered not operationally efficient to directly oversee such sale activities given the fact that most of sale of mobile phones was conducted in the PRC during the Track Record Period, the Group ceased the sale of these mobile phone products to the said mobile phone distributor as at the Latest Practicable Date.

As the mobile phone related business of the Group evolved from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones in 2004, the business focus of the Group’s mobile phone related business had also been shifted from the former to the latter during the Track Record Period.

As at the Latest Practicable Date, the Group had ceased its sale of the mobile phone components to customers. Nevertheless, the Group continues to manufacture mobile phone components, i.e. PCBA, and source mobile phone components such as chipset and IC for the manufacture of the Group's own mobile phones.

BUSINESS STRATEGIES

Expansion of MLCC production capacity

In view of the fact that the Group's production of MLCC reached more than 90% of the maximum production capacity during the Track Record Period, the Group plans to increase the production capacity to meet the continuing uprising global market demand for MLCC products. As such, the Group intends to acquire new MLCC production facilities to increase its MLCC production capacity.

Continue to invest in the research and development capability for MLCC products

The Group continues to invest in MLCC research and development so as to enhance its capability in the development of MLCC products. In consideration of strong market demand for mini size and high capacitance MLCC, the Group will focus on research and development of mini size and high capacitance MLCC products to meet the market needs.

As such, the Group plans to recruit more research staff in this aspect with doctoral degrees from different universities in the PRC and to provide the existing research staff with overseas training to learn MLCC production technology adopted by overseas counterparts. In addition, the Group plans to upgrade the existing machineries for research and development of MLCC products.

Development of relatively low cost mobile phones equipped with common functions

Considering the facts that (i) the mobile phone popularization rates in second and third tiers cities (*note*) in the PRC are relatively low; (ii) the mobile communication infrastructure in lower tier cities in the PRC is now mature; (iii) the increasing disposable income of residents in the second and third tiers cities in the PRC; and (iv) the decreasing mobile tariffs over the past years, the Directors believe that the mobile phone markets in these regions in the PRC have the most potential to develop the Group's mobile phone related business. In view of high consciousness in cost and quality of mobile phone users in these regions in the PRC, the Group therefore will continue to develop relatively low cost mobile phones equipped with common functions.

Note: The second tier cities refer to medium cities in the PRC, which also include provincial capitals and covers cities with relatively better developed economy and higher cost of living. The monthly mobile phone sales volume in these cities ranged from 20,000 to 100,000 units in 2005. There is a total of 543 second tier cities in the PRC in 2005. The third and fourth tier cities refer to the cities at township level in the PRC with less developed economy and lower cost of living. The monthly mobile phone sales volume in the third and fourth tier cities was below 20,000 units in 2005. There is a total of 931 third and fourth tier cities in the PRC in 2005.

Development of 3G mobile phones by way of acquisition of 3G mobile phone solutions

In addition to the development of relatively low cost mobile phones equipped with common functions as mentioned above, the Group is also expanding its product mix of mobile phones by introducing mobile phones equipped with more sophisticated functions, to better serve potential customers with relatively higher purchasing power, such as customers in the urban market in the PRC. In

May 2007, the Group launched its first mobile phone with PDA functions. In the future, the Group plans to produce 3G mobile phones, as the Directors expect that the demand for 3G mobile phones in the PRC is vast after 3G licence is granted to the mobile communication operators in the PRC by the PRC government. In preparation for the commencement of 3G mobile service in the PRC, the Group's strategy is to acquire 3G solutions from third parties so as to shorten the whole research and development cycle and the risks associated with such development.

Expansion of mobile phone production capacity

To expand the mobile phone market share and to satisfy the growing demand of mobile phones in the PRC, the Group intends to enhance its production capacity by increasing its production lines from 3 in 2007 to 11 in 2008, 2 of which are designated for the production of 3G mobile phones and the remaining 9 are designated for the production of the current generation of mobile phones.

Strengthening the marketing, sale and distribution of mobile phones with "EY" brand

In order to reinforce the brand building of the Group's "EY" branded mobile phones, and increase the coverage of the existing promotion of the Group's mobile phones, the Group intends to launch more marketing and promotion activities in future, which include advertisement on television, newspapers, magazines and large bill boards.

Upgrade the computer system to further enhance business management

The existing computer systems of the Group principally serve the Group's human resources, financial reporting, raw material purchasing and production. However, those functions are not fully integrated into one information management system and sometimes manual operation are required. In view of the expansion of the Group's business and to support the Group's future development, the Group intends to upgrade the computer systems in order to consolidate the management of the Group's human resources, financial reporting, raw material purchasing and production under an integrated information management system. The Directors consider that the new computer system can provide more efficient, accurate and timely management reporting for future business decision making.

COMPETITIVE STRENGTHS

MLCC business

- *The Group possesses technology in manufacturing mini size and high capacitance MLCC*

In view of the increasing digitization, functionality and portability of consumer electronic products, demand for advanced MLCC products that are mini size and high capacitance is growing. The MLCC industry also has a trend towards the use of BME as conducting materials in MLCC to lower the cost of production. Since inception, the Group has devoted resources on research and development of MLCC products. In October 2002, the Group was accredited as the first MLCC manufacturer in the PRC that has successfully used BME (nickel and copper), as opposed to NME (silver and palladium), to manufacture 0402 MLCC products.

- ***The Group offers MLCC products with competitive pricing***

The Group's MLCC products are mainly in competition with major overseas manufacturers. In terms of costs of production, the Group can maintain relatively low labor and overhead costs by setting up manufacturing bases in the PRC. Given the close proximity to the producers of consumer electronic with manufacturing bases in the PRC, the costs of transportation is therefore minimised. Hence, the Group can offer competitive pricing to its customers.

- ***The close proximity of the Group to the manufacturing base of consumer electronics companies enables the Group to provide timely and better services***

A majority of the producers of consumer electronic have their manufacturing base in the Pearl River Delta Region in China. The Group is located in Guangdong Province and is close to a large number of consumer electronic manufacturers. As such, the Group has been able to provide a more timely response to fulfill customers' needs and shorten the delivery time of customers' orders.

- ***The Group maintains strong research and development capabilities to continuously develop advanced MLCC products***

As at the Latest Practicable Date, the Group maintained a team of 90 members in its MLCC research and development department, among whom two researchers hold doctoral degrees in engineering. The research and development team engages mainly in MLCC product engineering including research in the application of new materials, refining production process and enhancement of functionality of MLCC products. The Group has co-operated with Tsinghua University in the research and development of MLCC products of high capacitance. The Directors believe that such co-operation enlarges the knowledge base and research and development strength of the Group, and allows the Group to access latest intelligence in MLCC development from the academic research area.

Mobile phone related business

- ***Sale of mobile phones to mobile phone distributors enables the Group to maintain a relatively low distribution cost***

During the Track Record Period, the Group sold mobile phones to mobile phone distributors that possess sales experience and distribution channel for their onward sales through their own sales network. During the Track Record Period, the Group sold mobile phones to 30, 36, 24 and 58 mobile phone distributors. As at the Latest Practicable Date, the mobile phone distributors covered over 20 provinces and cities in the PRC purchased the Group's mobile phone products for their respective onward sale. As such, the Group does not need to allocate substantial resources and efforts to develop its own distribution network but is able to leverage on the clientele and networks of these mobile phone distributors to increase the market coverage of the Group's mobile phones. The Directors consider that such strategy can help the Group to maintain low distribution costs, which in return increases the competitiveness of the Group's products.

- *The Group maintains an efficient product development cycle that enables it to respond to the fast changing mobile phone market*

The Group maintains a relatively short product development cycle for its mobile phones. Since the Group obtained the approval to produce mobile phones for its own brand in December 2005 and up to 30 September 2007, the Group had developed 35 mobile phones models for its own brand. The Directors believe that its short development cycle can increase the flexibility of the Group to better capture the ever changing tastes and preferences of customers and technology development in the mobile phone market.

HISTORY AND DEVELOPMENT

Business development

MLCC business

The MLCC business of the Group dated back to the establishment of Eyang Shenzhen in 2001 when the management of the Group recognised that the PRC would become the global manufacturing base for electronic products which, in turn, would attract significant demand for MLCC products. Since then, the development of MLCC business was led by Mr. Chen, a Controlling Shareholder, the chairman and an executive Director of the Company. Prior to joining Eyang Shenzhen in September 2001 as the general manager, Mr. Chen started his career in Konka Group Company Limited (“Konka”) in 1982, one of the major consumer electronics manufacturers in the PRC, and had worked for Konka for about 19 years. During his tenure at Konka, Mr. Chen was promoted to the position of managing director. As MLCC is one of the crucial components of many consumer electronics products, Mr. Chen, through his 19 years of working experience at Konka, has not only accumulated experience in the management of the manufacture, sales and distribution of consumer electronics products, but also realised the importance of MLCC to the consumer electronics products, such as mobile phones.

For the purpose of developing the MLCC business of the Group, Eyang Shenzhen, under the leadership and management of Mr. Chen, recruited several specialists in the field of MLCC into Eyang Shenzhen and started research and development of MLCC products, with focus on the manufacture of MLCC products by applying the BME technology. As a result, the Group successfully developed 0402 MLCC by using the BME technology (the “0402 BME MLCC”) in 2002, which subsequently passed the science and technology achievement appraisal in October 2002. 0402 is a size category generally used in the MLCC industry and is regarded as mini size among MLCC products. Details of MLCC products produced by the Group are set out in the subsection headed “Products” below. According to the Science and Technology Achievement Appraisal Certificate (科學技術成果鑒定證書) dated 24 October 2002 issued by the Shenzhen Bureau of Science and Technology (深圳市科學技術局, currently known as the Shenzhen Bureau of Technology and Information (深圳市科技和信息局)), which is the local administration authority of the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) and is the competent authority responsible for, including but not limited to, the technology development in Shenzhen, Eyang Shenzhen was accredited as the first PRC manufacturer successfully developed 0402 BME MLCC in the PRC.

Furthermore, the MLCC products developed by the Group was also accredited as a High-tech Industrialization Project of Shenzhen (深圳市高技術產業示範項目) by the Development and Reform Bureau of Shenzhen (深圳市發展和改革局) in 2003.

As 0402 BME MLCC was a new technology of the Group in 2002 and the Group's customers were still exploring and learning about the performance of the new product, the production volume of 0402 BME MLCC was relatively low in 2003 and 2004 compared to 2005. After two years of manufacturing and sale of 0402 BME MLCC, the production volume of 0402 BME MLCC of the Group increased significantly from approximately 501 million pieces in 2004 to approximately 1,516 million pieces in 2005, representing an increase in production volume of approximately 203%.

In addition, the Group's MLCC research and development team has worked closely with Tsinghua University in research and development of advanced MLCC technology, in particular, the project under the National High Technology Research and Development Program of the PRC (國家高技術研究發展項目) (commonly known as the "863 Project"). Pursuant to a project assignment agreement (課題任務合同書, the "Project Assignment") entered into, among others, the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) and Tsinghua University in January 2007, Eyang Shenzhen was invited to assist Tsinghua University in research and development of key production technologies and materials for MLCC with high capacitance and ultra-thin dielectric layer (大容量超薄層陶瓷電容器材料與器件的關鍵工藝技術). Details of which are set out in the subsection headed "Research and development" below.

Mobile phone related business

In view of the increasing popularity of mobile phones and the promising market potential of mobile phones in the PRC, it was always the Group's objective to manufacture and distribute mobile phones of its own brand and capture the growing business opportunities.

In order to accumulate experience in the manufacture and sale of mobile phones and their related products and lay down the foundation for mobile phone related business, the development of the Group's mobile phone related business has gone through several major stages, which included (i) minority equity investment in companies principally engaged in software and hardware design of mobile phones in 2002 to understand the general mobile phone market environment in the PRC; (ii) engaging in the manufacture, sales and trading of mobile phone components in 2003 to accumulate manufacturing experience and understand the market of mobile phone components; (iii) cooperating with a mobile phone manufacturer to produce and market mobile phones for that manufacturer's brand in the PRC in 2004; and (iv) obtaining the approval from NDRC to directly engage in the manufacture and distribution of mobile phone under the Group's own brand in and since December 2005.

In May 2002, the Group, through Eyang Shenzhen, together with four other initial shareholders of Jingwei, incorporated Jingwei to first engage in research and development of hardware and software design of mobile phones. At the time of incorporation of Jingwei, the Group invested in 22.02% of the registered capital of Jingwei. Further information regarding the background of other shareholders of Jingwei and the change of its shareholding structure are set out in the paragraph headed "Entities formerly forming a part of the Group during the Track Record Period" in this section.

Through the Group's investment in Jingwei, the Group gained an understanding in the general mobile phone market environment, particularly the market trend of mobile phone hardware and software design solutions in the PRC. Since 2003, for the purpose of accumulating its experience in the manufacture of mobile phones and related components, and understanding the market conditions, the Group, subsequent to the establishment of Jingwei, commenced the business of manufacture, sales and trading of mobile phone components. The mobile phone components manufactured and sold by the

Group were PCBAs, a PCB product to be installed inside a mobile phone on which relevant electronic components such as the chipset and the IC are assembled together according to the pre-designed electronic circuit, whereas the components sourced and sold by the Group include chipsets, microphones, casings, diodes, capacitors and ICs.

In addition to hardware and software designs, manufacture and sale and trading of components for mobile phones, the Group planned to acquire industrial experience in the manufacture of whole set mobile phones. As such, in August 2003, the Group, through Eyang Shenzhen, together with three other initial shareholders of Weike, incorporated Weike to engage in the manufacture and sale of mobile phones. At the time of incorporation of Weike, the Group invested in 15% of the registered capital of Weike. Further information, regarding the background of shareholders of Weike and the change of its shareholding structure are set out in the paragraph headed “Entities formerly forming a part of the Group during the Track Record Period” in this section.

With the experience in the mobile phone industry and a better understanding of its market conditions accumulated from the investment in Jingwei and Weike and through the participation in the manufacture, sale and trading of mobile phones components, the Group decided to set up its own operations to specialise in the manufacture and sale of mobile phones to fully capture the growth potentials of the mobile phone market in the PRC. Accordingly, on 24 March 2004, the Group incorporated a wholly-own subsidiary, Eycom, to directly enter into the mobile phone market. In June 2004, the Group began to set up its first production line for mobile phones.

Since the establishment of Eycom, the Group has been directly engaged in the manufacture of mobile phones. Despite that the NDRC had not granted approval to the Group to manufacture mobile phones under the Group’s own brand name at that time, the Group cooperated with a mobile phone manufacturer, an Independent Third Party who has been approved by the NDRC to manufacture and sell mobile phones under its own brand name, to produce, distribute and market mobile phones under the manufacturer’s own brand name in the PRC. Further information regarding the Mobile Phone Production Arrangement are set out in the paragraphs headed “Mobile phones — I. Mobile Phone Production Arrangement before 2006” and “Legal and regulatory” in this section.

In October 2004, the Group, through Eycom, with two initial shareholders established its then non-wholly owned subsidiary, Lingying, to provide hardware and software solutions for mobile phones. At the time of the incorporation of Lingying, the Group invested in 60% of the registered capital of Lingying. Further information regarding the background of shareholders of Lingying and the change of its shareholding structure are set out in the paragraph headed “Entities formerly forming a part of the Group during the Track Record Period” in this section.

As a result of the establishment of Eycom and Lingying, which were directly engaged in the mobile phone business, the Group decided to dispose of all of its equity interests in Jingwei and Weike in mid 2006. Details of the said disposals including the consideration and the basis thereof are set out in the paragraphs headed “Entities formerly forming a part the Group during the Track Record Period” in this section.

In early 2005, in order to enter into the mobile phone market under its own brand name, the Group decided to apply for approval from NDRC to engage in the manufacturing of mobile phones under the Group’s own brand name. The Group submitted an application to NDRC in July 2005. As the Group decided to concentrate and consolidate the Group’s resources on the development of mobile phones

under its own brand, particularly on the appearance design and the structural design to enhance the Group's brand awareness among the customers, the Group disposed all of its 60% equity interests of Lingying to an Independent Third Party on 15 December 2005. Details of the said disposal including the consideration and the basis thereof are set out in the paragraph headed "Entities formerly forming a part the Group during the Track Record Period" in this section.

On 16 December 2005, the Group successfully obtained an approval from NDRC which allowed the Group to manufacture mobile phones under its own brand name — "EY". Subsequently, the Group ceased the Mobile Phone Production Arrangement and has been focusing resources on the development of mobile phones under its own brand. Since then, during the Track Record Period, the Group's strategy for its the mobile phone business is to focus on customers with low purchasing power, such as the customers in rural market, who generally look for inexpensive mobile phones with common mobile phone functions.

Mobile phones produced by the Group were all sold to mobile phone distributors principally for further distribution in the PRC. Nevertheless, in addition to distributing the Group's mobile phones in the PRC, one local mobile phone distributor in 2006 and two mobile phone distributors in 2007, had overseas clientele as well. From time to time, these local distributors placed purchase orders to the Group and requested the Group to deliver the relevant mobile phone products to Hong Kong for their onward distribution. For the three years ended 31 December 2006 and the nine months ended 30 September 2007, the sale of mobile phones by the Group to the said distributors under the said arrangement amounted to approximately nil, nil, RMB17.4 million and RMB52.5 million, representing approximately nil, nil, 3.6% and 13.1% of the revenue generated from the sale of mobile phones by the Group during the corresponding period.

To further broaden revenue sources of the Group's mobile phone business, in May 2007, the Group entered into agreements with a Hong Kong distributor, an Independent Third Party, pursuant to which the mobile phone distributor purchased the mobile phones produced by the Group which contained the logo provided by such distributor. For the nine months ended 30 September 2007, the sale of the Group's mobile phones to such mobile phone distributor amounted to approximately RMB4.0 million, representing approximately 1.0% of the revenue generated from the sale of mobile phones by the Group during the corresponding period. As the sale amount of such mobile phone products did not contribute significantly to the Group's mobile phone business, and it was considered not operationally efficient to directly oversee such sale activities given the fact that most of sale of mobile phones was conducted in the PRC during the Track Record Period, the Group ceased the sale of these mobile phone products to the said mobile phone distributor as at the Latest Practicable Date.

Since 2004, the Group's mobile phone related business evolved from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones. Accordingly, the Group has allocated more resources to the manufacture and sale of mobile phones. As such, for the three years ended 31 December 2006, the revenue generated from the manufacture, sale and trading of mobile phone components was approximately RMB491.2 million, RMB67.8 million and RMB14.8 million respectively, representing a decrease of approximately 97.0% from approximately RMB491.2 million in 2004 to approximately RMB14.8 million in 2006, whereas the revenue generated from the manufacture and sale of mobile phones was approximately RMB51.9 million, RMB235.8 million and RMB484.4 million respectively, representing an increase of approximately 833.3% from approximately RMB51.9 million in 2004 to approximately RMB484.4 million in 2006.

As at the Latest Practicable Date, the Group has ceased its sale of mobile phone components to external customers. Nevertheless, the Group continues to manufacture mobile phone components, (i.e. PCBAs) and source other mobile phone components such as chipsets and ICs for the manufacture of the Group's own brand of mobile phones.

Since the Group has obtained the approval from NDRC for the manufacture of mobile phones in the PRC under its own brand in December 2005, the Group has focused on the development of mobile phones equipped with common mobile phone functions with a low pricing strategy targeted at customers with relatively lower purchasing power, such as customers in the rural market in the PRC. As such, the Group has cooperated with the subsidiaries of Infineon in the PRC to develop mobile phones with low production cost and entered into a set of agreements in April 2006. In February 2007, the Group entered into another set of agreements with the subsidiaries of Infineon in the PRC to further develop the mobile phones with low production cost ("ULC Cooperation"). By using the chipsets and basic hardware and software design solutions provided by Infineon under the ULC Cooperation, the electronic components required and the entire mobile phone size could be reduced and the production cost could also be minimised.

During the Track Record Period, the Group has developed about 35 models of mobile phones under its own brand name, "EY", which generally had a relatively lower indicative retail price ranging from approximately RMB339 to RMB1,980 per unit. During the Track Record Period, the average unit price of mobile phone sold under the Group's own brand name was approximately RMB390 per unit. The first mobile phone developed under the ULC Cooperation with product code of L378 was introduced to the market in September 2006. During the Track Record Period, out of the 35 models of the Group's brand of mobile phones, 13 models were developed and introduced to the market under the ULC Cooperation. Details of the ULC Cooperation are set out in the paragraph headed "Cooperation with Infineon" in this section.

Along with the growth of the Group's operation, and in order to improve the competitiveness of the Group's brand of mobile phones in the market, the Group successfully developed its first mobile phone model equipped with PDA functions in January 2007, which was launched in May 2007 with an indicative retail price of RMB899.

The Group's long-term objective is to become a major mobile phone manufacturer in the PRC. As such, the Group plans to expand its product mix of mobile phones to serve potential customers with relatively higher purchasing power, such as customers from the urban market in the PRC. For example, mobile phones equipped with more sophisticated functions such as 3G and the first mobile phone with PDA functions was launched in May 2007. In addition, the Group also plans to increase its mobile phone production capacity and allocate more resources to marketing and brand building to facilitate the expansion of the Group's mobile phone related business. Details of the future plans for the Group's mobile phone related business are set out in the paragraph headed "Mobile phones" under the "Future plans and use of proceeds" section of this prospectus.

Corporate development

I. Existing operating subsidiaries comprising the Group

I-1. Eyang Shenzhen

On 22 February 2001, Eyang Shenzhen, was established in the PRC as a limited liability company. At the time of its establishment, Eyang Shenzhen had a registered capital of RMB10 million.

The following table sets out the shareholding structure of Eyang Shenzhen as at the date of its establishment:

Shareholders	Capital contribution	Approximate percentage of equity interests
上海浦東美靈塑膠料製品廠 (Shanghai Pudong Meiling Plastic Factory, “Shanghai Meiling”) (Note 1)	RMB500,000	5.00%
Mr. Chen Wusheng (Note 1)	RMB250,000	2.50%
Mr. Luo Chaoen (Note 1)	RMB650,000	6.50%
Corporate Investors (Note 2)	RMB6,750,000	67.50%
Individual Investors (Note 3)	<u>RMB1,850,000</u>	<u>18.50%</u>
Total:	<u>RMB10,000,000</u>	<u>100%</u>

Notes:

- (1) These shareholders who subsequently became the members of the Concert Parties with Mr. Chen. Details of their background are set out in the paragraph headed “Concert Parties” below.
- (2) These Corporate Investors include 深圳市金潤實業發展有限公司 (Shenzhen Jinrun Industrial Development Co., Ltd.*), 珠海市盈達信有限公司 (Zhuhai Yingdaxin Co., Ltd.*), 東莞市鳳崗實業總公司 (Dongguan Fenggang Industrial Co., Ltd.* or “Dongguan Fenggang”), 太原彩星電器有限公司 (Taiyuan Caixing Electric Appliance Co., Ltd.*), 深圳市中商隆投資有限公司 (Shenzhen Zhongshanglong Investment Co., Ltd.*) and 深圳市勝旭實業發展有限公司 (Shenzhen Shengxu Industrial Development Co., Ltd.*, “Shenzhen Shengxu”), which had made capital contributions of RMB2,000,000, RMB1,250,000, RMB1,000,000, RMB1,000,000, RMB1,000,000 and RMB500,000, respectively, representing 20.0%, 12.5%, 10.0%, 10.0%, 10.0% and 5.0% of the equity interests, respectively, in Eyang Shenzhen.
- (3) These Individual Investors include Mr. Du Binxu, Mr. Lou Yimin, Mr. Qiu Jianmin and Mr. Ma Jianhui, who had made capital contributions of RMB1,000,000, RMB500,000, RMB250,000 and RMB100,000, respectively, representing 10.0%, 5.0%, 2.5% and 1.0% of the equity interests, respectively, in Eyang Shenzhen.

On 28 June 2001, Eyang Shenzhen established a branch office in Dongguan for the management and operation of the Group’s MLCC business.

On 31 December 2002, Shenzhen Jinrun Industrial Development Co., Ltd.* (深圳市金潤實業有限公司) (“Shenzhen Jinrun”) and Shenzhen Ruilian Investment Co., Ltd.* (深圳市瑞聯投資有限公司) (“Shenzhen Ruilian”) entered into an equity transfer agreement with Mr. Chen. Pursuant to the said equity transfer agreement, Shenzhen Jinrun transferred its 20% equity interests held in Eyang Shenzhen to Mr. Chen for a consideration of RMB2 million, and Shenzhen Ruilian transferred its 1.5% of equity interests held in Eyang Shenzhen to Mr. Chen for a consideration of RMB150,000. The consideration for these equity transfers were determined on an arm’s length basis with reference to the investment in the registered capital in Eyang Shenzhen, and Mr. Chen financed his purchase of these equity interests from his personal sources. Both Shenzhen Jinrun and Shenzhen Ruilian sold their respective equity interests in Eyang Shenzhen in order to satisfy their own capital needs.

On 31 December 2002, Zhuhai Yingdaxin Co., Ltd.* (珠海市盈達信有限公司) (“Yingdaxin”) entered into an equity transfer agreement with Shenzhen Chuangce Investment Development Co., Ltd.* (深圳市創策投資發展有限公司) (“Chuangce Investment”). Pursuant to the said equity transfer agreement, Yingdaxin transferred its 12.5% equity interests held in Eyang Shenzhen to Chuangce Investment for a consideration of RMB1.25 million. The consideration for these equity interests was equivalent to the amount of investment made by Yingdaxin and Chuangce Investment, and Chuangce Investment financed its purchase of these equity interests from its own sources. Mr. Zhou Penghong was a major shareholder of Yingdaxin and Chuangce Investment and the said transfer occurred as result of his restructuring of his shareholding.

On 7 January 2003, Mr. Qiu Jianmin entered into an equity transfer agreement with 深圳市得潤電子股份有限公司 (Shenzhen Deren Electronic Co., Ltd.*, or “Shenzhen Deren”), a company of which Mr. Qiu Jianmin is a controlling shareholder, pursuant to which all 2.5% of equity interests held by Mr. Qiu Jianmin in Eyang Shenzhen was transferred to Shenzhen Deren for a consideration of RMB250,000. Such consideration was determined with reference to Mr. Qiu Jianmin’s then investment in the registered capital in Eyang Shenzhen. The purchase of the said equity interests was financed by Shenzhen Deren’s own sources and carried out to restructure Mr. Qiu Jianmin’s investment holding.

BUSINESS

The above transfers by Shenzhen Jinrun Industrial Development Co., Ltd., Shenzhen Ruilian Investment Co., Ltd, Zhuhai Yingdaxin Co., Ltd and Mr. Qiu Jianmin had been registered with Shenzhen Administration for Industry and Commerce (深圳市工商行政管理局) on 13 January 2003. Immediately after the above transfers, the shareholding structure of Eyang Shenzhen was as follows:

Shareholders	Capital contribution (RMB)	Approximate percentage of equity interests
<i>Concert Parties and Mr. Chen:</i>		
Mr. Chen	2,150,000	21.50%
<i>Concert Parties:</i>		
Chuangce Investment	1,250,000	12.50%
Shanghai Meiling	500,000	5.00%
Mr. Cheng Wusheng	250,000	2.50%
Mr. Luo Chaoen	650,000	6.50%
<i>Sub-total of Concert Parties:</i>	<u>2,650,000</u>	<u>26.50%</u>
<i>Total for Concert Parties and Mr. Chen:</i>	<u>4,800,000</u>	<u>48.00%</u>
Corporate Investors (Note 1)	3,600,000	36.00%
Individual Investors (Note 2)	1,600,000	16.00%
Total:	<u>10,000,000</u>	<u>100%</u>

Notes:

- (1) These Corporate Investors include Shenzhen Deren, Dongguan Fenggang, 太原彩星電器有限公司 (Taiyuan Caixing Electric Appliance Co., Ltd.*), 深圳市瑞聯投資有限公司 (Shenzhen Ruilian Investment Co., Ltd.*) (formerly known as 深圳市中商隆投資有限公司 (Shenzhen Zhongshanglong Investment Co., Ltd.*)) and Shenzhen Shengxu, which had made capital contributions of RMB250,000, RMB1,000,000, RMB1,000,000, RMB850,000 and RMB500,000, respectively, representing 2.5%, 10.0%, 10.0%, 8.5% and 5.0% of the equity interests, respectively, in Eyang Shenzhen.
- (2) These Individual Investors include Mr. Du Binxu, Mr. Lou Yimin and Mr. Ma Jianhui, who had made capital contributions of RMB1,000,000, RMB500,000 and RMB100,000, respectively, representing 10.0%, 5.0% and 1.0% of the equity interests, respectively, in Eyang Shenzhen.

BUSINESS

In January 2003, Eyang Shenzhen raised a total of RMB92.82 million to enlarge its registered capital from RMB10 million to RMB102.82 million for the expansion of its business operations. Several new shareholders, namely Shenzhen Yinrun, Mr. Liao Jie, Mr. Zheng Jinshun, Mr. Zhou Pengying and Mr. Chen Jijin, were introduced to Eyang Shenzhen. The following table sets out the shareholding structure of Eyang Shenzhen as at 10 April 2003 after completion of the said fund-raising:

Shareholders	Capital contribution (RMB)	Approximate percentage of equity interests
<i>Concert Parties and Mr. Chen:</i>		
Mr. Chen	10,410,000	10.12%
Shenzhen Yinrun (Note 1)	<u>10,000,000</u>	<u>9.73%</u>
<i>Sub-total:</i>	<u>20,410,000</u>	<u>19.85%</u>
<i>Concert Parties:</i>		
Chuangce Investment	4,250,000	4.13%
Shanghai Meiling	10,000,000	9.73%
Mr. Liao Jie	3,100,000	3.02%
Mr. Cheng Wusheng	7,000,000	6.81%
Mr. Luo Chaoen	<u>5,500,000</u>	<u>5.35%</u>
<i>Sub-total of Concert Parties (excluding Shenzhen Yinrun):</i>	<u>29,850,000</u>	<u>29.03%</u>
<i>Total for Concert Parties and Mr. Chen:</i>	<u>50,260,000</u>	<u>48.88%</u>
Corporate Investors (Note 2)	37,000,000	35.99%
Individual Investors (Note 3)	<u>15,560,000</u>	<u>15.13%</u>
Total:	<u><u>102,820,000</u></u>	<u><u>100%</u></u>

Notes:

- (1) Shenzhen Yinrun was a company beneficially owned by Mr. Chen as to 80.36% and Ms. Luo Zhanli as to 19.64%. Shenzhen Yinrun is a member of the Concert Parties. Details of Shenzhen Yinrun are set out in the paragraphs headed “Concert Parties” and “Shenzhen Yinrun” in this section.
- (2) These Corporate Investors include Shenzhen Deren, Dongguan Fenggang, 太原彩星電器有限公司 (Taiyuan Caixing Electric Appliance Co., Ltd.), 深圳市瑞聯投資有限公司 (Shenzhen Ruilian Investment Co., Ltd.) (formerly known as 深圳市中商隆投資有限公司 (Shenzhen Zhongshanglong Investment Co., Ltd.)) and Shenzhen Shengxu, which had made capital contributions of RMB6,000,000, RMB18,000,000, RMB9,600,000, RMB850,000 and RMB2,550,000, respectively, representing 5.83%, 17.51%, 9.34%, 0.83% and 2.48% of the equity interests, respectively, in Eyang Shenzhen.

BUSINESS

- (3) These Individual Investors include Mr. Zheng Jinshun, Mr. Zhou Pengying, Mr. Chen Jijin, Mr. Du Binxu, Mr. Lou Yimin and Mr. Ma Jianhui, who had made capital contributions of RMB5,000,000, RMB4,250,000, RMB1,500,000, RMB2,460,000, RMB1,500,000 and RMB850,000, respectively, representing 4.86%, 4.13%, 1.46%, 2.39%, 1.46% and 0.83% of the equity interests, respectively, in Eyang Shenzhen.

In November 2003, Eyang Shenzhen further raised a total of RMB13.71 million to enlarge its registered capital for the expansion of its business operations and to cope with the higher production requirement. A new shareholder, 聯想投資有限公司 (Legend Investment Co., Ltd., or “Legend Investment”) was introduced to Eyang Shenzhen. Legend Investment was introduced as a Corporate Investor of Eyang Shenzhen also due to its connection in the industry which may assist Eyang Shenzhen to expand its sales network.

The following table sets out the shareholding structure of Eyang Shenzhen as at 4 December 2003 after completion of the said fund raising:

Shareholders	Capital contribution (RMB)	Approximate percentage of equity interests
<i>Concert Parties and Mr. Chen:</i>		
Mr. Chen	12,467,000	10.70%
Shenzhen Yinrun (Note 1)	<u>10,000,000</u>	<u>8.58%</u>
<i>Sub-total:</i>	<u>22,467,000</u>	<u>19.28%</u>
<i>Concert Parties:</i>		
Chuangce Investment	4,250,000	3.65%
Shanghai Meiling	10,000,000	8.58%
Mr. Liao Jie	3,100,000	2.66%
Mr. Cheng Wusheng	7,000,000	6.01%
Mr. Luo Chaoen	<u>5,500,000</u>	<u>4.72%</u>
<i>Sub-total of Concert Parties (excluding Shenzhen Yinrun):</i>	<u>29,850,000</u>	<u>25.62%</u>
<i>Total for Concert Parties and Mr. Chen:</i>	<u>52,317,000</u>	<u>44.90%</u>
Corporate Investors (Note 2)	48,653,000	41.75%
Individual Investors (Note 3)	<u>15,560,000</u>	<u>13.35%</u>
Total:	<u>116,530,000</u>	<u>100%</u>

Notes:

- (1) Shenzhen Yinrun was a company beneficially owned by Mr. Chen as to 80.36% and Ms. Luo Zhanli as to 19.64%. Shenzhen Yinrun is a member of the Concert Parties. Details of Shenzhen Yinrun are set out in the paragraphs headed “Concert Parties” and “Shenzhen Yinrun” in this section.

- (2) These Corporate Investors include Legend Investment, Shenzhen Deren, Dongguan Fenggang, 太原彩星電器有限公司 (Taiyuan Caixing Electric Appliance Co., Ltd.), 深圳市瑞聯投資有限公司 (Shenzhen Ruilian Investment Co., Ltd.) (formerly known as 深圳市中商隆投資有限公司 (Shenzhen Zhongshanglong Investment Co., Ltd.)) and Shenzhen Shengxu, which had made capital contributions of RMB11,653,000, RMB6,000,000, RMB18,000,000, RMB9,600,000, RMB850,000 and RMB2,550,000, respectively, representing 10%, 5.15%, 15.45%, 8.24%, 0.73% and 2.19% of the equity interests, respectively, in Eyang Shenzhen.
- (3) These Individual Investors include Mr. Zheng Jinshun, Mr. Zhou Pengying, Mr. Chen Jijin, Mr. Du Binxu, Mr. Lou Yimin and Mr. Ma Jianhui, who had made capital contributions of RMB5,000,000, RMB4,250,000, RMB1,500,000, RMB2,460,000, RMB1,500,000 and RMB850,000, respectively, representing 4.29%, 3.64%, 1.29%, 2.11%, 1.28% and 0.73% of the equity interests, respectively, in Eyang Shenzhen.

On 16 December 2003, 太原彩星電器有限公司 (Taiyuan Caixing Electric Appliance Co., Ltd., or “Taiyuan Caixing”) entered into an equity transfer agreement with Shenzhen Yinrun, pursuant to which Taiyuan Caixing transferred its 8.24% equity interests held in Eyang Shenzhen to Shenzhen Yinrun for a consideration of RMB10.16 million. The consideration for this equity transfer was determined on an arm’s length basis with reference to the investment in the registered capital in Eyang Shenzhen, and Shenzhen Yinrun financed its purchase of these equity interests from its own sources. Taiyuan Caixing sold its equity interests in Eyang Shenzhen in order to satisfy its own capital needs.

On 19 December 2003, 深圳市瑞聯投資有限公司 (Shenzhen Ruilian Investment Co., Ltd., or “Shenzhen Ruilian”) entered into equity transfer agreement with Shenzhen Yinrun, pursuant to which Shenzhen Ruilian transferred its 0.73% equity interests held in Eyang Shenzhen to Shenzhen Yinrun for a consideration of RMB500,000. The consideration for this equity transfer was determined on an arm’s length basis with reference to the investment in the registered capital in Eyang Shenzhen, and Shenzhen Yinrun financed its purchase of these equity interests from its own sources. Shenzhen Ruilian sold its equity interests in Eyang Shenzhen in order to reallocate its own investment capital which was triggered by its change of investment focus.

BUSINESS

Immediately after the above transfers, the shareholding structure of Eyang Shenzhen was as follows:

Shareholders	Capital contribution (RMB)	Approximate percentage of equity interests
<i>Concert Parties and Mr. Chen:</i>		
Mr. Chen	12,467,000	10.70%
Shenzhen Yinrun (Note 1)	<u>20,450,000</u>	<u>17.55%</u>
<i>Sub-total:</i>	<u>32,917,000</u>	<u>28.25%</u>
<i>Concert Parties:</i>		
Chuangce Investment	4,250,000	3.65%
Shanghai Meiling	10,000,000	8.58%
Mr. Liao Jie	3,100,000	2.66%
Mr. Cheng Wusheng	7,000,000	6.00%
Mr. Luo Chaoen	<u>5,500,000</u>	<u>4.72%</u>
<i>Sub-total of Concert Parties (excluding Shenzhen Yinrun):</i>	<u>29,850,000</u>	<u>25.61%</u>
<i>Total for Concert Parties and Mr. Chen:</i>	<u>62,767,000</u>	<u>53.86%</u>
Corporate Investors (Note 2)	38,203,000	32.79%
Individual Investors (Note 3)	<u>15,560,000</u>	<u>13.35%</u>
Total:	<u><u>116,530,000</u></u>	<u><u>100%</u></u>

Notes:

- (1) Shenzhen Yinrun has been a company beneficially owned by Mr. Chen as to 80.36% and Ms. Luo Zhanli as to 19.64%. Shenzhen Yinrun is a member of the Concert Parties. Details of Shenzhen Yinrun are set out in the paragraphs headed “Concert Parties” and “Shenzhen Yinrun” in this section.
- (2) These Corporate Investors include Legend Investment, Shenzhen Deren, Dongguan Fenggang and Shenzhen Shengxu, which had made capital contributions of RMB11,653,000, RMB6,000,000, RMB18,000,000 and RMB2,550,000, respectively, representing 10%, 5.15%, 15.45% and 2.19% of the equity interests, respectively, in Eyang Shenzhen.
- (3) These Individual Investors include Mr. Zheng Jinshun, Mr. Zhou Pengying, Mr. Chen Jijin, Mr. Du Binxu, Mr. Lou Yimin and Mr. Ma Jianhui, who had made capital contributions of RMB5,000,000, RMB4,250,000, RMB1,500,000, RMB2,460,000, RMB1,500,000 and RMB850,000, respectively, representing 4.29%, 3.65%, 1.29%, 2.11%, 1.29% and 0.73% of the equity interests, respectively, in Eyang Shenzhen.

Immediately after the above transfers, Mr. Chen and the Concert Parties became the majority owner of Eyang Shenzhen and held approximately 53.86% of its equity interests.

On 30 November 2004, Chuangce Investment entered into an equity transfer agreement with Mr. Zhou Penghong, pursuant to which all 3.65% equity interests held by Chuangce Investment in Eyang Shenzhen were transferred to Mr. Zhou Penghong for a consideration of RMB4,250,000. Such consideration was determined with reference to Chuangce Investment's investment in the registered capital in Eyang Shenzhen. The purchase of the said equity interests was financed by Mr. Zhou Penghong's own sources. Mr. Zhou Penghong is a major shareholder of Chuangce Investment and the said transfer occurred as a result of his restructuring of his shareholding.

On 12 and 26 January 2005, Mr. Du Binxu and Mr. Lou Yimin entered into equity transfer agreements with Ms. Shuang Mei, respectively, pursuant to which they transferred their respective 2.11% and 1.29% equity interests held in Eyang Shenzhen to Ms. Shuang Mei for a consideration of RMB2.46 million and RMB1.5 million, respectively. Such considerations were determined with reference to their respective investment in the registered capital in Eyang Shenzhen. The purchase of the said equity interests was financed by Ms. Shuang Mei's own sources. Mr. Du Binxu and Mr. Lou Yimin originally invested in Eyang Shenzhen to support its initial development and decided to withdraw their investment in Eyang Shenzhen to pursue other business investment.

On 16 May 2005, Dongguan Fenggang entered into an equity transfer agreement with Mr. Li Heqiu, pursuant to which all 15.45% equity interests held by Dongguan Fenggang in Eyang Shenzhen were transferred to Mr. Li Heqiu for a consideration of RMB28,000,000. Such consideration was determined on an arm's length basis with reference to Dongguan Fenggang's investment in the registered capital in Eyang Shenzhen. The purchase of the said equity interests was financed by Mr. Li Heqiu's own sources.

On or around 16 June 2005, Shanghai Meiling entered into an equity transfer agreement with Mr. Zhang Zhilin, a shareholder of Shanghai Meiling, pursuant to which all 8.58% equity interests held by Shanghai Meiling in Eyang Shenzhen were transferred to Mr. Zhang for a consideration of RMB10,000,000. Such consideration was determined with reference to Shanghai Meiling's investment in the registered capital in Eyang Shenzhen. The purchase of the said equity interests was financed by Mr. Zhang Zhilin's own sources. Mr. Zhang Zhilin was one of the shareholders of Shanghai Meiling and the said transfer occurred as a result of his restructuring of his shareholding.

BUSINESS

The above transfers had been registered with Shenzhen Administration for Industry and Commerce (深圳市工商行政管理局) on 16 June 2005. The equity transfers by Chuangce Investment, Mr. Du Binxu, Mr. Lou Yimin, Dongguan Fenggang and Shanghai Meiling were submitted to Shenzhen Administration for Industry and Commerce for registration at the same time to ease administrative burden on the Company. Immediately after the above transfers, the shareholding structure of Eyang Shenzhen was as follows:

Shareholders	Capital contribution (RMB)	Approximate percentage of equity interests
<i>Concert Parties and Mr. Chen:</i>		
Mr. Chen	12,467,000	10.70%
Shenzhen Yinrun (Note 1)	<u>20,450,000</u>	<u>17.55%</u>
<i>Sub-total:</i>	<u>32,917,000</u>	<u>28.25%</u>
<i>Concert Parties:</i>		
Ms. Shuang Mei	3,960,000	3.40%
Mr. Zhang Zhilin	4,250,000	3.65%
Mr. Zhou Penghong	10,000,000	8.58%
Mr. Liao Jie	3,100,000	2.66%
Mr. Cheng Wusheng	7,000,000	6.01%
Mr. Luo Chaoen	<u>5,500,000</u>	<u>4.72%</u>
<i>Sub-total of Concert Parties (excluding Shenzhen Yinrun):</i>	<u>33,810,000</u>	<u>29.01%</u>
<i>Total for Concert Parties and Mr. Chen:</i>	<u>66,727,000</u>	<u>57.26%</u>
Corporate Investors (Note 2)	20,203,000	17.34%
Individual Investors (Note 3)	<u>29,600,000</u>	<u>25.40%</u>
Total:	<u><u>116,530,000</u></u>	<u><u>100%</u></u>

Notes:

- (1) Shenzhen Yinrun has been a company beneficially owned by Mr. Chen as to 80.36% and Ms. Luo Zhanli as to 19.64%. Shenzhen Yinrun is a member of the Concert Parties. Details of Shenzhen Yinrun are set out in the paragraphs headed “Concert Parties” and “Shenzhen Yinrun” in this section.
- (2) These Corporate Investors include Legend Investment, Shenzhen Deren and Shenzhen Shengxu, which had made capital contributions of RMB11,653,000, RMB6,000,000 and RMB2,550,000, respectively, representing 10%, 5.15%, and 2.19% of the equity interests, respectively, in Eyang Shenzhen.
- (3) These Individual Investors include Mr. Li Heqiu, Mr. Zheng Jinshun, Mr. Zhou Pengying, Mr. Chen Jijin and Mr. Ma Jianhui, who had made capital contributions of RMB18,000,000, RMB5,000,000, RMB4,250,000, RMB1,500,000 and RMB850,000, respectively, representing 15.45%, 4.29%, 3.65%, 1.29% and 0.73% of the equity interests, respectively, in Eyang Shenzhen.

BUSINESS

In August 2005, Eyang Shenzhen raised a total of RMB54.9 million and RMB28.58 million to enlarge its registered capital from RMB116.53 million to RMB200.01 million for the further expansion of its business operations. The following table sets out the shareholding structure of Eyang Shenzhen after completion of the said fund raising:

Shareholders	Capital contribution (RMB)	Approximate percentage of equity interests
<i>Concert Parties and Mr. Chen:</i>		
Mr. Chen	12,467,000	6.23%
Shenzhen Yinrun (Note 1)	103,930,000	51.96%
<i>Sub-total:</i>	116,397,000	58.19%
<i>Concert Parties:</i>		
Ms. Shuang Mei	3,960,000	1.98%
Mr. Zhang Zhilin	10,000,000	5.00%
Mr. Zhou Penghong	4,250,000	2.12%
Mr. Liao Jie	3,100,000	1.55%
Mr. Cheng Wusheng	7,000,000	3.50%
Mr. Luo Chaoen	5,500,000	2.75%
<i>Sub-total of Concert Parties (excluding Shenzhen Yinrun):</i>	33,810,000	16.90%
<i>Total for Concert Parties and Mr. Chen:</i>	150,207,000	75.09%
Corporate Investors (Note 2)	20,203,000	10.10%
Individual Investors (Note 3)	29,600,000	14.80%
Total:	200,010,000	100.0%

Notes:

- (1) Shenzhen Yinrun was a company beneficially owned by Mr. Chen as to 80.36% and Ms. Luo Zhanli as to 19.64%. Shenzhen Yinrun is a member of the Concert Parties. Details of Shenzhen Yinrun are set out in the paragraphs headed “Concert Parties” and “Shenzhen Yinrun” in this section.
- (2) These Corporate Investors include Legend Investment, Shenzhen Deren and Shenzhen Shengxu, which had made capital contributions of RMB11,653,000, RMB6,000,000 and RMB2,550,000, respectively, representing 5.83%, 3.00% and 1.27% of the equity interests, respectively, in Eyang Shenzhen.
- (3) These Individual Investors include Mr. Li Heqiu, Mr. Zheng Jinshun, Mr. Zhou Pengying, Mr. Chen Jijin and Mr. Ma Jianhui, who had made capital contributions of RMB18,000,000, RMB5,000,000, RMB4,250,000, RMB1,500,000 and RMB850,000, respectively, representing 9.00%, 2.50%, 2.12%, 0.75% and 0.42% of the equity interests, respectively, in Eyang Shenzhen.

On 20 July 2006, Shenzhen Deren and Mr. Li Heqiu entered into equity transfer agreements with Shenzhen Yinrun, respectively, pursuant to which they transferred their respective 3.00% and 2.07% equity interests held in Eyang Shenzhen to Shenzhen Yinrun for a consideration of RMB9.1 million and RMB4.1 million, respectively. Such considerations were determined after arm's length negotiation and with reference to their respective investment in the registered capital in Eyang Shenzhen. The purchase of the said equity interests was financed by Shenzhen Yinrun's own sources. Shenzhen Deren and Mr. Li Heqiu withdrew their investment in Eyang Shenzhen in order to utilise their own investment capital to pursue other business investment.

On 20 July 2006, Mr. Chen Jijin and Mr. Ma Jianhui entered into equity transfer agreements with Mr. Chen, respectively, pursuant to which Mr. Chen Jijin and Mr. Ma Jianhui transferred their respective 0.75% and 0.42% equity interests held in Eyang Shenzhen to Mr. Chen for a consideration of RMB1.5 million and RMB850,000 respectively. Such considerations were determined after arm's length negotiation and with reference to their respective investment in the registered capital of Eyang Shenzhen. The purchase of the said equity interests was financed by Mr. Chen's own sources. Both Mr. Chen Jijin and Mr. Ma Jianhui sold their respective equity interests in Eyang Shenzhen in order to satisfy their own capital needs.

On 20 July 2006, Shenzhen Yinrun entered into equity transfer agreements with Legend Investment, Shenzhen Shengxu, Mr. Zhang Zhilin, Mr. Cheng Wusheng, Mr. Zhou Penghong, Mr. Zhou Pengying, Mr. Chen, Mr. Luo Chaoen, Mr. Zheng Jinshun, Mr. Liao Jie and Ms. Shuang Mei (together the "Then Existing Shareholders"), respectively, pursuant to which, Shenzhen Yinrun disposed of 3.15%, 0.69%, 2.70%, 1.89%, 1.15%, 1.15%, 3.37%, 1.49%, 1.35%, 0.84% and 1.07% equity interests held in Eyang Shenzhen to each of the said transferees for a consideration of approximately RMB4.1 million, RMB0.9 million, RMB3.5 million, RMB2.5 million, RMB1.5 million, RMB1.5 million, RMB4.4 million, RMB1.9 million, RMB1.8 million, RMB1.1 million and RMB1.4 million, respectively. Such considerations were determined after arm's length negotiation and with reference to Shenzhen Yinrun's investment in the registered capital of Eyang Shenzhen. The purchase of the said equity interests was financed by each of the said transferees' own sources. Each of the said transferees was an existing shareholder of Eyang Shenzhen. Shenzhen Yinrun at that time would like to dispose of a portion of its equity interests in Eyang Shenzhen to raise funds for other business purposes, while keeping the equity interests in Eyang Shenzhen with the same group of shareholders. It therefore sold its equity interests held in Eyang Shenzhen to the Then Existing Shareholders.

BUSINESS

The above transfers were registered with Shenzhen Administration for Industry and Commerce on 31 July 2006. Immediately after the above transfers, the shareholding structure of Eyang Shenzhen was as follows:

Shareholders	Capital contribution (RMB)	Approximate percentage of equity interests
<i>Concert Parties and Mr. Chen:</i>		
Mr. Chen	21,553,116	10.78%
Shenzhen Yinrun (Note 1)	<u>76,390,942</u>	<u>38.19%</u>
<i>Sub-total:</i>	<u>97,944,058</u>	<u>48.97%</u>
<i>Concert Parties:</i>		
Ms. Shuang Mei	6,099,650	3.05%
Mr. Zhang Zhilin	15,403,157	7.70%
Mr. Zhou Penghong	6,546,342	3.27%
Mr. Liao Jie	4,774,979	2.39%
Mr. Cheng Wusheng	10,782,210	5.39%
Mr. Luo Chaoen	<u>8,471,737</u>	<u>4.24%</u>
<i>Sub-total of Concert Parties (excluding Shenzhen Yinrun):</i>	<u>52,078,075</u>	<u>26.04%</u>
<i>Total for Concert Parties and Mr. Chen:</i>	<u>150,022,133</u>	<u>75.01%</u>
Corporate Investors (Note 2)	21,877,104	10.94%
Individual Investors (Note 3)	<u>28,110,763</u>	<u>14.05%</u>
Total:	<u>200,010,000</u>	<u>100.0%</u>

Notes:

- (1) Shenzhen Yinrun was a company beneficially owned by Mr. Chen as to 80.36% and Ms. Luo Zhanli as to 19.64%. Shenzhen Yinrun is a member of the Concert Parties. Details of Shenzhen Yinrun are set out in the paragraphs headed “Concert Parties” and “Shenzhen Yinrun” in this section.
- (2) These Corporate Investors include Legend Investment and Shenzhen Shengxu, which had made capital contributions of RMB17,949,299 and RMB3,927,805, respectively, representing 8.97% and 1.96% of the equity interests, respectively, in Eyang Shenzhen.
- (3) These Individual Investors include Mr. Li Heqiu, Mr. Zheng Jinshun and Mr. Zhou Pengying, who had made capital contributions of RMB13,862,842, RMB7,701,579 and RMB6,546,342, respectively, representing 6.93%, 3.85% and 3.27% of the equity interests, respectively, in Eyang Shenzhen.

On 11 August 2006 and as part of the Reorganisation, all the shareholders of Eyang Shenzhen had entered into an equity transfer agreement with Hong Kong Eyang, details of which are set out in the sub-section headed “Existing corporate structure of the Group” in this section.

The Group’s PRC legal advisers, has confirmed that all the above transfers in the equity interests of Eyang Shenzhen are valid and enforceable under the relevant PRC laws and regulations.

Concert Parties

During the Track Record Period, the Concert Parties comprised Shenzhen Yinrun, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Liao Jie, Mr. Cheng Wusheng, Mr. Luo Chaoen, Chuangce Investment and Shanghai Meiling. Since Mr. Chen, who had worked in Konka (one of the major consumer electronics manufacturers in the PRC) for about 19 years and being the former managing director of Konka, has profound experience in the management, sales production and distribution of consumer electronic products, the Concert Parties have confidence in Mr. Chen’s ability and business acumen to manage Eyang Shenzhen and its subsidiaries and to bring commercial benefit for their investment in Eyang Shenzhen. As such, each of the Concert Parties entered into a concert party agreement with Mr. Chen when it became a shareholder of Eyang Shenzhen and agreed to vote in accordance with Mr. Chen’s direction in the shareholder meetings and board meetings on any material business issues as further set out below.

Among the Concert Parties, each of Mr. Cheng Wusheng, Mr. Luo Chaoen, Chuangce Investment and Shanghai Meiling entered into a concert party agreement with Mr. Chen on 1 January 2003. Mr. Liao Jie entered into a concert party agreement with Mr. Chen on 1 April 2003. Shenzhen Yinrun entered into a concert party agreement with Mr. Chen on 10 April 2003. Each of Ms. Shuang Mei, Mr. Zhang Zhilin and Mr. Zhou Penghong entered into a concert party agreement with Mr. Chen on 16 June 2005. The concert party agreements contain the following major terms:

- Each of the Concert Parties agreed to procure and warrant that any representative attending the shareholders and board meetings on their behalf shall vote in accordance with Mr. Chen’s directions.
- The Concert Parties’ rights to receive dividends and other shareholders’ rights shall not be affected.
- The agreement may be terminated upon the mutual consent of both parties.

According to the PRC legal advisers to the Company, the concert party agreements entered into between each of the Concert Parties with Mr. Chen are legally binding and enforceable. As such, the concert party agreements are legal contractual arrangements between Mr. Chen and the Concert Parties.

BUSINESS

Pursuant to the concert party agreements, the Concert Parties agreed to exercise their voting rights in accordance with Mr. Chen's directions, with a view to exercise their voting rights on a consensual basis in relation to any material matters to be decided by the shareholders and the directors of Eyang Shenzhen which includes the following:

- Investment in new projects;
- Investment in any entity outside of the Group; and
- Application for new licenses relating to the business operation of the Group.

Mr. Chen would discuss with the Concert Parties prior to voting on any resolutions relating to the above and it is noted that the votes of the Concert Parties and Mr. Chen were unanimous at all shareholders and board meetings of Eyang Shenzhen throughout the Track Record Period. Through these concert party agreements and based on the unanimous voting results as demonstrated in all shareholders and board meetings as mentioned above, it is considered that Mr. Chen and the Concert Parties collectively have power to govern the financial and operating policies of the Group.

None of the concert party agreements had been terminated during the Track Record Period and as at the Latest Practicable Date. Under the terms of these concert party agreements, none of the Concert Parties may terminate the concert party agreements unilaterally and without Mr. Chen's consent. The PRC legal advisers of the Group confirmed that all the concert party agreements are legally binding on the Concert Parties and Mr. Chen.

Mr. Chen had never given any benefits or fees to members of the Concert Parties in relation to the concert party agreements.

During the Track Record Period, apart from Ms. Shuang Mei (*note 2*), Mr. Zhang Zhilin (*note 3*), Mr. Liao Jie (*note 5*), and Mr. Cheng Wusheng (*note 6*), the Directors confirm that none of the other members of the Concert Parties had maintained any role nor been involved in the management of the business of the Group.

As at the Latest Practicable Date, apart from the information as set out in notes 1 to 9 below, the Directors confirm that none of the Concert Parties had any other past or present relationship with the Directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates.

As at the Latest Practicable Date, the Directors confirm that none of Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Liao Jie, Mr. Cheng Wusheng and Mr. Luo Chaoen was engaged in the business which would compete with the Group's principal business. Given that Shenzhen Yinrun and Chuangce Investment are investment holding companies which do not carry on any business, and Shanghai Meiling manufactures plastic products for home electronic appliances, such as televisions and refrigerators, none of the principal business of the Concert Parties would compete with the Group's principal businesses.

During the Track Record Period, two of the Concert Parties, namely, Shenzhen Yinrun and Mr. Cheng Wusheng, had transactions with the Group, details of which are set out as follows:

1. in 2005, the Group advanced approximately RMB70.2 million to Yinrun, which was interest-free and had no fixed terms of repayment. Yinrun repaid the full amount to the Group in July 2006.
2. for each of the three years ended 31 December 2006, the Group paid sales commission of approximately RMB0.4 million, RMB1.1 million and RMB0.6 million to Mr. Cheng Wusheng respectively because Mr. Cheng had successfully introduced several new MLCC customers to the Group during the period.

Notes:

(1) *Shenzhen Yinrun*

As at the Latest Practicable Date, Shenzhen Yinrun had over 5 years of relationship with Mr. Chen. Details of which are as follows:

- owned as to 51% by Mr. Chen and 49% by Eyang Shenzhen from the date of its establishment on 12 September 2002 to 31 December 2002
- owned as to 80.36% by Mr. Chen and 19.64% by Luo Zhanli since 23 January 2003

(2) *Ms. Shuang Mei*

As at the Latest Practicable Date, Ms. Shuang Mei had over 6 years of relationship with Mr. Chen as follows:

- executive director of the Company
- ultimate shareholder of the Company
- Mr. Chen's subordinate since 2001
- secretary to the board of directors of Eyang Shenzhen from 4 February 2001 to 11 September 2004
- director and legal representative of Shenzhen Yinrun, a member of the Concert Parties, from 31 March 2003 to 29 March 2005
- shareholder of Eyang HK from 4 March 2005 to 23 April 2007
- supervisor of Shenzhen Yinrun since 29 March 2005
- general manager of general management division of Eyang Shenzhen from 16 February 2001 to 6 February 2004
- general manager of MLCC division of Eyang Shenzhen from 6 February 2004 to 4 August 2005
- general manager of mobile phone division of Eyang Shenzhen since 5 August 2005
- vice president of Eyang Shenzhen since 22 November 2004
- director of Eyang Shenzhen since 10 August 2005, during which she acted as a chairlady of the board of directors of Eyang Shenzhen from 10 August 2005 to 21 August 2005

- director of Eyang HK, Hong Kong Eyang and Eyang Management

(3) *Mr. Zhang Zhilin*

As at the Latest Practicable Date, Mr. Zhang Zhilin had over 10 years of relationship with Mr. Chen as follows:

- non-executive director of the Company
- ultimate shareholder of the Company
- Mr. Chen's friend for over 10 years
- shareholder of Shanghai Meiling, a member of the Concert Parties, since 30 May 1998
- director of Eyang Shenzhen since 10 April 2003

(4) *Mr. Zhou Penghong*

As at the Latest Practicable Date, Mr. Zhou Penghong had over 6 years of relationship with Mr. Chen as follows:

- ultimate shareholder of the Company
- shareholder of Chuangce Investment, a member of the Concert Parties, since 11 September 2002
- director of Eyang Shenzhen before April 2003

(5) *Mr. Liao Jie*

As at the Latest Practicable Date, Mr. Liao Jie had over 13 years of relationship with Mr. Chen. Details of which are as follows:

- executive director of the Company
- ultimate shareholder of the Company
- Mr. Chen's subordinate since 1993
- deputy general manager, general manager of MLCC division, head of sales division and director of Eyang Shenzhen from 5 October 2001 to 9 August 2005 and since 10 August 2003, except for the period from 10 August 2005 to August 2006.

(6) *Mr. Cheng Wusheng*

As at the Latest Practicable Date, Mr. Cheng Wusheng had over 17 years of relationship with Mr. Chen. Details of which are as follows:

- non-executive director of the Company
- ultimate shareholder of the Company
- Mr. Chen's friend and subordinate from 1990 to 1997

(7) *Mr. Luo Chaoen*

As at the Latest Practicable Date, Mr. Luo Chaoen had over 10 years of relationship with Mr. Chen. Details of which are as follows:

- a friend of Mr. Chen for over 10 years
- ultimate shareholder of the Company
- director of Eyang Shenzhen from 21 March 2001 to 9 April 2003

(8) *Chuangce Investment*

As at the Latest Practicable Date, Chuangce Investment had over 5 years of relationship with Mr. Chen. Details of which are as follows:

- Zhou Penghong, a member of the Concert Parties, is a shareholder of Chuangce Investment since 11 September 2002

(9) *Shanghai Meiling*

As at the Latest Practicable Date, Shanghai Meiling had over 9 years of relationship with Mr. Chen. Details of which are as follows:

- Zhang Zhilin, a member of the Concert Parties, is a shareholder of Shanghai Meiling since 30 May 1998

Corporate Investors

During the Track Record Period, the Corporate Investors of Eyang Shenzhen comprised Legend Investment, Shenzhen Shengxu, Shenzhen Deren and Dongguan Fenggang. The Directors confirm that during the Track Record Period, none of the Corporate Investors had maintained any role nor been involved in the management of the business of the Group.

The Directors confirm that, as at the Latest Practicable Date, apart from the information as set out in *notes 1 to 3* below, none of the Corporate Investors had any other past or present relationship with the Directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates.

Given that the principal business of (i) Legend Investment is investment; (ii) Shenzhen Shengxu is the trading of television sets, radio-frequency heads and high voltage packages; (iii) Shenzhen Deren is the manufacturing of electronics components; and (iv) Dongguan Fenggang is the production advisory as at the Latest Practicable Date, the Directors confirm that none of the principal business of the Corporate Investors would compete with the Group's principal businesses.

During the Track Record Period, one of the Corporate Investors, namely Shenzhen Deren, was one of the suppliers of electronic components to the Group. For each of the two years ended 31 December 2006, the amount purchased from Shenzhen Deren by the Group was approximately RMB9,100 and RMB36,400, respectively. The Group did not make any purchase with Shenzhen Deren during the year ended 31 December 2007. Save for the abovementioned, as at the Latest Practicable Date, there is no transaction between the Corporate Investors and the Group.

The Directors confirm that there are no special rights given to any of the Corporate Investors, including Legend Investment.

Notes:

1. Mr. Chen Hao, being a non-executive Director, was nominated by Legend Investment and Legend New-Tech Investment Limited to the board of Eyang Shenzhen before 22 August 2006 and after 22 August 2006 as a director of Eyang Shenzhen respectively. Legend New-Tech Investment Limited, being an existing shareholder of the Company, and Legend Investment are directly owned by the same holding company.
2. Shenzhen Shengxu and Shengxue, being an existing shareholder of the Company, are both wholly owned by the same shareholders.
3. Dongguan Fenggang was a then shareholder of Eyang Dongguan.

Individual Investors

During the Track Record Period, Individual Investors of Eyang Shenzhen comprised Mr. Li Heqiu, Mr. Zheng Jinshun, Mr. Zhou Pengying, Mr. Chen Jijin, Mr. Ma Jianhui, Mr. Du Binxu and Mr. Lou Yimin. Save for Mr. Li Heqiu (*note 1*) and Mr. Ma Jianhui (*note 4*), the Directors confirm that during the Track Record Period, none of other Individual Investors had maintained any role nor been involved in the management of the business of the Group.

The Directors confirm that as at the Latest Practicable Date, apart from the information as set out in *notes 1 to 4* below, none of the Individual Investors had any other past or present relationship with the Directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates.

The Directors confirm that as at the Latest Practicable Date, none of the Individual Investors was engaged in the business which would compete with the Group's principal business, and as at the Latest Practicable Date, there was no transaction between the Individual Investors and the Group which has not been disclosed in this prospectus.

Notes:

1. Mr. Li Heqiu, being a non executive director and an existing shareholder of the Company, has been a director of Eyang Shenzhen.
2. Mr. Zheng Jinshun is an existing shareholder of the Company.
3. Mr. Zhou Pengying is an existing shareholder of the Company.
4. Mr. Ma Jianhui was a then director and shareholder of Eyang HK, a then supervisor of Shenzhen Yinrun and a then purchasing manager and member of audit committee of Eyang Shenzhen.

I-2. Eyang Dongguan

Eyang Dongguan was established in the PRC as a limited liability company on 22 March 2001. At the time of its establishment, Eyang Dongguan had a registered capital of RMB5 million owned as to 90% by Eyang Shenzhen and 10% by 東莞市鳳崗實業總公司 (Dongguan Fenggang Industrial Co., Ltd.*), an Independent Third Party. On 8 July 2003, the registered capital of Eyang Dongguan was increased to RMB20 million, which Eyang Shenzhen and 東莞市鳳崗實業總公司

(Dongguan Fenggang Industrial Co., Ltd.*) agreed to contribute in the proportion of their respective shareholdings. The said increase in registered capital of Eyang Dongguan was registered with 東莞工商局 (Dongguan Administration for Industry and Commerce) on 4 September 2003 and a new business licence was issued to Eyang Dongguan in accordance with PRC legal requirements. The registered capital had been fully paid up by Eyang Shenzhen by 9 July 2003 and 東莞市鳳崗實業總公司 (Dongguan City Fenggang Industrial Co., Ltd.*) by 1 July 2003, respectively.

On 28 October 2006, to realise its investment in Eyang Dongguan, Dongguan Fenggang entered into an equity transfer agreement with Eyang Shenzhen and 10% interest in Eyang Dongguan held by Dongguan Fenggang was sold to Eyang Shenzhen for an aggregate consideration of RMB3 million. The said acquisition was registered with 東莞工商局 (Dongguan Administration for Industry and Commerce) on 7 February 2007 and a new business licence was issued to Eyang Dongguan in accordance with PRC legal requirements. Following the said acquisition, Eyang Dongguan became the wholly-owned subsidiary of Eyang Shenzhen.

I-3. Eycom

Eycom was established in the PRC as a limited liability company on 24 March 2004. At the time of its establishment, Eycom had a registered capital of RMB10 million owned as to 90% by Eyang Shenzhen and 10% by Eyang Dongguan. The registered capital had been fully paid up by Eyang Shenzhen by 15 March 2004 and Dongguan Eyang by 11 March 2004, respectively.

I-4. Eyang HK

In 12 October 2001, Eyang Shenzhen, Mr. Chen and Mr. Ma Jianhui established Eyang HK in Hong Kong as a limited liability company. At the time of incorporation, the entire issued share capital of Eyang HK was held as to 98%, 1% and 1% by Eyang Shenzhen, Mr. Chen and Ma Jianhui, respectively. Eyang HK was initially incorporated for the purpose of developing the trading business of Eyang Shenzhen.

On 4 March 2005, Eyang Shenzhen transferred 59% of the issued shares in Eyang HK at par to Mr. Chen Weirong. On the same day, Eyang Shenzhen and Mr. Ma transferred 39% and 1% of the issued shares in Eyang HK at par to Ms. Shuang Mei, respectively. After the transfers, Eyang HK was held as to 60% and 40% by Mr. Chen and Ms. Shuang, respectively. Each of Mr. Chen and Ms. Shuang signed a declaration of trust in favour of Eyang Shenzhen on 4 March 2005, pursuant to which they held their respective interests in Eyang HK as a trustee for the benefit of Eyang Shenzhen. The trust arrangement was effected as Eyang Shenzhen intended to keep its ownership of Eyang HK confidential for commercial reason.

On 4 August 2006, due to the business consideration, Mr. Chen and Ms. Shuang transferred 60% and 38% interests in Eyang HK to Eyang Shenzhen respectively at nil consideration. After the transfers, Eyang HK was held as to 98% and 2% by Eyang Shenzhen and Ms. Shuang (as a trustee of Eyang Shenzhen), respectively. On 23 April 2007, the remaining 2% shareholding interests in Eyang HK held on trust for Eyang Shenzhen by Ms. Shuang was transferred to Eyang Shenzhen at nil consideration. The reason of the transfer of shares is to terminate the existing trust

arrangement as Eyang Shenzhen decided such arrangement was no longer recessing. The transfer was therefore effected at nil consideration as the beneficial owner continued to be Eyang Shenzhen.

II. Entities formerly forming part of the Group during the Track Record Period

II-1. Shenzhen Yinrun

Eyang Shenzhen's investment in Shenzhen Yinrun

In order to further broaden the income source of Eyang Shenzhen and leverage on the experience of Mr. Chen in the manufacture, sale and distribution of electronics products, Shenzhen Yinrun was incorporated on 12 September 2002 in the PRC by Eyang Shenzhen and Mr. Chen for the purpose of engaging in the sale of consumer electronic products. The registered capital of Shenzhen Yinrun was RMB10 million which was contributed as to 49% by Eyang Shenzhen and 51% by Mr. Chen.

Under the management and leadership of Mr. Chen, Eyang Shenzhen successfully developed 0402 BME MLCC in 2002. In particular, on 22 October 2002, Eyang Shenzhen was accredited by Shenzhen Bureau of Science and Technology as the first PRC manufacturer which successfully developed 0402 BME MLCC in the PRC. As such, at the end of 2002, in recognition of Mr. Chen's overall contribution to Eyang Shenzhen, particularly to the development of MLCC business of Eyang Shenzhen, and in order to focus the principal business of Eyang Shenzhen on the manufacture and sale of the MLCC products, Eyang Shenzhen decided to transfer its entire 49% equity interest in Shenzhen Yinrun (the "Reward Shareholding"), as a reward to Mr. Chen's contribution, at nil consideration to Mr. Chen or any person designated by him. At the time of the transfer, Mr. Chen was a director and general manager of Eyang Shenzhen and a director of Eyang HK.

At that time, as Ms. Luo Zhanli, a friend of Mr. Chen and a general staff at Eyang Shenzhen and one of the existing shareholders of the Company, was confident in Mr. Chen's business capability and wished to cooperate with Mr. Chen for future business development, Mr. Chen and Ms. Luo Zhanli, after arm's length negotiation, had the following arrangement regarding the Reward Shareholding: Mr. Chen (i) entered into an agreement dated 18 December 2002 with Ms. Luo Zhanli pursuant to which Ms. Luo Zhanli was entrusted by Mr. Chen to hold on his behalf 29.36% out of the Reward Shareholding; and (ii) agreed to transfer the rights to become interested in 19.64% of the total equity interest of Shenzhen Yinrun out of the Reward Shareholding to Ms. Luo Zhanli at a consideration of RMB1.97 million, which was arrived at with reference to the relevant proportion of the registered capital of Shenzhen Yinrun at that time ((i) and (ii) together, the "Shenzhen Yinrun Investment Arrangement").

Following completion of the Shenzhen Yinrun Investment Arrangement between Mr. Chen and Ms. Luo Zhanli, and under the instruction of Mr. Chen in respect of the receipt of the Reward Shareholding, Eyang Shenzhen entered into a transfer agreement dated 31 December 2002 with Ms. Luo Zhanli pursuant to which Eyang Shenzhen transferred the Reward Shareholding at nil consideration to Ms. Luo Zhanli. Following completion of the transfer agreement, Shenzhen

Yinrun has been beneficially owned as to 80.36% by Mr. Chen and 19.64% by Ms. Luo and is not a part of the Group now because the Group did not hold any interest in Shenzhen Yinrun since the said transfer.

Shenzhen Yinrun was classified as available-for-sale investments. According to the accounting policies of the Group, any gain or losses arising from the disposal of available-for-sale investments were recognised in the income statement. As the Reward Shareholding is based on nil consideration, Eyang Shenzhen recorded a loss of RMB4.9 million from transfer of the Reward Shareholding to Mr. Chen. Following the disposal by the Group of its equity interests in Shenzhen Yinrun, Shenzhen Yinrun was carrying on business of investment holding and not in competition with the Group's existing principal businesses.

Shenzhen Yinrun's investment in Eyang Shenzhen

In January 2003, Eyang Shenzhen decided to raise capital to further expand the production capacity for its MLCC products (the "Capital Injection"). Mr. Chen, being the general manager of Eyang Shenzhen and a shareholder holding 21.5% of the total equity interest in Eyang Shenzhen at that time, was confident in the business development of MLCC of Eyang Shenzhen and believed that there were market potentials for MLCC products in the PRC. As such, Mr. Chen further contributed capital to Eyang Shenzhen. Accordingly, based on the verification report dated 18 March 2003 issued by 深圳眾環會計師事務所 (Shenzhen Zhonghuang Public Certified Accountants), a total of RMB92.82 million was further invested in Eyang Shenzhen, among which, Mr. Chen personally further invested RMB8.26 million in Eyang Shenzhen, and through Shenzhen Yinrun, which was beneficially owned as to 80.36% by Mr. Chen and 19.64% by Ms. Luo Zhanli, invested RMB10 million in Eyang Shenzhen, respectively. Following the Capital Injection, 10.124% and 9.726% of equity interests in Eyang Shenzhen were owned by Mr. Chen and Shenzhen Yinrun, respectively.

II-2. Jingwei

Jingwei was established in the PRC as a limited liability company on 31 May 2002. At the time of its establishment, Jingwei had a registered capital of RMB4.2 million owned as to 22.0238% by 北京銀河偉業數字技術有限公司 (Beijing Yinhe Weiye Digital Technology Co., Ltd.*, "Beijing Yinhe"), 22.0238% by 四川省創意技術發展有限責任公司 (Sichuan Troy Technology Development Co., Ltd.*, "Sichuan Troy"), 22.0238% by Eyang Shenzhen, 11.9048% by 深圳市三比特技術有限公司 (Shenzhen Sanbite Technology Co., Ltd.*) and 22.0238% by Mr. Li Ming (together, the "Initial Jingwei Shareholders"). The principal business of Jingwei is engaged in the business of hardware and software design.

In May 2004, in order to give greater incentive to the management of Jingwei, all the Initial Jingwei Shareholders agreed to transfer part of their respective equity interests in Jingwei to Shenzhen Jingwei Century Technology Co., Ltd. (深圳市經緯世紀科技有限公司), ("Jingwei Century"), a company owned by the senior management of Jingwei, all being Independent Third Parties. Each of these transfers was effected at a nominal consideration of RMB1.00. As such, Eyang Shenzhen, a wholly-owned subsidiary of the Company, agreed to transfer approximately 13.2138% equity interest in Jingwei to Jinwei Century, at a nominal consideration of RMB1.00. As the said transfer was made at nominal consideration, a loss of approximately RMB92,499 was recorded. In order to focus the resources on developing the manufacture and sale of mobile phones

business, the Group entered into an agreement dated 21 June 2006 pursuant to which Eyang Shenzhen disposed of its remaining 8.8095% equity interests in Jingwei to Shenzhen Yinrun at a consideration of RMB555,000. Such consideration was arrived at with reference to the business performance of Jingwei and the then capital contribution of Eyang Shenzhen in Jingwei. The Group recorded a gain of approximately RMB0.19 million on the said disposal. Jingwei is not a part of the Group now because the Group did not hold any interest in Jingwei since the said divestment.

Immediately after completion of divestment of the Group's interest in Jingwei in June 2006, based on the registration of the Administration for Industry and Commerce on 12 July 2006, Jingwei's equity owners (the "Jingwei Shareholders") comprised Shenzhen Yinrun, Beijing Yinhe, Sichuan Troy, Mr. Li Hailin, 北京唐人坊文化發展有限公司 (Beijing Tangrenfang Culture Development Co. Ltd.*, "Beijing Tangrenfang") and Jingwei Century.

Jinwei was classified as available-for-sale investments. According to the accounting policies of the Group, any gain or losses arising from the disposal of available-for-sale investments were recognised in the income statement. Following the disposal by the Group of its equity interests in Jingwei, Jingwei continued its principal business of hardware and software design and is not in competition with the Group's existing principal businesses.

During the Track Record Period, none of the Jingwei Shareholders had maintained any role nor been involved in the management of the business of the Group and as at the Latest Practicable Date, apart from the information as set out in *notes 1* and *2* below, none of the Jingwei Shareholders had any other past or present relationship with the directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates.

The Directors confirm that as at the Latest Practicable Date, Mr. Li Hailin had not engaged in the business which would compete with the Group's principal business. Given that the principal business of (a) Shenzhen Yinrun is investment holding; (b) Beijing Yinhe is the development of digital video technology, manufacture of digital video recorder monitor systems and internal digital video recorders; (c) Sichuan Troy is system integration services of communication systems for mainframe computers and integrated services network; (d) Beijing Tangrenfang is the manufacture of Chinese craft wares and artifacts; and (e) Jingwei Century is technology development and sale of electrical products and electrical raw materials, computer software and hardware, embedded software and communication products and consultation, none of the principal business of the Jingwei Shareholders would compete with the Group's principal businesses.

During the Track Record Period, one of the Jingwei Shareholders, namely Shenzhen Yinrun, had transactions with the Group. In 2005, the Group advanced approximately RMB70.2 million to Yinrun, which was interest-free and had no fixed terms of repayment. Yinrun repaid the full amount to the Group in July 2006.

As at the Latest Practicable Date, there was no transaction between the Jingwei Shareholders and the Group which has not been disclosed in this prospectus.

Notes:

1. Shenzhen Yinrun is a Concert Party. Details of the relationship between Shenzhen Yinrun and the existing Directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates are set out in note 1 to the paragraph headed “Concert Parties” in this section.
2. Mr. Chen was a then director of Jingwei which is a subsidiary of Jingwei Century.

II-3. Weike

Weike was established in the PRC as a limited liability company on 8 August 2003. At the time of its establishment, Weike had a registered capital of RMB30 million owned as to 60% by 廣州毅昌製模有限公司 (Guangzhou Yichang Moulding Co., Ltd.*), 10% by Mr. Luo Chaoen, 15% by Chuangce Investment and 15% by Eyang Shenzhen. The principal business of Weike is the manufacture and sale of mobile phones.

Through the Group’s investment in Weike, the Directors recognised that there should be market potentials for the mobile phone business in the PRC. As such, in order to fully capture the growth potentials of the mobile phone market in the PRC, in March 2004, the Group established its wholly-owned subsidiary, Eycm, to directly engage in the mobile phones business. Given that the Group intended to focus its resources on the development of its mobile phone business through Eycm, in April 2004, Eyang Shenzhen, a wholly-owned subsidiary of the Company, decided to dispose of 5% equity interests in Weike to each of 深圳市六友實業有限公司 (Shenzhen Liuyou Industry Co., Ltd.*, (“Shenzhen Liuyou”)) and 南京迪樂科技實業有限公司 (Nanjing Dile Science and Technology Industry Co., Ltd.*, (“Nanjing Dile”)), each at a consideration of RMB1.5 million. Shenzhen Liuyou and Nanjing Dile are both Independent Third Parties. Such consideration was arrived at with reference to the then capital contribution by Eyang Shenzhen in Weike. Subsequently, on 9 June 2006, Eyang Shenzhen further disposed of its remaining 5% equity interests in Weike to 廣州高金技術產業集團有限公司 (Guangzhou High Technology Industrial Group Co., Ltd.*, “Guangzhou Hi-Tech”), an Independent Third Party, at a consideration of RMB1.5 million. Such consideration was arrived at with reference to the then capital contribution by Eyang Shenzhen in Weike. As the disposal was made at the cost, no gain or loss was recorded. Weike is not a part of the Group now because the Group did not hold any interest in Weike since the said divestment.

Immediately after completion of the divestment of the Group’s interest in Weike in June 2006, based on the registration of the Administration for Industry and Commerce on 26 June 2006, Weike’s equity owners (the “Weike Shareholders”) comprised Guangzhou Hi Tech, Mr. Luo Chaoen, Chuangce Investment, Shenzhen Liuyou, Nanjing Dile, 江西省乘風電訊實業有限公司

(Jiangxi Chengfeng Telecom Industrial Co. Ltd.*, “Jiangxi Chengfeng”), 杭州全方位通訊設備有限公司 (Hangzhou Telecom Equipment Co. Ltd.*, “Hangzhou Telecom”), Mr. Shen Aiguo, Mr. Zhang Ronglei and Mr. Li Ning.

During the Track Record Period, none of the Weike Shareholders had maintained any role nor been involved in the management of the business of the Group and as at the Latest Practicable Date, apart from the information as set out in *notes 1 to 3* below, none of the Weike Shareholders had any other past or present relationship with the directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates.

Weike was classified as available-for-sale investments. According to the accounting policies of the Group, any gain or losses arising from the disposal of available-for-sale investments were recognised in the income statement. Following the disposal by the Group of its equity interests in Weike, Weike continued its principal business of the manufacture and sale of mobile phones, and may compete with the Group’s mobile phone business.

As at the Latest Practicable Date, two of the Weike Shareholders, Mr. Luo Chaoen and Chuangce Investment, both of them being the Concert Parties, had already disposed of their respective interests in Weike. As at the Latest Practicable Date, the Controlling Shareholder, i.e. Mr. Chen together with the Concert Parties, did not have any interest in a business which competes or is likely to compete, either directly or indirectly, with the Group’s businesses.

As at the Latest Practicable Date, same as the Group, Guangzhou Hi-Tech, one of the Weike Shareholders, was granted a licence by the relevant PRC authorities to engage in the manufacture of mobile phones under its own brand name. As such, the Directors consider that the principal business of Guangzhou Hi-Tech may compete with the Group’s mobile phone business. The Directors confirm that, except their respective interest in Weike, none of Mr. Shen Aiguo, Mr. Zhang Ronglei and Mr. Li Ning is engaged in the business which would compete with the Group’s principal business. Given that the principal business of (a) Shenzhen Liuyou is the investment, development and distribution of consumer electronics and computers; (b) Nanjing Dile, Jiangxi Chengfeng and Hangzhou Telecom are the trading of mobile phones, the Directors confirm that, except their respective interest in Weike, none of the principal business of the Weike Shareholders would compete with the Group’s principal business.

During the Track Record Period, one of the Weike Shareholders, namely Jiangxi Chengfeng, was a customer of the Group’s mobile phone products. For each of the three years ended 31 December 2006, the amount of mobile phone products sold by the Group to Jiangxi Chengfeng was approximately RMB3.56 million, RMB18.08 million and RMB27.53 million respectively. Save for the abovementioned, as at the Latest Practicable Date, there was no transaction between the Weike Shareholders and the Group which has not been disclosed in this prospectus.

Notes:

1. Mr. Luo Chaoen, being an existing shareholder of the Company, is a Concert Party. Details of the relationship between Mr. Luo Chaoen and the Directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates are set out in note 7 to the paragraph headed “Concert Parties” above in this section.

2. Chuangce Investment is a Concert Party. Details of the relationship between Chuangce Investment and the Directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates are set out in note 8 to the paragraph headed “Concert Parties” above in this section.
3. Jiangxi Chengfeng was a customer of the Group’s mobile phone products during the Track Record Period.

II-4. Lingying

Lingying was established in the PRC as a limited liability company on 21 October 2004. At the time of its establishment, Lingying had a registered capital of RMB1.5 million owned as to 60% by Eycom, 25% by Ms. Luo Zhanli and 15% by Mr. Li Zhanpeng. The principal business of Lingying is the provision of hardware and software solutions for mobile phones.

Close to the time when the Group was granted with a licence by NDRC to engage in the manufacture of mobile phone under its own “EY” brand on 16 December 2005, the Group decided to concentrate and consolidate the Group’s resources on the development of the mobile phones under its own brand, particularly on the appearance design and structural design of mobile phones to enhance the Group’s brand awareness among the customers. Accordingly, on 15 December 2005, Eycom, a wholly-owned subsidiary of the Company, disposed all of its 60% equity interests in Lingying to Ms. Li Chunmei, at a consideration of RMB900,000 with reference to the then capital contribution made by the Group in Lingying. At same time, Mr. Li Zhanpeng also disposed of its 15% equity interest in Lingying to Ms. Luo Zhanli. Lingying is not a part of the Group now because the Group did not hold any interest in Lingying since the said divestment.

Immediately after completion of the divestment of the Group’s interest in Lingying in December 2005, based on the registration of the Administration for Industry and Commerce on 22 December 2005, Lingying’s equity owners (the “Lingying Shareholders”) comprised Ms. Li Chunmei and Ms. Luo Zhanli.

As Lingying was a then subsidiary of the Group for the period from its date of establishment up to 15 December 2005, the financial results of Lingying were consolidated into the Group until the date that the Group’s control has ceased.

During the Track Record Period, none of the Lingying Shareholders had maintained any role nor been involved in the management of the business of the Group.

As at the Latest Practicable Date, apart from the information as set out in *note 1* below, none of the Lingying Shareholders had any other past and/or present relationships with the directors, senior management or shareholders of the Company or its subsidiaries, or their respective associates.

The Directors confirm that as at the Latest Practicable Date, none of the Lingying Shareholders was engaged in the business which would compete with the Group’s principal business and there was no transaction between the Lingying Shareholders and the Group which has not been disclosed in this prospectus.

Note:

1. Ms. Luo Zhanli, being an existing shareholder of the Company and a general staff of Eyang Shenzhen, was a shareholder of Shenzhen Yinrun which was beneficially owned as to 80.36% by Mr. Chen and 19.64% by Ms. Luo Zhanli.

III. Existing corporate structure of the Group

In preparation for the Listing, the Group has undertaken the Reorganisation. The Company became the holding company of the Group as a result of the Reorganisation.

On 10 August 2006, EY Ocean, Legend New-Tech, Shengxue and Ever-win established Eyang Management in the BVI to become the intermediate holding company of the Group in contemplation of the Listing. On 11 August 2006, Eyang Management established Hong Kong Eyang in Hong Kong.

On 11 August 2006, Hong Kong Eyang acquired the entire equity interests in Eyang Shenzhen from Mr. Chen, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Luo Chaoen, Ms. Shuang Mei, Mr. Liao Jie, Shenzhen Yinrun, the relevant Individual Investors and the relevant Corporate Investors. As a result, Hong Kong Eyang became a holding company of Eyang Dongguan, Eycom and Eyang HK.

On 6 March 2007, EY Ocean, Legend New-Tech, Shengxue and Ever-win established the Company as an exempted company with limited liability in the Cayman Islands.

On 5 December 2007, EY Ocean, Legend New-Tech, Shengxue and Ever-win transferred their entire interests in Eyang Management to the Company. As a result of these transfers, the Company became the holding company of the Group.

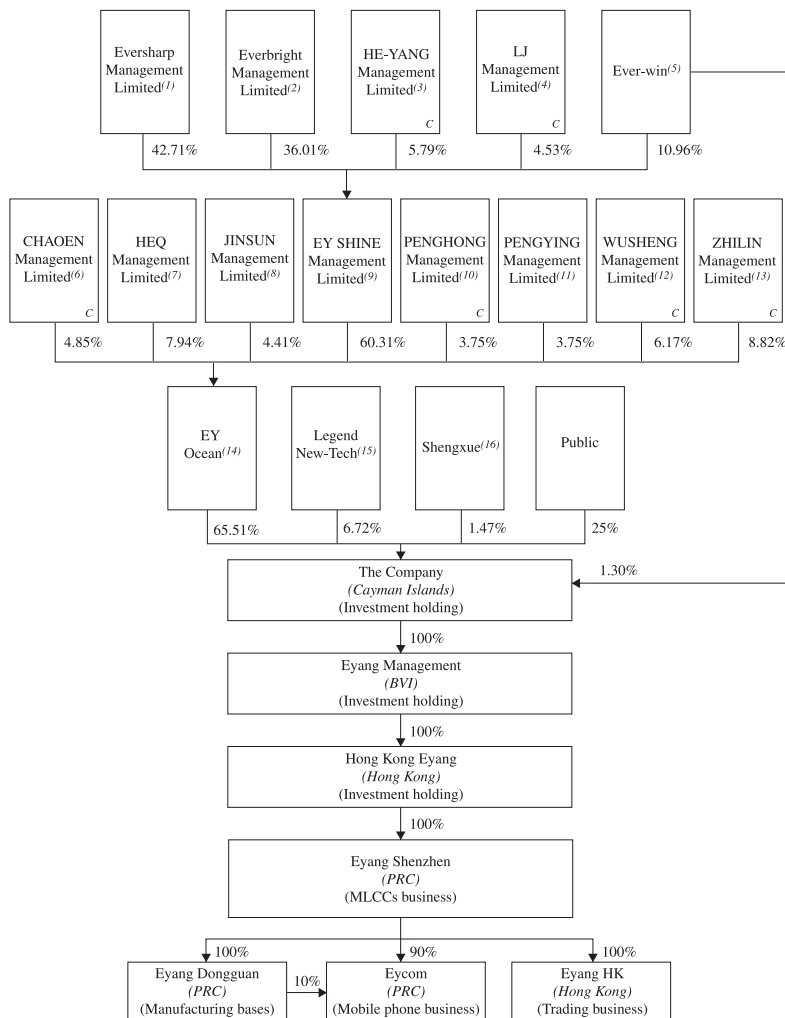
Please also refer to the sub-section headed “Corporate reorganisation” in Appendix VI to this prospectus for further details on the Reorganisation.

According to 《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(Circular on Issues Relating to Foreign Exchange Administration in Offshore Financing and Return Investment by Offshore Special Purpose Vehicles Set Up by Domestic Residents) (the “**Circular**”) issued by SAFE on 21 October 2005 and which became effective on 1 November 2005, special purpose vehicles refer to offshore enterprises directly set up or indirectly controlled by domestic legal or natural persons for the purpose of carrying out offshore equity financing (including convertible debt financing) with assets of or interests in domestic enterprises held by them. The Circular specifically allows domestic residents (including legal and natural persons) to establish offshore financing platforms in the form of special purpose vehicles for equity financing in the international capital market through reverse mergers and acquisitions, transferable bonds and other means of capital operation and details the procedures for the registration and administration of offshore special purpose vehicles and return investment entities. In this regard, the ultimate shareholders of Eyang Shenzhen, namely Mr. Chen, Ms. Shuang Mei, Mr. Liao Jie, Ms. Luo Zhanli, Mr. Luo Chaoen, Mr. Li Heqiu, Mr. Zheng Jinshun, Mr. Zhou Penghong, Mr. Zhou Pengying, Mr. Cheng Wusheng, Mr. Zhang Zhilin, Mr. Zhai Qingzhang and Mr. Zhai Qian have completed the foreign exchange registration with respect to domestic residents making offshore investments.

Pursuant to the 《外國投資者併購境內企業規定》 (Regulation for the Acquisition of Domestic Enterprises by Foreign Investors) (the “**Regulation**”) jointly promulgated by MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, China Securities Regulatory Commission (the “**CSRC**”) and SAFE on 8 August 2006 and which became effective on 8 September 2006 (the “**Effective Date**”), an offshore special purpose vehicle is required to obtain approval from the CSRC for its overseas listing if, for the purpose of achieving an overseas listing, it acquires from the shareholders of PRC domestic enterprise(s) the shares held by them or acquires new shares issued by the PRC domestic enterprise(s) and the consideration therefore is in the form of the shares in the offshore special purpose vehicle held by its shareholders or new shares issued by the offshore special purpose vehicle. However, the Regulation does not stipulate whether or not a special purpose vehicle using cash to acquire a PRC domestic enterprise(s) is required to obtain approval from the CSRC for its overseas listing, and it does not mention if and how the Regulation is applicable to overseas listings of the special purpose vehicles (such as the listing of the Company on the Stock Exchange) which have completed the acquisitions of relevant PRC domestic enterprises prior to the Effective Date. As such, the PRC legal advisers to the Company are of the opinion that it is unnecessary for the Group to obtain any confirmation letter from CSRC to the extent that there is no PRC laws and regulations, including the Regulation and Notice of State Council on Further Strengthening Administration of Overseas Offerings and Listings (《國務院關於進一步加強在境外發行股票和上市管理的通知》), which require any governmental approval, including the approval from CSRC, for the listing of the Company.

BUSINESS

The following chart illustrates the corporate and shareholding structure, the places of incorporation or establishment and the principal business activities of the principal members of the Group immediately upon the completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares falling to be issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.



C: The company is wholly-owned by a member of the Concert Parties.

Notes:

1. Eversharp Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Chen.
2. Everbright Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Chen.
3. HE-YANG Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Ms. Shuang Mei.
4. LJ Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Liao Jie.

BUSINESS

5. Ever-win is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Kwok Cheuk Yuen on trust for Ms. Luo Zhanli.
6. CHAOEN Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Luo Chaoen.
7. HEQ Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Li Heqiu.
8. JINSUN Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Zheng Jinshun.
9. EY SHINE Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is owned as to 42.71% by Eversharp Management Limited, as to 36.01% by Everbright Management Limited, as to 5.79% by HE-YANG Management Limited, as to 4.53% by LJ Management Limited and as to 10.96% by Ever-win.
10. PENGHONG Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Zhou Penghong.
11. PENGYING Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Zhou Pengying.
12. WUSHENG Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Cheng Wusheng.
13. ZHILIN Management Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Mr. Zhang Zhilin.
14. EY Ocean is an investment holding company incorporated in the BVI, whose entire share capital is owned as to 4.85% by CHAOEN Management Limited, as to 7.94% by HEQ Management Limited, as to 4.41% by JINSUN Management Limited, as to 60.31% by EY SHINE Management Limited, as to 3.75% by PENGHONG Management Limited, as to 3.75% by PENGYING Management Limited, as to 6.17% by WUSHENG Management Limited and as to 8.82% by ZHILIN Management Limited.
15. Legend New-Tech Investment Limited is an investment holding company incorporated in the BVI, whose entire share capital is wholly-owned by Right Lane Limited. Right Lane Limited is owned as to 50% by 聯想控股有限公司 (Legend Holding Limited*), and as to 25% by Mr. Liu Chuanzhi and 25% by Zhang Zuxiang, both on trust for 聯想控股有限公司 (Legend Holding Limited*). 聯想控股有限公司 (Legend Holding Limited*) is a limited liability company established in the PRC, whose registered share capital is owned as to 65% by 中國科學院國有資產經營有限公司 (Chinese Academy of Sciences Holdings Co., Ltd*) and 35% by 聯想控股有限公司職工持股會 (Employees' Shareholding Society of Legend Holding Limited). Legend New-Tech is a company directly owned by the same holding company as Legend Investment, a shareholder of Eyang Shenzhen prior to the Reorganisation.
16. Shengxue is an investment holding company incorporated in the BVI, whose entire share capital is owned as to 90% by Mr. Zhai Qingzhang and as to 10% owned by Ms. Zhai Qian.

BUSINESS MODEL

The Group focuses on two principal businesses, namely MLCC business and mobile phone related business.

MLCC business

The Group is engaged in the manufacture, sale and trading of MLCC, a type of capacitor which is a basic electronic component that has been widely used in information technology, communication and consumer electronic products.

During the Track Record Period, MLCC products of the Group were principally sold to electronic product manufacturers. In addition, the Group also sold MLCC products to distributors for their onward sale. During the Track Record Period, the revenue generated from the sale to these manufacturers was approximately RMB104.6 million, RMB126.5 million, RMB148.8 million and RMB129.8 million respectively, accounting for approximately 90.6%, 83.4%, 81.6% and 79.0% of the total revenue generated from the MLCC business of the Group respectively, whereas the revenue generated from the sale to the MLCC distributors was approximately RMB10.9 million, RMB25.2 million, RMB33.6 million and RMB34.5 million respectively, representing approximately 9.4%, 16.6%, 18.4% and 21.0% of the total revenue generated from the MLCC business of the Group respectively.

The sale of MLCC products to distributors was sale as principal and not as agent, i.e. the distributors purchase the MLCC products from the Group for their onward sale and assume all losses of any unsold MLCC products purchased from the Group.

The Group only allows sales return from its MLCC customers, i.e. the manufacturers and MLCC distributors, for confirmed defective products. During the Track Record Period, the total sales return of MLCC products amounted to approximately RMB124,000, RMB157,000, RMB162,000 and RMB59,000 respectively, representing approximately 0.1%, 0.1%, 0.1% and 0.04% of the total revenue of the MLCC business of the Group respectively.

Mobile phone related business

During the Track Record Period, the mobile phone related business of the Group can be divided into two categories: mobile phones and mobile phone components. It was the Group's business objective to engage in the manufacture and distribution of mobile phones of its own brand to capture the market potential of mobile phones in the PRC. As such, the business focus of the mobile phone related business of the Group had been shifted from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones. As at the Latest Practicable Date, the Group focused on the manufacture and sale of mobile phones.

Mobile phones

The Group is engaged in the manufacture and sale of mobile phones. As at the Latest Practicable Date, the Group only manufactured mobile phones under its own brand name — “EY”.

During the Track Record Period, mobile phones produced by the Group were all sold to mobile phone distributors for their onward sale through their own distribution networks.

The sale of mobile phones to mobile phone distributors was sale as principal and not as agent, i.e. the distributors purchase the mobile phone products from the Group for their onward sale and assume all losses of any unsold mobile phone products purchased from the Group.

All mobile phones are sold to the mobile phone distributors without recourse and sales return is not allowed. In case of confirmed defective mobile phones, the Group would provide replacement, after sales repair and maintenance service for these defective mobile phones. The Group made provisions for the one-year warranties on the mobile phones sold to the Group's customers, under which defective products were repaired or replaced. During the Track Record Period, the Group recorded a gross provision of approximately RMB1.4 million, RMB8.2 million, RMB19.2 million and RMB19.7 million respectively. Of the said gross provision made during the Track Record Period, the additional provision made in the corresponding period was approximately RMB1.4 million, RMB6.8 million, RMB16.7 million and RMB10.6 million, representing approximately 2.6%, 2.9%, 3.4% and 2.6% of total turnover generated from the Group's mobile phone segment during the Track Record Period respectively. In addition, as at 31 December 2004, 2005, 2006 and 30 September 2007, approximately nil, RMB5.6 million, RMB10.1 million, and RMB11.3 million of the provision was utilized. It mainly represented expenses incurred for replacement, repair and maintenance services provided for the mobile phones produced by the Group.

The mobile phone production of the Group generally comprises the following stages: stage 1 — appearance and structural design involving designs of mobile phone appearance and structural positioning of mobile phone components; stage 2 — mobile phone hardware and software designs involving the design of the circuit board inside the mobile phones and design of operational platform of mobile phones; stage 3 — procurement of various mobile phone components, including but not limited to chipsets, LCD and IC; stage 4 — assembling of electronic and mobile phone components through SMT procedures into PCBs; stage 5 — downloading of the software into the mobile phones; stage 6 — assembling of all mobile phone components into a mobile phone and IMEI selection; stage 7 — packaging and delivery.

Amongst the abovementioned seven mobile phone production stages, there are two stages involving outsourcing arrangements, namely, stage 2 — mobile phone hardware and software designs and stage 4 — SMT procedures, whereas the remaining five mobile phone production stages are retained and conducted by the Group. During the Track Record Period, mobile phone hardware and software designs involving the design of circuit board and general operational platform of mobile phones on stage 2 of the production processes were outsourced by the Group to Jingwei and Lingying in respect of several mobile phone models, whereas SMT procedures on stage 4 were principally outsourced by the Group to Yixu. Detailed information on the software and hardware designs and SMT procedures is set out in the paragraph headed “Stage 2” and “Stage 4” in this section.

As hardware and software designs, i.e. electronic circuit design and the operating systems and the relevant application software, are relatively standard products and have a developed segment to provide such service in the mobile phone industry, the Directors consider that it is more operationally effective to outsource such part of research and development of mobile phones in respect of several mobile phone models which enables the Group to allocate more resources and efforts to the appearance and structural designs of mobile phones. In addition, in order to reduce the capital expenditure of the Group and to focus on the promotion of mobile phones under its own brand name, the relatively more capital-intensive SMT procedures are outsourced to several Independent Third Parties. Given that there are

plenty of suppliers in the PRC to provide SMT services and the SMT procedures are common procedures in the production of electronic products, the Directors are of the view that it is a common practice and is commercially viable to outsource such production process to the suppliers who are specialized in the provision of such services.

With the said outsourcing arrangements, the Directors consider that the Group is able to operate its mobile phone business more effectively and is able to concentrate the resources and efforts on other important aspects, i.e. mobile phone appearance and structural designs which directly reflect the market positioning, brand awareness and characteristics of the mobile phones produced by the Group and assembly of mobile phone components into a complete mobile phone set and quality control.

Mobile phone components

The Group was engaged in the manufacture, sale and trading of mobile phone components. The mobile phone components manufactured and sold by the Group were PCBAs, which is a PCB product to be installed inside a mobile phone on which the relevant electronic components used in a mobile phone, such as chipset and IC, are assembled together according to the pre-designed electronic circuit, whereas the components sourced and sold by the Group include but were not limited to chipsets. During the Track Record Period, the customers of the mobile phone components sold by the Group were principally manufacturers who are engaged in the production of mobile phone related products.

It was always the Group's business objective to engage in the manufacture and distribution of mobile phones with its own brand to capture the market potential for mobile phones in the PRC. As such, the business focus of the mobile phone related business had been shifted from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones during the Track Record Period. The Directors consider that such a shift in the business focus is in line with the Group's long-term business objective to develop its mobile phone related business. In addition, the Directors also consider that the profit margin for the manufacture and sale of mobile phones is relatively higher than that for the manufacture, sale and trading of mobile phone components. The Directors therefore believe that mobile phone segment would provide a better return to the Group than that of the mobile phone components segment.

As at the Latest Practicable Date, the Group had ceased the sale of mobile phone components to its external customers. Nevertheless, the Group continues to manufacture mobile phone components, namely PCBA, and source the relevant mobile phone components, such as chipset and IC for the manufacture of the Group's own mobile phones.

Detailed analysis of the profit margin for the different business segments of the Group is set out in the paragraph headed "Management discussion and analysis of the results of the Group" under the section headed "Financial information" of this prospectus.

BUSINESS

The following table shows the breakdown of revenue of the Group during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	<i>RMB '000</i> <i>(Audited)</i>	<i>RMB '000</i> <i>(Audited)</i>	<i>RMB '000</i> <i>(Audited)</i>	<i>RMB '000</i> <i>(Unaudited)</i>	<i>RMB '000</i> <i>(Audited)</i>
MLCC business <i>(Note 1)</i>	115,470	151,737	182,402	136,142	164,346
Mobile phone related business					
<i>Mobile phones</i> <i>(Note 2)</i>	51,924	235,844	484,428	358,579	401,256
<i>Mobile phone components</i> <i>(Note 3)</i>	<u>491,218</u>	<u>67,829</u>	<u>14,787</u>	<u>12,400</u>	<u>3,289</u>
Total	<u><u>658,612</u></u>	<u><u>455,410</u></u>	<u><u>681,617</u></u>	<u><u>507,121</u></u>	<u><u>568,891</u></u>

Notes:

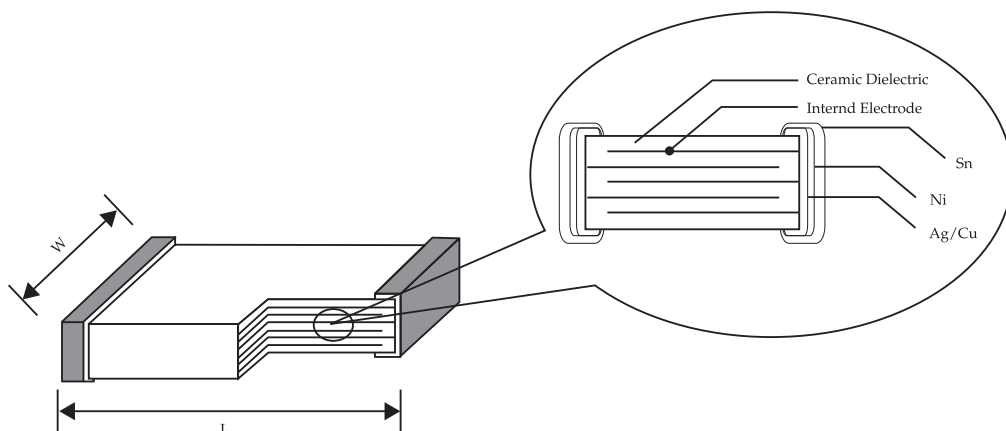
1. The revenue generated from the MLCC business is revenue derived from the manufacture, sale and trading of MLCC products.
2. The revenue generated from the mobile phone segment of the Group's mobile phone related business is revenue derived from the manufacture and sale of mobile phones.
3. The revenue generated from the mobile phone components segment of the Group's mobile phone related business is revenue derived from the manufacture, sale and trading of mobile phone components.

PRODUCTS

MLCC

The Group currently specialises in the research and development and manufacture of MLCC products under its own brand name and the sale of such MLCC products to electronic devices manufacturers both in the PRC and overseas.

MLCC is the short form for multi-layer ceramic chip capacitor, which is a basic electronic component that has been widely used in information technology, communication products and consumer electronics products. There are a number of specifications for MLCC with different characteristics, including the following: capacitance (electric charge stored per unit voltage), fineness and size (specifications such as 1206, 0805, 0603, 0402 and 0201) and temperature stability (special feature groups such as Y5V, X7R, X5R and NPO) etc. The combination of the above characteristics can then produce various types of MLCC products for different applications according to the requirements of different customers. The following diagram illustrates the structure of a sample MLCC:



Generally, the MLCC is classified in terms of its size. During the Track Record Period, the Group principally produced three types of MLCC, namely 0402, 0603 and 0805, of which the 0402 model is the smallest MLCC produced by the Group. Details of the size of MLCC produced by the Group are set out below:

Size category	Length (L) <i>mm</i>	Width (W) <i>mm</i>
0402	1.0±0.05	0.5±0.05
0603	1.6±0.10	0.8±0.10
0805	2.0±0.10	1.25±0.10

BUSINESS

The Group's MLCC products were principally used in consumer electronics and communication equipment, the following table set out the breakdown of MLCC sales by industry of customers during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Consumer electronics	80,021	69.3	89,525	59.0	82,810	45.4	83,528	61.4%	104,253	63.4%
Computers and computer peripherals	4,272	3.7	8,801	5.8	18,970	10.4	8,798	6.5%	9,491	5.8%
Communication equipment	31,177	27.0	53,411	35.2	80,622	44.2	43,816	32.2%	50,602	30.8%
Total	115,470	100.0	151,737	100.0	182,402	100.0	136,142	100.0%	164,346	100.0%

In view of the increasing sophistication in functionality and minimisation in size of electronics products, the mini size MLCC, i.e. MLCC with size category 0402 or below, will become one of the crucial growth drivers in the MLCC industry. As a result, the Group intends to focus on the research, development and production of mini size MLCC, such as 0402 MLCC, since mini size MLCC can generate a higher profit margin given the relatively low raw material costs and higher pricing.

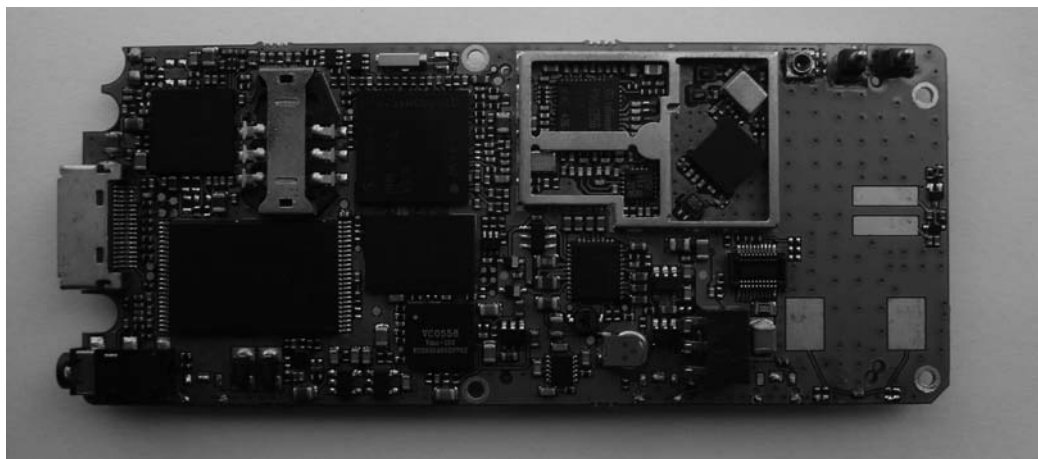
During the Track Record Period, most of the revenue from the MLCC business of the Group was generated from the sale of MLCC products produced by the Group, while the remaining revenue from the MLCC business was derived from the sale of MLCC products sourced by the Group, details of the breakdown of the revenue derived from the MLCC business of the Group are set out below:

MLCC Products produced by the Group	Year ended 31 December						Nine months ended 30 September													
	2004			2005			2006			2006			2007							
	Sale Volume (million piece)	%	Turnover (RMB'000)	Sale Volume (million piece)	%	Turnover (RMB'000)	Sale Volume (million piece)	%	Turnover (RMB'000)	Sale Volume (million piece)	%	Turnover (RMB'000)	Sale Volume (million piece)	%	Turnover (RMB'000)					
0402	314	4	3,991	3	1,566	14	15,320	10	4,669	32	38,647	21	3,080	31%	31,313	23%	7,194	49%	75,599	46%
0603	6,014	82	91,593	79	8,247	76	116,525	77	9,107	63	130,090	71	6,288	63%	93,938	69%	6,817	47%	77,398	47%
0805	58	1	2,706	2	102	1	4,074	3	72	—	3,383	2	69	1%	2,723	2%	137	1%	6,574	4%
Subtotal MLCC products traded by the Group	6,386	87	98,290	85	9,915	91	135,919	90	13,848	95	172,120	94	9,437	95%	127,974	94%	14,148	97%	159,571	97%
	979	13	17,179	15	960	9	15,818	10	676	5	10,282	6	499	5%	8,168	6%	508	3%	4,775	2.9%
Total	7,365	100	115,470	100	10,875	100	151,737	100	14,524	100	182,402	100	9,936		136,142		14,656		164,346	

Mobile phones and related components

Mobile phone components

During the Track Record Period, the Group was engaged in the manufacture of PCBAs, which are PCB products that are installed inside a mobile phone on which the relevant electronic components such as chipsets and ICs are assembled together according to the pre-designed electronic circuit. A sample PCBA is illustrated as follows:



Details of the Group's manufacturing process for mobile phone components are illustrated in the sub-section headed "Production" under this section.

In addition to the manufacture of PCBAs, the Group was also engaged in the trading of mobile phone components such as chipsets and PCBs to its customers. During the Track Record Period, the revenue generated from the mobile phone components segment of the Group's mobile phone related business was approximately RMB491.2 million, RMB67.8 million, RMB14.8 million and RMB3.3 million respectively, of which approximately RMB336.6 million, RMB24.7 million, RMB8.5 million and nil respectively were contributed by the manufacture and sale of mobile phone components, whereas approximately RMB154.6 million, RMB43.1 million, RMB6.3 million and RMB3.3 million were contributed by the trading of the mobile phone components.

The decrease in revenue generated from the manufacture, sale and trading of mobile phone components was attributable to the shift in focus of the mobile phone related business of the Group from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones after the establishment of Eycom, a wholly-owned subsidiary of the Company specialising in mobile phone business, in 2004.

Despite the shift in focus from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones, the Group continued to maintain its mobile phone components segment of its mobile phone related business and supply most of its mobile phone components for the manufacture of its own brand of mobile phones. During the Track Record Period, the Group supplied approximately RMB124.3 million, RMB241.7 million, RMB184.3 million and

RMB23.1 million of mobile phone components for the Group's own mobile phone production respectively, accounting for approximately 20.2%, 78.1%, 92.6%, and 87.7% of the total value of the mobile phone components segment revenue of the Group for the corresponding periods respectively.

Mobile phones

I. Mobile Phone Production Arrangement before 2006

Before obtaining approval from NDRC in December 2005 to produce mobile phones for its own brand (the "Mobile Phone Approval"), the Group cooperated with a mobile phone manufacturer (the "Mobile Phone Partner"), an Independent Third Party that had obtained approval from NDRC to produce mobile phones for its own brand, to manufacture and distribute mobile phones for such manufacturer's brand (the "Mobile Phone Production Arrangement") for the period from April 2004 to December 2005. Under the Mobile Phone Production Arrangement, Eyang Dongguan was principally responsible for the manufacture of the mobile phones, whereas Eycom was principally responsible for the distribution and marketing of the mobile phones. The principal terms of the Mobile Phone Production Arrangement are set out below:

Sourcing

The Mobile Phone Partner sourced various kinds of mobile phone components including PCBAs manufactured by the Group, LCDs, cases and batteries, as well as mobile phone design solutions such as hardware and software solutions for mobile phones, from third party suppliers designated by Eycom. These third party suppliers included Eyang Shenzhen. In respect of each purchase for mobile phone components from such third party suppliers, the third party suppliers would notify Eycom of the relevant amount of payment and Eycom would then pay the Mobile Phone Partner, so that the Mobile Phone Partner could settle account directly with the relevant third party suppliers. Such payments were made on a back-to-back basis and were settled at the same time. The amount of payments were calculated with reference to the number of mobile phones to be produced under the Mobile Phone Production Arrangement.

The mobile phone components sourced by the Mobile Phone Partner were then delivered to Eyang Dongguan or other designated third party for assembling into mobile phones under the Mobile Phone Partner's own brand.

As the Mobile Phone Production Arrangement commenced in April 2004 while the Group began to set up its first mobile phone production line in June 2004, the Mobile Phone Partner and the Group jointly appointed an Independent Third Party (the "Third Party Contractor") to assist in assembling mobile phone products for the period from April 2004 to October 2004. The principal terms of the arrangement included the following:

1. the Third Party Contractor should assist in assembling mobile phones in accordance with the design, technology standards and quality requirements as instructed by the Group; and
2. The Third Party Contractor would notify the Group of the assembly fee and the Group would then pay the Mobile Phone Partner, so that the Mobile Phone Partner could settle account directly with the Independent Third Party. Such payments were made on a back-to-back basis and were settled at the same time. The assembly fee was determined after the arm's

length negotiation with reference to the number of mobile phones to be assembled by the Third Party Contractor with price range of approximately RMB15 per unit to RMB50 per unit. Assembly fee of approximately RMB2.1 million had been paid by the Group in respect of the said arrangement. For the period from April 2004 to October 2004, the Third Party Contractor produced two types mobile phone models under the said arrangement.

The mobile phone production was fully taken up by Eyang Dongguan after the Group fully completed the set-up of its first mobile phone production line in October 2004. The Directors confirm that the Group has not engaged the Third Party Contractor for the production of mobile phones since cessation of the said arrangement in October 2004. No compensation was paid either by the Group or the Mobile Phone Partner to the Third Party Contractor for cessation of the said arrangement.

In addition, under the Mobile Phone Production Arrangement, the SMT procedures of the mobile phone production were also outsourced to Independent Third Parties including Yixu. Details of the outsourcing arrangement are set out in the paragraph headed “Production — mobile phone related business — mobile phones” of this section.

Quality control requirements

The mobile phones produced under the Mobile Phone Production Arrangement were required to comply with the PRC national quality standards. If the quality of the mobile phones produced under the Mobile Phone Production Arrangement did not meet the relevant PRC national quality requirements, the Mobile Phone Partner had the right to terminate the Mobile Phone Production Arrangement and the relevant mobile phones produced under the Mobile Phone Production Arrangement were not allowed to be launched into the market.

The Directors confirm that no mobile phone produced under the Mobile Phone Production Arrangement had been prohibited from being launched into the market during the term of the cooperation, i.e., from April 2004 to December 2005.

Technology specifications of mobile phones

The technology specifications of the mobile phones produced under the Mobile Phone Production Arrangement were provided by the Group and were required to comply with the PRC national quality standards. The Group had outsourced the hardware and software designs for six mobile phones developed under the Mobile Phone Production Arrangement, three to each of Jingwei and Lingying. On the other hand, the appearance and structural design for these mobile phones were conducted by the Group. For details of the outsourcing arrangement, please refer to the paragraphs headed “Agreement with Jingwei” and “Agreements with Lingying” in this section.

Guarantee deposit

Eycom was required to pay a product brand guarantee deposit to the Mobile Phone Partner under the Mobile Phone Production Arrangement. The total product brand guarantee deposit paid by the Group under the Mobile Phone Production Arrangement amounted to RMB700,000. The Mobile Phone Partner had a right to forfeit the product brand guarantee deposit if: (a) Eycom

sourced identical mobile phone models through other channels for onward sale outside of the Mobile Phone Production Arrangement, (b) Eycom used fake labeling on the mobile phones produced under the Mobile Phone Production Arrangement, or (c) the reputation of the Mobile Phone Partner's brand had been adversely damaged due to the handling of after sales services by Eycom. If Eycom did not pay the Mobile Phone Partner another amount equivalent to the product brand guarantee deposit within three days after such forfeiture, the Mobile Phone Partner was entitled to terminate the Mobile Phone Production Arrangement.

As confirmed by the Directors, the said product brand guarantee deposit has not been forfeited by the Mobile Phone Partner and all product brand guarantee deposits paid by Eycom had been repaid by the Mobile Phone Partner.

Sales

Eycom was responsible for the onward sale of the mobile phones to customers and to provide them with after sales services. The mobile phones that were sold may not be refunded and Eycom's general practice was to replace those mobile phones found to be defective.

Profit and cost sharing

Eycom was responsible for all production costs. The Mobile Phone Partner required Eycom to pay an agreed profit for each unit of mobile phones produced, which ranged from approximately RMB17 to RMB32 per unit and varied between different mobile phone models. Such agreed profit was arrived at after arm's length negotiation between the Group and the Mobile Phone Partner with reference to, among others, the mobile phone production volume under the Mobile Phone Production Arrangement for each model. Such payments were settled by cash on delivery with no credit term. Total amount of such agreed profit paid to the Mobile Phone Partner was approximately RMB2.1 million and RMB6.6 million for the years ended 31 December 2004 and 2005, respectively. There had not been any further production arrangement with the Mobile Phone Partner after the Group obtained the Mobile Phone Approval in December 2005.

Pricing

The retail prices for the onward sale of the mobile phones were determined by Eycom with reference to the market conditions from time to time. Eycom was required to notify the Mobile Phone Partner within two working days after the retail prices were fixed and to inform the Mobile Phone Partner prior to making any substantial adjustment to the retail prices.

Termination

The Mobile Phone Partner was entitled to terminating the Mobile Phone Production Arrangement if, among others, the mobile phones produced were found to have material quality defects, the quality of mobile phones failed to meet the PRC national quality standards or the mobile phones did not conform with the agreed appearance and trademark requirements or there was any adverse impact on the Mobile Phone Partner's brand resulting from the mobile phones produced under the Mobile Phone Production Arrangement.

In addition to the above, all the relevant expenses, such as the fees required to be paid to the relevant authorities for permission to sell the mobile phones produced under the Mobile Phone Production Arrangement in the PRC, should be borne by the Group. The Group was also responsible for the transportation, insurance, after sales services and related expenses for the mobile phones ordered and sold by the Group under the Mobile Phone Production Arrangement.

The abovementioned terms of the Mobile Phone Production Arrangement, including (a) sales arrangement that Eycom was exclusively responsible for the sales of the mobile phone produced under the Mobile Phone Production Arrangement; and (b) the Mobile Phone Partner was responsible for sourcing relevant components for the Mobile Phone Production Arrangement, were arrived after arm's length negotiation between the Group and the Mobile Phone Partner which are considered by the Directors as mutually beneficial to the Group and the Mobile Phone Partner, taking into account, among others, the following:

1. the exclusive sales rights given by the Mobile Phone Partners to Eycom give Eycom better incentives to allocate efforts to promote and sell the mobile phones under the Mobile Phone Production Arrangement; in turn, the Mobile Phone Partner may also benefit from earning more fees (the fixed fees payable by Eycom to Mobile Phone Partner for each mobile phone sold) from the increasing sales of these mobile phones; and
2. the Mobile Phone Partner was responsible for sourcing relevant components for the Mobile Phone Production Arrangement was able to control the quality of mobile phone components to be assembled into mobile phones under its own brand name.

Under the Mobile Phone Production Arrangement, the mobile phones are sold to the customers of the Group. All of these customers of the Group were distributors. The Group would recognise the proceeds derived from the sale of these mobile phones as its revenue and would be responsible for trade receivables relating thereto, if any.

Under the Mobile Phone Production Arrangement, six mobile phone models were developed and produced by the Group. For the year ended 31 December 2004, the entire revenue of approximately RMB51.9 million attributable to the sales of mobile phones was generated from the sales under the Mobile Phone Production Arrangement. Of the revenue of approximately RMB235.8 million attributable to the sales of mobile phones for the year ended 31 December 2005, approximately RMB199.8 million was generated from the sales under the Mobile Phone Production Arrangement and the remaining approximately RMB36 million was generated from the sales of the mobile phones under the Group's own brand.

The Mobile Phone Production Arrangement ceased in December 2005 as the Group obtained the Mobile Phone Approval. No compensation was paid by the Group to the Mobile Phone Partner for cessation of the Mobile Phone Production Arrangement. After cessation of the Mobile Phone Production Arrangement, the Mobile Phone Partner continued to produce its mobile phones but did not source any mobile phone components from the Group as at the Latest Practicable Date.

Accounting treatment regarding the Mobile Phone Production Arrangement*Revenue and cost of sales recognised by the Group from the sale of mobile phone under the Mobile Phone Production Arrangement*

The proceeds derived from the sale of the mobile phones under the Mobile Phone Production Arrangement by Eycom are recognised as the revenue of the Group.

The agreed profit for each mobile phone payable by Eycom to the Mobile Phone Partner under the Mobile Phone Production Arrangement was included in cost of sales.

Income derived and relevant cost incurred to be eliminated by the Group under the Mobile Phone Production Arrangement

When the Mobile Phone Partner sourced mobile phone components from Eyang Shenzhen, Eyang Shenzhen would recognise trading income when the relevant mobile phone components were sold to the Mobile Phone Partner. Eyang Dongguan would recognise subcontracting fee when Eyang Dongguan was responsible for assembling mobile phones under the Mobile Phone Partner's own brand.

Nevertheless, the trading income derived from sale of mobile phone components to the Mobile Phone Partner as recorded by Eyang Shenzhen and subcontracting fee paid to Eyang Dongguan from the Mobile Phone Partner as recorded by Eyang Dongguan were eliminated in the combined financial statements of the Group since, in substance, the said trading income and the relevant cost of mobile phone components and the said subcontracting fees associated with the Mobile Phone Production Arrangement did not represent the sale to final customers of the Group and the purchase from the Company's external suppliers.









Details of the legality of the Mobile Phone Production Arrangement are set out in the paragraph headed "Legal and regulatory" in this section.

II. *The production of mobile phones after obtaining the relevant approval from NDRC*











Since obtaining approval in December 2005 from NDRC for the manufacture of mobile phones for its own brand, the Group has focused on the development of mobile phones equipped with common functions with a low pricing strategy targeting customers with relatively low purchasing power, such as customers in the rural market in the PRC. As such, the Group has cooperated with the subsidiaries of Infineon in the PRC, to develop mobile phones with low production cost and entered into a set of agreements in April 2006. In February 2007, the Group entered into another set of agreements with the subsidiaries of Infineon in the PRC to further develop mobile phones with low production cost ("ULC Cooperation"). By using the chipsets provided by Infineon, the electronic components required for mobile phones could be reduced from approximately 150 to 200 electronic components to approximately 100 electronic components and hence the entire mobile phone size could be reduced, and the production costs could also be minimised.










During the Track Record Period, the Group has developed about 35 mobile phone models under its own brand name, "EY", which generally had a relatively low indicative retail price ranging from approximately RMB339 to RMB1,980 per unit. The first mobile phone developed under the ULC Cooperation with a product code of L378 was introduced to the market in September 2006. As at the Latest Practicable Date, out of the 35 models of the Group's brand of mobile phones, 13 models were developed under the ULC Cooperation.









The 35 mobile phone models developed by the Group during the Track Record Period have different features and specifications such as single or dual-screen mobile phones with or without embedded cameras and multimedia mobile phones with embedded cameras, audio and video recording, transmission capabilities and multimedia functions such as MMS, games, MP3, MPEG-4, and USB interfaces. Regarding mobile phone screen sizes, the Group's mobile phones have sizes ranging from 1.33 inches to 2.8 inches. The resolution for the embedded cameras ranges from 0.3 megapixels to 1.3 megapixels. The memory size of the mobile phones ranges from 128 megabytes to 2 gigabytes. Details of each of the 35 models of mobile phones are set out below:

Mobile phone models		For the year ended 31 December						For the nine months ended 30 September			
		2005			2006			2007			
		Production volume	Sale volume	Sales (RMB '000)	Production volume	Sale volume	Sales (RMB '000)	Production volume	Sale volume	Sales (RMB '000)	
	E518 (Note 1)	MP3, embedded camera, 65,000 color CSTN display	79,751	77,392	36,021	28,588	30,110	14,559	261	1,053	89
	E338	ADCPM function, SMS distribution list with 65,000 color CSTN display	—	—	—	162,561	160,536	52,439	93,999	93,541	25,238
	E328	ADCPM function, SMS distribution list with 65,000 color CSTN display	—	—	—	49,794	44,482	13,071	1,347	6,658	1,913
	E558	MP3, SMS distribution list with 65,000 color CSTN display	—	—	—	83,576	83,575	44,773	183	183	61
	E628	MP3, SMS distribution list, the Group's first slide to open design	—	—	—	33,965	33,865	16,720	252	252	78
	A358	9.9 mm ultra slim with MP3, MP4, 65,000 color CSTN display	—	—	—	48,158	48,156	18,915	966	898	102
	E768	MP3, embedded camera, support data transmission from personal computer, folder-type design with two LCDs, 65,000 color CSTN display	—	—	—	43,557	43,557	24,306	825	508	151
	E728	MP3, MP4, embedded camera, video recording, 26 megapixels, mini SD card	—	—	—	38,668	38,460	22,841	93	93	55

Mobile phones not under ULC Cooperation:

Mobile phone models		For the year ended 31 December								For the nine months ended 30 September		
		2005				2006				2007		
		Product Code	Features	Production volume	Sale volume	Sales (RMB'000)	Production volume	Sale volume	Sales (RMB'000)	Production volume	Sale volume	Sales (RMB'000)
	E568	MP3, embedded camera, support data transmission from personal computer, 65,000 color CSTN display	—	—	—	128,384	127,673	60,219	346	346	115	
	E598	MP3, MP4, embedded camera, SMS distribution list, 65,000 color CSTN display	—	—	—	68,444	68,434	36,315	129	139	46	
	E588	MP3, MP4, video recording, embedded camera, NAND flash memory	—	—	—	44,283	44,183	21,416	328	313	97	
	E818	MP3, MP4, embedded camera with 1.3 megapixels, mini SD card with TV-out function (first in the PRC)	—	—	—	20,245	20,218	15,294	606	400	138	
	A528	MP3, embedded camera with 0.3 megapixels, SMS distribution list	—	—	—	28,541	28,493	12,556	495	488	149	
	E668	MP3, embedded camera with 0.3 megapixels, slide to open design, NAND flash memory	—	—	—	19,285	19,165	10,232	439	439	122	
	A658	Slide to open design with high-tech tactile keypad	—	—	—	23,832	22,824	10,861	1,079	1,972	647	
	A838	Electroluminescent (EL) keypad technology, MP3, MP4, 3GP, T-Flash card, embedded camera with 1.3 megapixels	—	—	—	3,544	2,816	1,801	15,569	15,686	8,232	
	A578	MP3, MP4, T-Flash card, TFT color display	—	—	—	—	—	—	13,163	12,925	6,053	
	M18	MP3, MP4, E-book, handwriting recognition capabilities, TFT color display	—	—	—	—	—	—	197,129	195,248	104,107	

Mobile phone models		For the year ended 31 December								For the nine months ended 30 September			
		2005				2006				2007			
		Production volume	Sale volume	Sales (RMB'000)	Production volume	Sale volume	Sales (RMB'000)	Production volume	Sale volume	Sales (RMB'000)			
	Product Code	Features											
	M19	2.8" LCD, MP3, MP4, handwriting, T-flash memory card extension, e-books, video ringtones, secured anti-theft device, region identification of caller	—	—	—	—	—	—	—	—	55,202	55,011	34,674
	M17	2.4" LCD, 320 x 240 TFT screen, MP3, MP4, handwriting, T-flash memory card extension, e-books, video ringtones, dictionary, digital recording, region identification of caller	—	—	—	—	—	—	—	—	57,389	57,082	28,312
	M25	2.0" LCD 176 x 220, MP3, video playback, handwriting, T-flash memory card extension, e-books, dictionary, digital recording, region identification of caller	—	—	—	—	—	—	—	—	32,357	29,357	11,748
	M11	2.4" LCD, 320 x 240 TFT screen, MP3, video playback, handwriting, T-flash memory card extension, e-books, battery-saving auto-off	—	—	—	—	—	—	—	—	7,998	7,838	3,797
Mobile phones under ULC Cooperation:													
	L318	Ultra slim design with MP3, 65,000 color CSTN display	—	—	—	4,750	3,022	1,387	—	—	130,085	127,407	34,850
	L378	The first ULC mobile phone, slim design with MP3 at competitive price	—	—	—	328,560	318,695	86,416	—	—	83,166	90,637	25,163
	L238	Support USB charging with ultra slim keypad	—	—	—	44,871	40,584	15,013	—	—	84,898	88,314	31,549
	L138	MP3, 65,000 color CSTN display, USB connection with special 80 mobile phone exterior	—	—	—	—	—	—	—	—	8,033	7,459	2,471
	L168 (Note 2)	MP3, 65,000 color CSTN display	—	—	—	2,200	—	—	—	—	92,640	93,858	21,204

Mobile phone models		For the year ended 31 December								For the nine months ended 30 September		
		2005				2006				2007		
		Production volume	Sale volume	Sales (RMB'000)	Production volume	Sale volume	Sales (RMB'000)	Production volume	Sale volume	Sales (RMB'000)		
Mobile phones under ULC Cooperation:												
	L188 (Note 3)	MP3, SMS distribution list, 65,000 color CSTN display	—	—	—	—	—	—	168,209	167,763	36,345	
	L618	MP3, MP4, embedded camera, video recording with USB connection, TFT color display	—	—	—	9,329	9,329	5,295	18,672	18,557	7,601	
	L368	MP3 with USB charging, 65,000 color CSTN display	—	—	—	—	—	—	2,113	2,007	626	
	L388 (Note 4)	MP3, MP4, 3GP, embedded camera with 0.3 megapixels, TFT color display, mini SD card	—	—	—	—	—	—	—	—	—	
	L858	MP3, MP4, TFT color display, the Group's first PDA phone	—	—	—	—	—	—	9,487	9,395	5,005	
	U128 (Note 3)	MP3, SMS mass messaging, message encryption, IP direct dialing, 65, 000 color CSTN 128 x 128	—	—	—	—	—	—	42,723	42,483	10,518	
	G988 (Note 4)	GPS · OCR	—	—	—	—	—	—	—	—	—	
	L5522 (Note 4)	Support key in by handwriting and keypad, MP3, MP4, memory card extension, power-down	—	—	—	—	—	—	—	—	—	
Total			79,751	77,392	36,021	1,215,135	1,188,177	484,428	1,120,181	1,128,310	401,256	

BUSINESS

Notes:

1. As the Group obtained the Mobile Phone Approval in December 2005, for the year ended 31 December 2005, there was only one model of mobile phone of E518 for its own brand which was manufactured and sold by the Group.
2. The production of mobile phone model of L168 commenced at the year end of 2006 were for sale in Chinese New Year in 2007.
3. The Group also produced these two models for a mobile phone distributor as further explained in note 2 to the following table.
4. The mobile phone models of L388, G988 and L5522 were developed during the nine months ended 30 September 2007 and are expected to launch in the market at the year end of 2007.

The breakdown of revenue generated from the sales of mobile phones during the Track Record Period are set out below:

	Year ended 31 December												Nine months ended 30 September								
	2004				2005				2006				2006		2007						
	Sale		Turnover		Sale		Turnover		Sale		Turnover		Sale		Turnover		Sale		Turnover		
	Volume	%	('000)	%	Volume	%	('000)	%	Volume	%	('000)	%	Volume	%	('000)	%	Volume	%	('000)	%	
Sales generated from the Group's mobile phones	—	—	—	—	77,392	18	36,021	15	1,188,177	100	484,428	100	789,820	100	358,579	100	1,128,310	100	401,256	100	
					(Note 1)												(Note 2)		(Note 2)		
Sales generated under the Mobile Phone Production Arrangement	68,725	100	51,924	100	344,814	82	199,823	85	—	—	—	—	—	—	—	—	0	—	0	0	0
Total	68,725	100	51,924	100	422,206	100	235,844	100	1,188,177	100	484,428	100	789,820	100	358,579	100	1,128,310	100	401,256	100	

Notes:

1. The application for the Mobile Phone Approval for the manufacture of the mobile phones for the Group's own brand was submitted in July 2005. In the 4th quarter of 2005, the Group expected to obtain the Mobile Phone Approval around late 2005. In view of such circumstance and in order to seize the business opportunity of the upcoming peak season for mobile phone sales in Chinese New Year, the Group made an earlier mobile phone production arrangement for its own brand. With the earlier mobile phone production arrangement by the Group, the Group was able to launch its own branded mobile phones to the market immediately after it had obtained the Mobile Phone Approval in December 2005 and achieved a monthly sale volume of approximately 77,000 units.
2. In May 2007, the Group entered into agreements with a Hong Kong distributor, an Independent Third Party, pursuant to which the mobile phone distributor purchased the mobile phones produced by the Group which contained the logo provided by such distributor. The sale volume and the turnover attributable to the mobile phones produced and sold by the Group under the said agreements amounted to approximately 21,500 units and RMB4.0 million, accounted for approximately 1.9% and 1.0% of the total sale volume and turnover attributable to the sale of mobile phones for the nine months ended 30 September 2007 respectively.

PRODUCTION

MLCC business

Production technology

The production technology of MLCC can generally be categorised into two methods: Noble Metal Electrode (NME) technology and Base Metal Electrode (BME) technology. NME technology is a traditional production method for MLCC by which noble metals such as silver and palladium are used for the conductor of the electrode mounted inside MLCC. BME technology is another MLCC production method which was first developed in late 1970s, and it is a method to reduce the production cost of MLCC products by way of using base metals such as nickel and copper for the conductor of the electrode mounted inside the MLCC products instead of using noble metals such as silver and palladium as used by traditional NME technology. After a series of technical improvements, BME technology gradually became more commonly used in the MLCC industry in the late 1990s.

In 2002, the Group successfully used BME technology to develop 0402 MLCC, and the Group passed the science and technology achievement appraisal in October 2002. According to the Science and Technology Achievement Appraisal Certificate (科學技術成果鑒定證書) dated 24 October 2002 issued by the Shenzhen Bureau of Science and Technology (深圳市科學技術局, currently known as Shenzhen Bureau of Technology and Information (深圳市科技和信息局)), Eyang Shenzhen was accredited as the first PRC manufacturer which successfully developed 0402 MLCC by using BME technology in the PRC.

The Group continuously commits to research and development in order to maintain its position in the MLCC industry. The Group has also worked closely with Tsinghua University in the research and development of advanced MLCC technology, in particular, it has participated in the projects under the National High Technology Research and Development Program of the PRC (國家高技術研究發展項目, commonly known as the “863 Project”), details of which are set out in the paragraph headed “Research and development” of this section.

Production process

The production process of MLCC products is carried out at the Group’s factory located in Dongguan. As at the Latest Practicable Date, there are in total 764 staff in the MLCC production department and 72 staff in the quality control department responsible for inspection of the MLCC. The Directors believe that delivery of products to its MLCC customers on time is important for maintaining the Group’s success. Therefore, the Group has a dedicated production planning team which is responsible for the overall planning of the production process of MLCC so as to ensure that the production output each month can satisfy the demand from customers on time.

The production planning team prepares the MLCC production plan by gathering the following information:

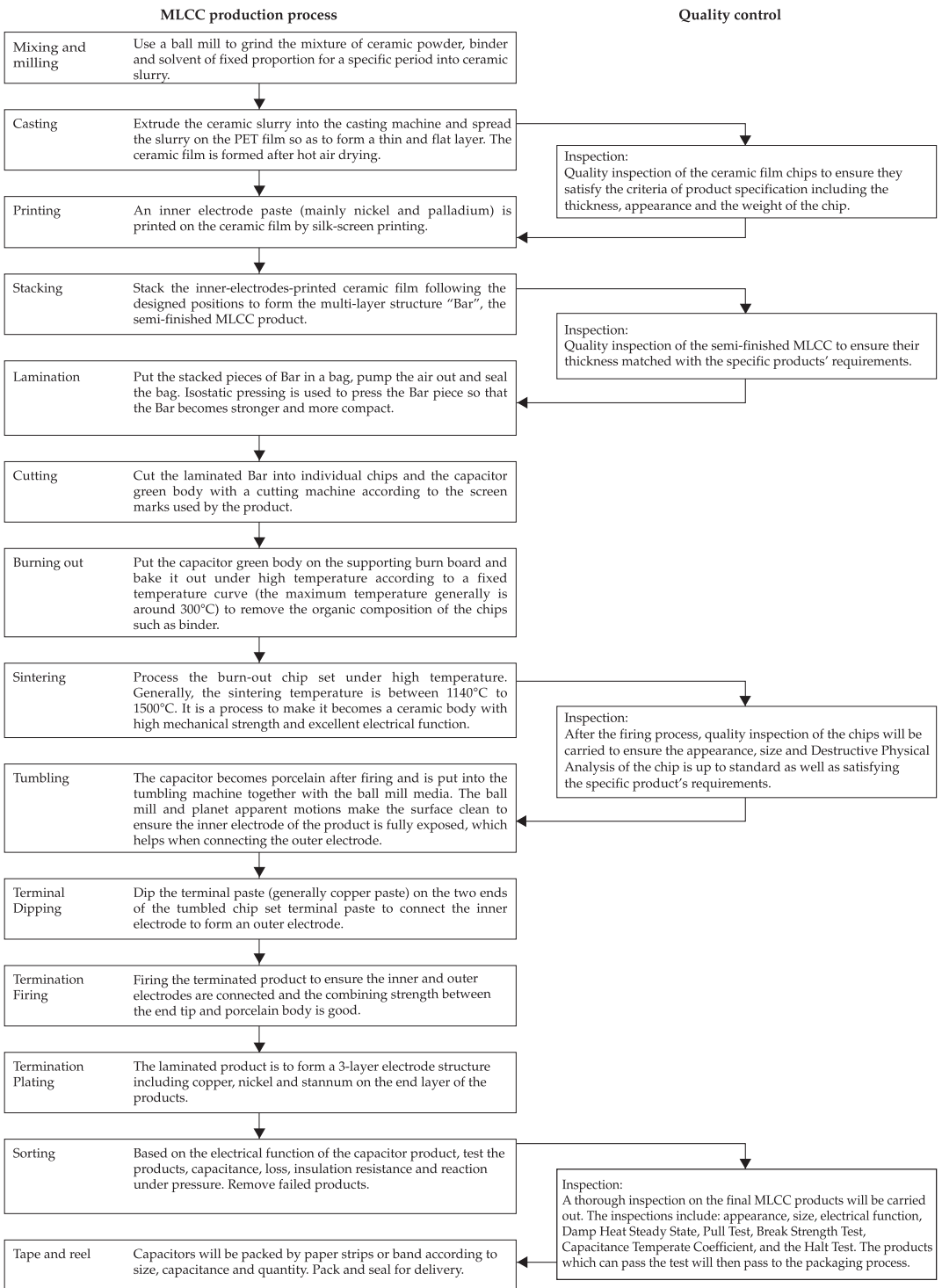
1. historical three months sale orders;
2. present outstanding sale orders and breakdown of inventory, including lists of raw materials, semi-finished goods and the finished MLCC products; and
3. sales forecast in the next three months provided by the MLCC sales committee.

Subsequent to obtaining the above sales related information, together with other information gathered by the production planning team which visits each production process station periodically, the production planning team produces a production feasibility study, which is tested by the Group's computer system to ensure the plan's feasibility.

The production planning team holds a regular meeting every month. During the meeting, the senior management of the Group and other MLCC departments such as the production department, the technical department, the raw materials procurement department and the quality control department review the preliminary production plan and discuss the actual production arrangement. After confirmation by various parties, the final production plan for the next month can be confirmed.

Such a final production plan determines the total MLCC production output for the coming months and provides a procurement schedule and facilities arrangement schedule based on the production output. This plan is circulated to the management of the respective MLCC departments. They are responsible for supervising the implementation of the production plan so as to ensure the production outputs can be matched with the customers' demand.

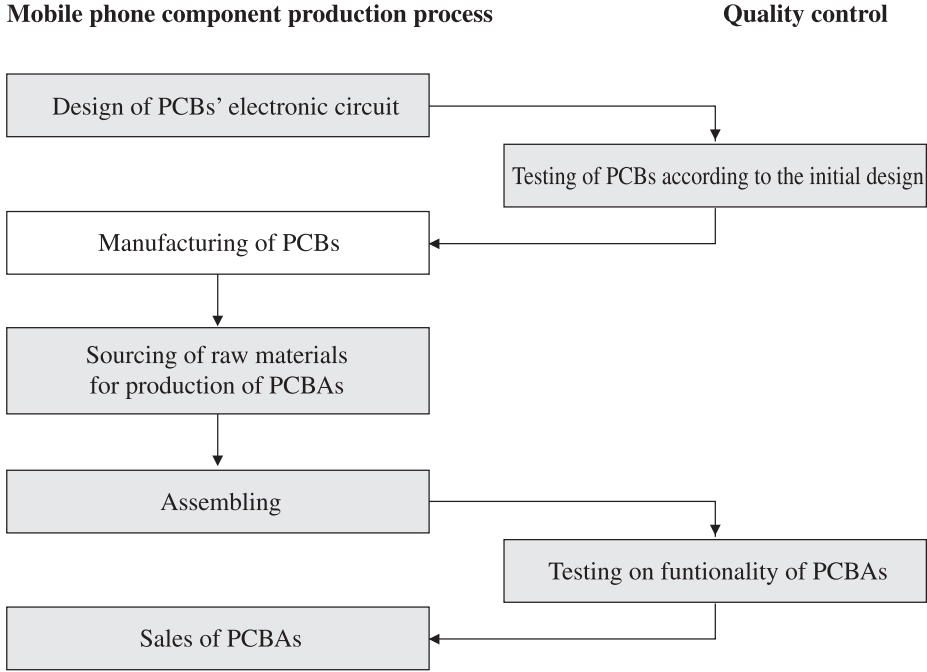
The following chart shows the manufacturing process of MLCC by the Group.



Mobile phone related business

Mobile phone components

The Group’s production process for the mobile phone component is set out below:



Notes:

- Manufacturing process carried out by the Group
- Manufacturing process carried out by third parties

Based on a mobile phone technology platform, the Group would design the circuit layout of the PCBs and the positioning of various mobile phone components. After a series of trial production and functionality testing, the finalised design of PCBs would be delivered to a PCB manufacturer for production of PCBs according to the finalised PCB layout design.

After sourcing various kinds of mobile phone components, such as capacitors, ICs and diodes, the Group would assemble all the sourced mobile phone components with PCBs to produce PCBAs. A series of functionality tests on the PCBAs would be carried out by the Group before distributing the PCBAs to the market.

The mobile phone components manufactured and sourced by the Group were also provided to the Group’s mobile phone segment for the manufacture of mobile phones. During the Track Record Period, the sale of mobile phone components within the Group was approximately RMB124 million, RMB242 million, RMB184 million and RMB23 million respectively.

Mobile phones

The Group is engaged in the manufacture and sale of mobile phones.

During the Track Record Period, the mobile phones produced by the Group were all sold to mobile phone distributors for their onward sale through their own distribution networks.

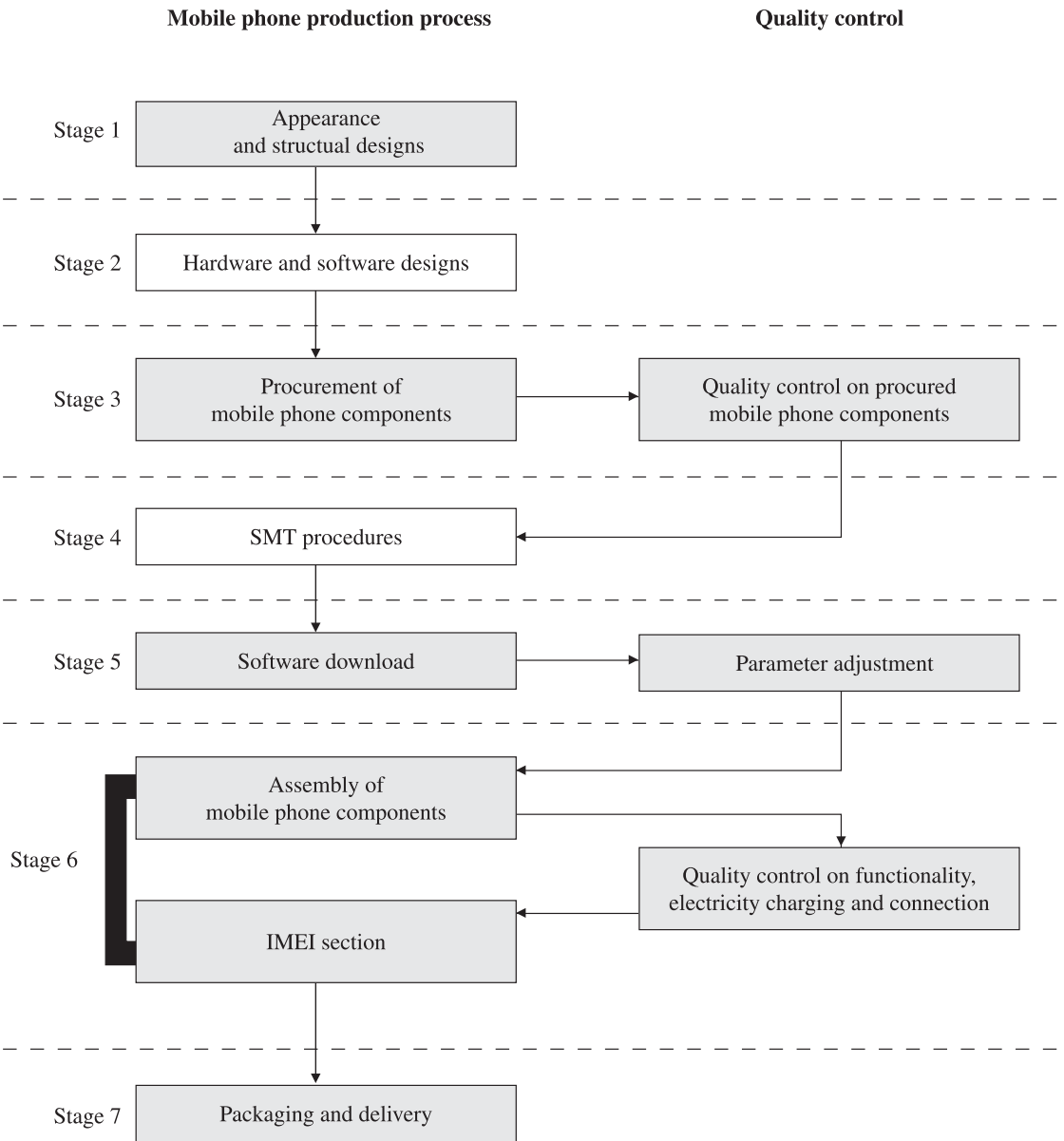
The mobile phone production of the Group generally comprises the following stages: Stage 1 — appearance and structural designs involving design of mobile phone appearance and structural positioning of mobile phone components; Stage 2 — mobile phone hardware and software designs involving the design of circuit board inside the mobile phones and design of operational platform of mobile phones; Stage 3 — procurement of various mobile phone components, including but not limited to chipsets, LCD and IC; Stage 4 — assembling of electronic and mobile phone components through SMT procedures into PCBs; Stage 5 — downloading of the software into the mobile phones; Stage 6 — assembling of all mobile phone components into a mobile phone and IMEI selection; Stage 7 — packaging and delivery.

Amongst the abovementioned seven mobile phone production stages, there are two stages involving outsourcing arrangements, namely, stage 2 — mobile phone hardware and software designs and stage 4 — SMT procedures, whereas the remaining five mobile phone production stages are retained and conducted by the Group. During the Track Record Period, mobile phone hardware and software designs involving the design of circuit board and general operational platform of mobile phones on stage 2 of the production processes were outsourced by the Group to Jingwei and Lingying in respect of several mobile phone models, whereas SMT procedures on stage 4 were principally outsourced by the Group to Yixu. During the Track Record Period, the total amount of outsourcing fees paid by the Group was approximately RMB3.6 million, RMB9.7 million, RMB23.6 million and RMB23.0 million respectively.

As hardware and software designs, i.e. electronic circuit design and the operating systems and the relevant application software, are relatively standard products and have a developed segment to provide such service in the mobile phone industry, the Directors consider that it is more operationally effective to outsource such part of research and development of mobile phones in respect of several mobile phone models, which enables the Group to allocate more resources and efforts to the appearance and structural designs of mobile phones. In addition, in order to reduce the capital expenditure of the Group and to focus on the promotion of mobile phones under its own brand name, the relatively more capital-intensive SMT procedures are outsourced to several Independent Third Parties. Given that there are plenty of suppliers in the PRC to provide SMT services and the SMT procedures are common procedures in the production of electronic products, the Directors are of the view that it is a common practice and is commercial viable to outsource such production process to the suppliers who are specialized in the provision of such services.

With the said outsourcing arrangements, the Directors consider that the Group is able to operate its mobile phone business more effectively and is able to concentrate its resources and efforts on other important aspects, i.e. mobile phone appearance and structural designs which directly reflect the market positioning, brand awareness and characteristics of the mobile phones produced by the Group and assembly of mobile phone components into a complete mobile phone set and quality control.

The following chart shows the mobile phone production process of the Group:



Notes:



Production process carried out by the Group



During the Track Record Period, the Group had outsourced part of the manufacturing process of mobile phones to third parties, namely, (a) the hardware and software designs of mobile phones at stage 2 to Jingwei and Lingying; and (b) the SMT procedures at stage 4 principally to Yixu. In addition, the Group purchased the chipsets from Infineon and used and modified its software and hardware designs for the production of the Group's mobile phones. Details of which are further elaborated below.

Stage 1 — Appearance and structural designs

At the beginning of the production process, according to the market positioning of each new mobile phone model and functionality requirements as set by the Group, the research and development team will first perform the mobile phone appearance design which involves the design of the general outline and size of the mobile phones, the colour of the mobile phone surface and various components mounted on the surface of mobile phones, the screen size, and the materials to be used for the mobile phone casing.

With the mobile phone appearance design, the skeleton and size of the mobile phones are basically defined. Accordingly, structural design of mobile phones would proceed to design the different positions of mobile phone components such as cameras, mobile phones crusts, screen, speaker, keyboard to fit the appearance design. In addition, the structural design will also take into account the use of the different mobile phone components to optimise the size and structure of the mobile phones.

Stage 2 — Hardware and software designs

According to the functionality requirements of the Group, mobile phone hardware design will proceed which involves the design of the electronic circuit board on which all relevant mobile phone parts and components such as chipset, antenna, screen, microphone, keyboard will be mounted thereon.

In addition, software design will proceed as well which involves the design of the general operating system and platform for mobile phones. Under the general operating system and platform, various hardware drivers will be designed to activate the relevant mobile phone parts, such as screen, microphone, keyboard, battery charger.

During the Track Record Period, the mobile phone hardware and software designs involved were outsourced by the Group to Jingwei and Lingying in respect of several mobile phone models, details of which are set out in the paragraph headed “Research and development-mobile phone related business” in this section.

In addition, under the cooperation arrangement with Infineon as detailed in stage 3 below, the Group has been granted the rights to use, modify and reproduce the relevant hardware and software designs which include circuit board design, hardware driver design source code such as driver software for audio, charger and keyboard for mobile phones provided by Infineon under the relevant agreements entered into between the Group and related companies of Infineon. As such, during the Track Record Period, the Group’s mobile phone research and development team, based on the relevant hardware and software design solutions provided by Infineon, had further modified and developed the relevant hardware and software design solutions according to the functionality requirement as set by the Group for the production of mobile phones. Details of which are also set out in the paragraphs headed “Stage 3 — procurement of mobile phone components — Cooperation with Infineon” and “Research and development — mobile phone related business” in this section.

Stage 3 — Procurement of mobile phone components

After completion of mobile phone appearance and structural designs, the Group then sources various mobile phone components from overseas and domestic suppliers which are suitable to the design layout of the Group's mobile phones. In particular, the Group sources chipsets and relevant hardware and software designs from Infineon and the details of the cooperation with Infineon are set out below:

Cooperation with Infineon

Closely working with an international chipset manufacturer, Infineon, which is principally engaged in offering semiconductor and system solutions and shares of which are listed on the Frankfurt Stock Exchange and on the New York Stock Exchange, the Group has enhanced the functionality of its mobile phones series and reduced the production cost effectively. On 4 April 2006, Eycom, a wholly-owned subsidiary of the Company, entered into a license agreement (the "License Agreement") and a development services agreement (the "Development Services Agreement") (together, the "Infineon Agreements") with Infineon Technologies Asia Pacific Pte Limited ("Infineon Asia") and Infineon Technologies Centre of Competence (Shanghai) Co., Ltd. ("Infineon Shanghai") respectively. Infineon Asia is a wholly-owned subsidiary of Infineon Technologies AG, whereas Infineon Shanghai is a related company of Infineon Asia.

Pursuant to the License Agreement, Infineon Asia has granted Eycom a non-exclusive and non-transferable license (without any right to sublicense), (i) to use, modify and reproduce its hardware, i.e. the chipset, and software designed for ultra-low cost (ULC) mobile phones; and (ii) to manufacture, sell and distribute the relevant Group's mobile phones. Eycom agreed to purchase from Infineon Asia a minimum quantity of its chipsets within two years from the date of the License Agreement at a unit price plus royalty per chipset as specified in the License Agreement which were negotiated on an arm's length basis. Eycom shall settle all purchasing amount and royalties within 30 days from the respective invoice date. The software is granted one year limited warranty that it will perform in all material respects and function in accordance with the agreed specifications. Under the License Agreement, Infineon Asia has also agreed to indemnify Eycom in respect of any third party claim that the software infringes any intellectual property rights, subject to a maximum liability of US\$250,000. The terms of the License Agreement is 18 months from the date of the License Agreement, and it will automatically extend for one year unless terminated by either party to the License Agreement by giving three months written notice prior to the end of the existing term.

Pursuant to the Development Services Agreement, Eycom has engaged Infineon Shanghai to provide, among others, the hardware and software design relating to the development of the Group's mobile phone products for a period corresponding to the Group's mobile phone development plan as specified in the Development Services Agreement. In accordance with the terms of the Development Services Agreement, Eycom paid a fixed service fee as specified in the Development Services Agreement for the services provided by Infineon Shanghai within seven days of the signing of the Development Services Agreement. Infineon Shanghai owns all the intellectual property rights designed and created in the course of rendering its services to Eycom. The Development Services Agreement will be terminated upon reaching certain major project milestones as set out in the agreement.

Based on the letter issued by Infineon Asia dated 27 February 2006, Infineon Asia offered a purchase rebate of the said service fee to Eycom on the condition that, among others, Eycom purchased and fully paid to Infineon Asia the amount for one million chipsets in accordance with the terms of the

License Agreement as set out above (the “Rebate Condition”). Such term was negotiated on an arm’s length basis. The Directors confirm that as at the Latest Practicable Date, Eycom has not fulfilled the Rebate Condition.

On 26 February 2007, Eycom further entered into a license agreement (the “ULC2 License Agreement”) and a development services agreement (the “ULC2 Development Services Agreement”) with Infineon Asia and Infineon Shanghai respectively, pursuant to which Eycom may utilise Infineon’s mobile phone solution to develop the second generation ULC mobile phone. Under the ULC2 License Agreement, Eycom is granted the non-exclusive and non-transferable license (without any right to sublicense) to use, modify, reproduce and distribute the hardware design information and software of Infineon Asia in the development of its own second generation ULC mobile phone products. Eycom shall pay both the purchasing price and a royalty to Infineon Asia for each purchase of the second generation ULC chipset. The purchasing price and royalty were negotiated on an arm’s length basis. The software is granted a one year limited warranty that it will perform in all material respects and function in accordance with the agreed specifications. Under the ULC2 License Agreement, Infineon Asia has also agreed to indemnify Eycom in respect of any third party claim that the software infringes any intellectual property rights, subject to a maximum liability of US\$250,000. The terms of the license is 18 months and automatically extends for one year unless terminated by either party to the ULC License Agreement by giving three months prior written notice prior to the end of the existing term. The material terms of the ULC Development Services Agreement are similar to the Development Services Agreement, pursuant to which Eycom engaged Infineon Shanghai to carry out certain development services corresponding to Eycom’s development plan for its second generation ULC mobile phone. The ULC2 Development Services Agreement will be terminated upon reaching certain major project milestones as set out in the agreement.

The Directors confirm that Infineon Technologies AG, Infineon Asia and Infineon Shanghai are Independent Third Parties and, save for the Infineon Agreements, ULC2 License Agreement and ULC2 Development Services Agreement, there is no other relationship between each of Infineon Technologies AG, Infineon Asia, Infineon Shanghai and the Group.

Stage 4 — SMT Procedures

The next mobile phone production process is the application of SMT procedures, where capacitors, electronic resistor and chipsets are fixed on a PCB through SMT procedures. In order to reduce the capital expenditure of the Group and focus on the promotion of mobile phones under its own brand name, the relatively more capital-intensive SMT procedures are outsourced to several Independent Third Parties and principally to Yixu. Details of the cooperation with Yixu are set out below:

Cooperation with Yixu

The Group has cooperated with Yixu since September 2005. In order to formalise the cooperation, on 30 December 2006, Eycom entered into a processing contract (the “Yixu Agreement”) with Yixu. The principal terms of the Yixu Agreement are set out below:

Outsourcing

Eycom outsources the SMT procedures to Yixu and provides raw materials to Yixu, such as printed circuit board (PCB). Yixu is required to proceed with the SMT procedures according to Eycom’s technical requirements, product specifications and manufacturing instructions. Yixu guarantees that it will provide at least one production line every month to fulfill the production requirements of Eycom. Eycom is required to inform Yixu in writing if there is any change in the production process. Yixu may suspend its production if there is any irregularity with the raw materials provided by Eycom.

Quality control requirements

The processed products are required to comply with standard specifications under the specific industry standard. Yixu will need to ratify those processed products that do not meet the required standard specifications and be responsible for any additional expenses incurred as a result.

Pricing

Pricing is determined by the price quotations provided by Yixu and the purchase orders placed by Eycom from time to time.

Payment and credit terms

Eycom is required to settle the payment for the transaction value as specified in the purchasing orders within 30 days from the relevant invoice date.

Duration

The Yixu Agreement has been entered with a term of two years and does not contain any expressed early termination clause.

Under the above outsourcing arrangement with Yixu, the components processed by Yixu under the Yixu Agreement, together with other electronic components sourced by Eycom, will be sent to Eyang Dongguan for further assembling. The said process is carried out by three production lines located at the factory of Eyang Dongguan.

The Directors confirm that Yixu does not exclusively provide SMT procedures for the Group and the Group is not the only customer of Yixu. Yixu is one of the SMT service suppliers of the Group. During the Track Record Period, the service fee paid to Yixu for SMT services amounted to approximately nil, RMB1.7 million, RMB8.5 million and RMB8.2 million respectively, representing nil, 41.3%, 88.6% and 96.5% of the total service fee paid for the SMT services.

During the Track Record Period, the Group has outsourced part of the manufacturing process of mobile phones to third parties, namely, (a) hardware and software designs of mobile phones to Jingwei and Lingying in respect of several mobile phone models; and (b) the SMT procedures principally to Yixu. In addition, the Group purchased chipsets from Infineon and used and modified its software and hardware design for the production of the Group's mobile phones. Having taken into account the fact that (i) Jingwei, Lingying, Yixu and Infineon are suppliers among various suppliers of the Group; and (ii) the products and services provided by the said suppliers, namely, mobile phone hardware and software designs, SMT services and chipsets, are common production services, mobile phone components and/or electronic parts in the mobile phone industry, and hence there are plenty of suppliers in the PRC that could provide similar products and services to the Group. The Directors consider that the Group will be able to find suitable replacements in the event that any of the aforesaid suppliers ceases its business with the Group. Given that there are plenty of suppliers in the PRC to provide SMT services a common procedure in the production of electronic products, the Directors are of the view that it is a common practice and is commercially viable to outsource such production process to the suppliers who are specialized in the provision of such services.

Stage 5 — Software download

The Group downloads the software into the mobile phones and performs various parameter adjustments to set the radio frequency parameter with the standard range for each mobile phone.

Stage 6 — Assembly of mobile phone components and IMEI selection

The Group assembles all mobile phone components into a whole mobile phone set. After the whole set mobile phone samples are produced, the Group performs quality control measures, including (i) functionality testing to inspect the overall functions of mobile phones, such as ring function and vibration function; (ii) electricity charging testing to inspect whether batteries of the mobile phones can be charged properly; and (iii) mobile communication testing to inspect the communication function. Upon the satisfaction on quality control, the Group commences mass production according to the customers' purchase orders and input the IMEI number for each mobile phone as recognition of the official mobile phones which can be sold to the customers in the PRC.

Before packaging, the Group also selects several mobile phones randomly to perform quality control testing.

Stage 7 — Packaging and delivery

All the mobile phones are packed by the Group into a printed box with other accessories, such as headphones, batteries, manual and warranty card, which are delivered to the mobile phone distributors for their onward sale.

PRODUCTION FACILITIES AND CAPACITY**Production facilities**

Eyang Dongguan, located in Fenggang Town, Dongguan, is the manufacture base of the Group's operation. It comprises a parcel of land with a site area of approximately 83,000 sq.m. on which five buildings and various ancillary structures included a 3-storey factory, three 6-storey dormitories and a canteen were built.

The 3-storey factory has a total floor area of approximately 15,656 sq.m.. The first floor of the factory with a total gross floor area of approximately 7,500 sq.m. is currently leased to Eyang Shenzhen Dongguan branch office for research and development and manufacturing workshop of the MLCC production. The second level of the factory is occupied as the production line of the Group's mobile phone products.

Eyang Shenzhen and Eycom leased two units with a total gross floor area of approximately 255 sq.m. in Duoli Industrial Area, Futian District, Shenzhen for the packaging and taping of MLCC products and quality testing and software installation for mobile phone products respectively.

Eycom also leased an office in Shenzhen with a total gross floor area of approximately 1,000 sq.m.. The office is mainly occupied by Eycom as the administration office and research and development centre of the Group's mobile phone business, a portion of which is sub- leased to Eyang Shenzhen as its administration office.

Pursuant to the agreement for the grant of state-owned land use rights entered into between 深圳市國土資源和房產管理局 (Shenzhen Municipal Bureau of Land Resources and Housing Management) and Eyang Shenzhen in August 2005, Eyang Shenzhen has purchased the land use right of a parcel of land with a site area of approximately 3,584 sq.m. located in Shenzhen High-tech Industrial Park, Nanshan District, Shenzhen for a consideration of approximately RMB1,459,310. An 8-storey plus a basement industrial building with a total gross floor area of approximately 11,958 sq.m. is under construction and will be used as the headquarters of the Group (the "Headquarters") as well as the research and development centre and workshop of the Group's mobile phone business. The construction cost of the Headquarters is expected to be approximately RMB12.98 million which will be funded by bank borrowing and the internal resources of the Group. The construction is expected to be completed by January 2008.

Details of the legality of use of the production facilities of the Group are set out in the paragraph headed "Property" under the sub-section headed "Legal and regulatory" in this section.

BUSINESS

Production capacities

During the Track Record Period, the Group's production capacities and actual production of MLCC products are as follows:

Category	Product type	Number of MLCC (million pieces)				
		Year ended 31 December			Nine months ended	
		2004	2005	2006	30 September 2006	2007
NME	0402	392	625	838	755	487
	0603	1,448	1,978	905	859	304
	0805	10	18	10	6	11
	Total	1,850	2,621	1,753	1,620	802
BME	0402	501	1,517	3,316	2,285	6,351
	0603	4,882	6,255	7,553	5,541	6,413
	0805	136	90	29	28	126
	Total	5,519	7,862	10,898	7,854	12,890
Actual Production		7,369	10,483	12,651	9,474	13,692
Production Capacity¹		8,000	11,000	13,000	9,750	15,000
Utilisation rate²		92.1%	95.3%	97.3%	97.17%	91.28%

Notes:

1. "Production capacity" refers to the Group's estimated available annual capacity. The Group has estimated its production capacity based on certain assumptions including 24 hours worked, 30 to 31 business days per month, planned product mix of the respective year and expected bottlenecks in the production process.
2. "Utilisation rate" is calculated by dividing the actual production of MLCC output by the estimated production capacity.

During the Track Record Period, the Group's production capacities and actual production of mobile phones are as follows:

	Number of mobile phones				
	Year ended			Nine months ended	
	2004	2005	2006	30 September 2006	2007
Actual production ^{1, 2}	38,049	444,476	1,215,135	789,820	1,120,181
Production capacity ³	321,000	832,000	1,872,000	1,404,000	1,404,000
Utilisation rate⁴	11.85%	53.42%	64.91%	56.3%	79.8%

Notes:

1. The actual production in 2004 refers to the number of mobile phones produced by the Group under the Mobile Phone Production Arrangement. As the Mobile Phone Production Arrangement commenced from April 2004 and the Group began to set up its mobile phone production line from June 2004, a total of 50,521 units of mobile phone were produced by an Independent Third Party jointly appointed by the Mobile Phone Partner and the Group

according to the Mobile Phone Production Arrangement for the period from April 2004 to October 2004. Among 444,476 units of mobile phone produced by the Group in 2005, 79,751 units were produced for the Group's own brand whereas the remaining 364,725 units were produced under the Mobile Phone Production Arrangement.

2. The actual production in 2006 refers to the number of mobile phones manufactured by the Group under its own brand.
3. "Production capacity" refers to the Group's estimated available annual capacity which depends on the complexity and functionality of mobile phones. Depending on complexity and functionality of mobile phones, the Group has estimated the production capacity based on each production line producing an average of 2,000 mobile phones each day with 26 business days per month. The Group began to set up the first production line in June 2004 and expanded with two additional production lines in November 2005. As at the Latest Practicable Date, the Group had three production lines.
4. "Utilisation rate" is calculated by dividing the actual production of mobile phones by the estimated production capacity.

SUPPLIERS

During the Track Record Period, raw materials purchased by the Group for the MLCC production were, including but not limited to, ceramic powder, electrode paste, and polyethylene terephthalate, whereas raw materials purchased by the Group for the mobile phone related business were, including but not limited to, chipsets, LCDs and ICs.

For MLCC products, the Group generally orders raw materials one month in advance and suppliers usually keep two months stock for the Group. The Group also maintains approximately one week raw materials as the buffer stock for the MLCC business. For the mobile phone business, the Group provides purchase estimate to its suppliers three to four months in advance. For different raw materials, the times for the orders are made differently. For example, the imported chipsets of the mobile phones will usually be ordered one month in advance, while for other raw materials which are supplied by local suppliers, the Group will usually make the order one day in advance. Chipsets will have two to three days buffer stock, and other raw materials have one day buffer stock.

During the Track Record Period, the total purchase for the MLCC business of the Group was RMB86.8 million, RMB103.5 million, RMB137.8 million and RMB108.8 million respectively, accounting for approximately 15.7%, 23.4%, 24.6% and 21.5% of the total purchase of the Group for the corresponding periods; the total purchase for the mobile phone related business of the Group was RMB466 million, RMB338.2 million, RMB421.7 million and RMB397.6 million respectively, accounting for approximately 84.3%, 76.6%, 75.4% and 78.5% of the total purchase of the Group for the corresponding periods.

The Group's purchases of raw materials for MLCC were settled on an open account basis with a credit terms of no more than 90 days. For mobile phones, the purchases were settled on an open account basis with a credit term of 60 days. The currencies used in the settlement of the Group's purchases for the Track Record Period were mainly in US\$, HK\$ and RMB.

As at the Latest Practicable Date, the Group has established business relationships with over 140 suppliers with a business relationship ranging from one year to six years. Given the Group has not experienced any difficulty in sourcing raw materials and services from its suppliers nor has had any dispute with the suppliers that were material to the operations of the Group, the Directors consider that

BUSINESS

the Group has maintained good relationships with its suppliers. The Directors confirm that they do not expect the Group to encounter any difficulties in sourcing raw materials from existing suppliers or in finding alternative suppliers when necessary in the future.

The following table shows the respective contribution by PRC and overseas suppliers to the total purchase during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
PRC	74,380	13	205,848	47	328,584	59	223,817	56	307,036	61
Overseas	478,466	87	235,820	53	230,917	41	179,079	44	199,398	39
Total	552,846	100	441,668	100	559,501	100	402,896	100	506,434	100

During the Track Record Period, the Group's largest supplier accounted for approximately 59.0%, 12.1%, 12.0% and 6.2% respectively of the Group's total purchase for the same period, while purchases from the five largest suppliers of the Group accounted for approximately 70.3%, 28.9%, 29.8% and 25.6% respectively of the Group's total purchase.

During the Track Record Period, the total purchase of the Group from overseas suppliers decreased while the purchase from domestic suppliers increased. It is because more and more raw materials, parts and components supplied by domestic suppliers can substitute their overseas counterparts with relatively lower costs and comparable quality. As such, the Group increased the proportion of purchases in the PRC during the Track Record Period.

For the MLCC business of the Group, ceramic powder and polyethylene terephthalate were mainly purchased from PRC suppliers and electrode paste was mainly purchased from overseas suppliers. For the mobile phone related business, LCDs were mainly purchased from PRC suppliers and chipsets and IC were mainly purchased from overseas suppliers.

None of the Directors, their respective associates and shareholders of the Company holding more than 5% of the issued share capital of the Company has any interest in any of the five largest suppliers of the Group for each of the three years ended 31 December 2006 and the nine months ended 30 September 2007.

CUSTOMERS**MLCC business**

As at the Latest Practicable Date, the Group has established business relationships with over 75 customers for its MLCC business, and most of the Group's MLCC customers are manufacturers of consumer electronic appliances, computer and computer peripherals and telecommunication products. In addition to these manufacturers, the Group also sold its MLCC products to distributors for their onward sale. During the Track Record Period, the revenue generated from the sale to these manufacturers was RMB104.6 million, RMB126.5 million, RMB148.8 million and RMB129.8 million respectively, accounting for approximately 90.6%, 83.4%, 81.6% and 79.0% of the total revenue generated from the MLCC business of the Group respectively, whereas the revenue generated from the sale to the MLCC distributors of the Group was RMB10.9 million, RMB25.2 million, RMB33.6 million and RMB34.5 million respectively, representing approximately 9.4%, 16.6%, 18.4% and 21.0% of the total revenue generated from the MLCC business of the Group respectively.

The Directors consider that both sale to distributors and sale to manufacturers are normal practice in the MLCC industry. For detailed information on the distributors of the Group's MLCC, please refer to the paragraph headed "Distribution and marketing" in this section.

During the Track Record Period, among the total revenue from the MLCC business of approximately RMB115.5 million, RMB151.7 million, RMB182.4 million and RMB164.3 million respectively, approximately RMB70.4 million, RMB92.2 million, RMB118.9 million and RMB89.9 million were export sales, accounting for approximately 61%, 61%, 65% and 55% of the Group's total MLCC sales during the corresponding period. All the said export sales during the corresponding period were generated from the sale of MLCC products to manufacturers. The increase in the export sales during the Track Record Period was principally due to the continuing improvement in the quality and functionality of MLCC products, which were increasingly accepted by overseas customers. Among these export sales, approximately RMB53.9 million, RMB84.0 million, RMB108.6 million and RMB86.6 million were export sales made through factory transfer arrangement.

Under the Customs Law of the People's Republic of China (中華人民共和國海關法), the PRC Customs Management Method regarding the Processing and Trade of Goods by way of Factory Transfer (中華人民共和國海關關於加工貿易保稅貨物跨關區深加工結轉的管理辦法) and the relevant regulations of the PRC Customs, the Group is allowed to sell its MLCC product by way of factory transfer arrangement (the "MLCC Factory Transfer Arrangement") where, instead of physically exporting MLCC products out of the PRC, MLCC products sold by the Group to its overseas customers are allowed to directly transferred to the customers' assembly plants in the PRC for further processing. However, based on the relevant PRC customs laws and regulations, such sale made by the Group must first undergo PRC customs' clearance procedures to obtain export approval, and the relevant customers' assembly plants are also required to undergo the PRC customs' import clearance procedures. Sale by way of the MLCC Factory Transfer Arrangement are regarded as export sale because all the MLCC products under the MLCC Factory Transfer Arrangement are required to undergo customs' clearance process for export approval. Domestic sale is not required to undergo such customs' clearance process. The relevant payment should be settled by foreign currencies in accordance with the relevant PRC laws and regulations.

BUSINESS

The PRC legal advisers to the Company confirm that the MLCC Factory Transfer Arrangement is in accordance with common industry practice and fully complies with the relevant customs regulations in the PRC. The PRC legal advisers to the Company are of the view that, based on the existing applicable import and export rules and regulations, the Group is not required to pay any export customs duties in connection with the MLCC Factory Transfer Arrangement.

The following table shows the breakdown of the total revenue generated from MLCC business of the Group by the original country/region of the MLCC customers for the Track Record Period:

Country/region	Year ended 31 December						Nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Audited		Audited		Audited		Unaudited		Audited	
	RMB '000	%	RMB '000	%	RMB '000	%	RMB '000	%	RMB '000	%
The PRC sales										
Manufacturers	34,210	30	34,290	22	29,875	16	24,506	18	39,932	24
Distributors	10,852	9	25,250	17	33,639	19	31,701	23	34,532	21
<i>Subtotal of the PRC sales</i>	<u>45,062</u>	<u>39</u>	<u>59,540</u>	<u>39</u>	<u>63,514</u>	<u>35</u>	<u>56,207</u>	<u>41</u>	<u>74,464</u>	<u>45</u>
Export sales (note 1)										
<i>Hong Kong (note 2)</i>										
Direct export	16,460	14	8,204	5	10,250	5	2,988	2	3,287	2
MLCC Factory Transfer Arrangement	48,549	42	65,091	43	89,103	49	60,955	46	72,139	44
	<u>65,009</u>	<u>56</u>	<u>73,295</u>	<u>48</u>	<u>99,353</u>	<u>54</u>	<u>63,943</u>	<u>48</u>	<u>75,426</u>	<u>46</u>
America (note 2)	2,616	2	6,787	5	6,727	4	5,596	4	4,872	3
Taiwan (note 2)	2,770	3	12,102	8	10,960	6	9,844	7	6,008	4
Japan (note 2)	13	0	13	0	365	0	10	0	—	—
India (note 2)	—	—	—	—	1,483	1	542	0	3,576	2
<i>Subtotal of the export sales</i>	<u>70,408</u>	<u>61</u>	<u>92,197</u>	<u>61</u>	<u>118,888</u>	<u>65</u>	<u>79,935</u>	<u>59</u>	<u>89,882</u>	<u>55</u>
Grand total	<u>115,470</u>	<u>100</u>	<u>151,737</u>	<u>100</u>	<u>182,402</u>	<u>100</u>	<u>136,142</u>	<u>100</u>	<u>164,346</u>	<u>100</u>

Notes:

- (1) All export sales made during the Track Record Period were sales made to manufacturers.
- (2) Except Hong Kong, all the exports sales made by the Group to all other countries, including America, Taiwan, Japan and India, were through the MLCC Factory Transfer Arrangement during the Track Record Period.

Payment to the Group by its MLCC customers who are manufacturers is principally settled on an open accounts basis with credit terms of no more than 90 days. In general, the Group's sales are paid for by telegraphic transfers or by banker's acceptance. The exact credit terms and payment methods are dependent on the creditability of individual customers. MLCC distributors of the Group were normally required to settle all payments before delivery without any credit terms. However, distributors who are considered by the Group as having better creditability would be allowed to settle the payment monthly. During the Track Record Period, nil, 3, 2, and 3 MLCC distributors have been granted a credit period of no more than 30 days to settle the payment.

In respect of MLCC business, the period of one to two months before the Chinese New Year tend to experience higher sales than the other months mainly due to the impact of the year-end holiday period on the demand for electronic products.

Mobile phone related business

The mobile phone related business of the Group has two segments, namely mobile phone components and mobile phones.

Mobile phone components

During the Track Record Period, the Group's mobile phone components were sold to various customers, a number of which were electronic product manufacturers. As the mobile phone related business of the Group evolved from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones since 2004, the business focus of the Group's mobile phone related business had also been shifted from the former to the latter. Accordingly, the Group has allocated more resources to the manufacture and sale of mobile phones. As such, for the three years ended 31 December 2006, the revenue generated from the manufacture, sale and trading of mobile phone components was approximately RMB491.2 million, RMB67.8 million and RMB14.8 million, representing a decrease of approximately 97.0% from approximately RMB491.2 million in 2004 to approximately RMB14.8 million in 2006, whereas the revenue generated from the manufacture and sale of mobile phones was approximately RMB51.9 million, RMB235.8 million and RMB484.4 million, representing an increase of approximately 833.3% from approximately RMB51.9 million in 2004 to approximately RMB484.4 million in 2006. In respect of the mobile phone component segment, higher sale volume is normally recorded approximately a month before the calendar New Year, the Chinese New Year holidays, the Labour Day holidays in May and the PRC National Day holidays in October. Sales volumes are comparatively lower in other months.

As at the Latest Practicable Date, the sale of mobile phone components to external customers of the Group has ceased and the operations of mobile phone component segments of the Group focus on the provision of the relevant components for the manufacturing of the Group's mobile phones.

Mobile phones

During the Track Record Period, the Group's customers of mobile phones were all mobile phone distributors who were Independent Third Parties. These mobile phone distributors would purchase the mobile phone produced by the Group and then sell it through their respective sales network. In general, the Group normally requires the mobile phone distributors to settle the amount of the purchase orders before delivery of goods. During the Track Record Period, the Group did not own any retail shops for the sale of the mobile phones produced by the Group. The Directors consider that the sale to distributors are normal practice in the mobile phone industry.

During the Track Record Period, the revenue generated from the mobile phone segment was approximately RMB51.9 million, RMB235.8 million, RMB484.4 million and RMB401.3 million respectively, accounting for approximately 7.9%, 51.8%, 71.1% and 70.5% of the total revenue of the Group for the corresponding period. In respect of the mobile phone segment, higher sale volume is

generally recorded approximately a month before the calendar New Year, the Chinese New Year holidays, the Labour Day holidays in May and the PRC National Day holidays in October. The sale volume is comparatively lower in other months.

Revenue recognition

Revenue derived from the sale of MLCC, mobile phones and mobile phone component are recognised as income of the Group when the products are confirmed for delivery to the customers. Revenue generated from the MLCC distributors and mobile phone distributors is recognised when the products are delivered to the distributors and the title of the mobile phones is actually passed in the sales to the distributors without recourse, if applicable. (i.e. the distributors assumes all losses of any unsold MLCC or mobile phones by them).

During the Track Record Period, the Group's sales attributable to its five largest customers were approximately RMB255 million, RMB73 million, RMB146 million and RMB133 million respectively, which accounted for approximately 38.7%, 15.9%, 21.4% and 23.4% of the total revenue of the Group for the corresponding period respectively. During the Track Record Period, the Group's sales attributable to its largest customer of the Group accounted for approximately 12.9%, 4.0%, 5.2% and 6.1% of the total revenue of the Group for the corresponding period. For the year ended 31 December 2004, none of the five largest customers were distributors of the Group's MLCC business or mobile phone related business; for the year ended 31 December 2005, all of the five largest customers were distributors of mobile phones; and for the year ended 31 December 2006 and the nine months ended 30 September 2007, all five largest customers were mobile phone distributors.

None of the Directors or any of their respective associates, or shareholders who own more than 5% of the issued share capital of the Company as at the Latest Practicable Date holds any interest in any of the Group's five largest customers during the Track Record Period.

DISTRIBUTION AND MARKETING

MLCC business

Distribution and distributors

The Group sells its MLCC products to both manufacturers and distributors for their onward sale. There are no formal agreements entered into between the Group and its MLCC distributors and the sales are normally made by purchase orders placed by these distributors from time to time. The following principal terms for the sale of MLCC products to the distributors are generally included in the purchase orders:

- *Purchase amount* — The purchase orders set out the exact amount of purchase for the distributors for each order and there is no specific minimum purchase amount required from the distributors.
- *Payment and credit terms* — Distributors are normally required to settle all payments at the time of delivery without any credit terms. Distributors who are considered by the Group as having better creditability would be allowed to settle the payment monthly.

- *Pricing policy* — No restriction on the price for their onward sale of the MLCC products to their customers.

Similar to the MLCC distributors, customers who are manufacturers generally purchase the MLCC of the Group through purchase orders with similar terms as that of the MLCC distributors, except that the manufacturers are generally granted a credit period of not more than 90 days to settle the purchase, whereas the MLCC distributors are normally not granted with a credit period and are required to settle the all payments at the time of delivery.

All MLCC distributors are bound by the above terms and conditions which were mutually agreed by the Group and the MLCC distributors.

During the Track Record Period, approximately 9.4%, 16.6%, 18.3% and 21.0% of the total revenue were generated from the distributors of the Group's MLCC business respectively. The Group's MLCC distributors were Independent Third Party and not employed by the Group. Most of them were located in Guangdong province. During the Track Record Period, the Group sold MLCC products to 14, 23, 23 and 15 distributors which had maintained business relationships with the Group for one to five years. No specific sales target is set by the Group to the distributors. The MLCC distributors of the Group were not exclusive distributors of products for the Group. To the best knowledge and belief of the Directors, there are no connections among the Group's MLCC distributors.

The selection criteria of MLCC distributors of the Group include, among others, credibility and track record in distributing electronic components in the PRC. As no formal agreement were entered into between the Group and the MLCC distributors of the Group during the Track Record Period, the MLCC distributors purchased MLCC products from the Group by placing purchasing orders from time to time according to their own sales intention and the price of the MLCC products. During the Track Record Period, there have been MLCC distributors who ceased to purchase the Group's MLCC products generally because they are not willing to purchase the MLCC products at the price offered by the Group from time to time. Nevertheless, no MLCC distributors have ceased to purchase the MLCC products for their own financial reasons.

The distributors are not required to pay any lump sum payment to the Group to secure their business with the Group. The title of MLCC products are actually passed after the Group sells MLCC products to MLCC distributors. The MLCC distributors assume all losses of any unsold MLCC products ordered by them and revenue is recognised in the Group's income statement when the MLCC products are delivered to the MLCC distributors. The Group does not have any sales incentive policy related to the distributors. However, in case of sales promotion, the Group may, among others, grant credit terms to the distributors.

The Group only allows sales returns from its MLCC customers, i.e. the manufacturers and the MLCC distributors, for confirmed defective products. During the Track Record Period, the Group recorded sales return of approximately RMB124,000, RMB157,000, RMB162,000 and RMB59,000 respectively, representing approximately 0.1%, 0.1%, 0.1% and 0.04% of the total revenue of the MLCC business of the Group respectively.

Marketing

The sales and marketing team of the MLCC business comprises 47 staff and is mainly responsible for fostering business relationships with new customers and maintaining a close relationship with existing customers of the Group.

The Group has participated in various industry shows, exhibitions and industry association meetings to introduce the Group's products and services to potential clients.

In 2006, the Group participated in the China Electronics Fair which is one of the large scale electronic product exhibitions in China. Many international and domestic electronic product manufacturers visited the fair in order to explore the latest products. Throughout the fair, the Group exhibited the MLCC products manufactured by the Group and promoted its MLCC products to various domestic and international customers.

The Group also participated in industry association meetings periodically, such as annual meetings of MLCC Alliance in the PRC (中國MLCC聯合體年會). At the industry association meetings, the Group not only shared its view on the MLCC market with its counterparts, but also promoted its latest MLCC products.

In addition, the Group promoted its MLCC products through its company websites, as well as through media communications such as newspapers, magazine and industry journals so as to increase marketing coverage of its MLCC products.

Mobile phone related business

Distributors

During the Track Record Period, the Group's mobile phones were distributed through distributors covering most districts of the PRC, including but not limited to, Chongqing, Jiangsu, Guangdong, Inner Mongolia, Shaanxi and Sichuan. As many districts covered by the distributors are lower tier cities where the purchasing power of potential customers had potential to rise, the Directors consider that there is no saturation of the Group's mobile phones sold in the areas covered by the distributors.

During the Track Record Period, the Group cooperated with 30, 36, 24 and 58 mobile phone distributors, all of them were Independent Third Parties, with business relationships ranging from one to three years. These distributors would directly distribute the Group's mobile phones through their distribution network, including but not limited to, their own or others' retail outlets to end-users. In each province/municipality covered by the Group, there is at least one distributor engaged at one time to sell the Group's mobile phones in that province/municipality and the term of engagement is usually no more than two years. The mobile phone distributors were not exclusive distributors of the Group. The

BUSINESS

following table shows the number of the Group's mobile phone distributors by region during the Track Record Period:

Provinces/Cities	Notes	For the year ended 31 December			For the nine months ended
		2004	2005	2006	30 September 2007
Beijing	¹	1	—	—	1
Shanghai	²	1	—	—	—
Tianjing	³	—	1	—	—
Liaoning		1	1	1	1
Jilin	⁴	1	2	1	1
Heilongjiang	⁵	2	1	1	1
Inner Mongolia		1	1	1	1
Gansu	⁶	2	2	1	1
Xinjiang	⁷	—	—	—	1
Shandong		1	1	1	1
Henan	⁸	1	2	1	1
Hebei		2	2	1	1
Shaanxi	⁹	1	2	1	1
Shanxi	¹⁰	1	1	1	1
Zhejiang		1	1	1	1
Jiangsu	¹¹	1	2	1	24
Anhui		1	1	1	1
Jiangxi		1	1	1	1
Hunan	¹²	2	3	1	1
Hubei		1	2	1	1
Fujian	¹³	1	2	1	1
Guangxi		1	1	1	1
Sichuan		1	1	1	1
Chongqing		1	1	1	1
Guizhou		1	1	1	1
Yunnan	¹⁴	2	1	1	1
Guangdong	¹⁵	1	3	2	6
Hong Kong	¹⁶	—	—	—	1
Subtotal		30	36	24	54
National distributors	¹⁷	—	—	—	4
Total		30	36	24	58

Notes:

- The Group entered the Beijing market in 2004. As the mobile phone distributor in the Beijing market at that time could not meet the purchase target of the Group, the Group ceased cooperation with that distributor in 2005. In 2005 and 2006, no suitable mobile phone distributor in Beijing was identified by the Group. For the nine months ended 30 September 2007, the Group sold mobile phones to one mobile phone distributor in Beijing for their onward sale.

BUSINESS

2. The Group entered the Shanghai market in 2004. As the mobile phone distributor at the Shanghai market at that time could not meet the purchase target of the Group, the Group ceased cooperation with that distributor in 2005. In 2005 and 2006, no suitable mobile phone distributor in Shanghai was identified by the Group. For the nine months ended 30 September 2007, one of the distributors who had chainstores located in Shanghai to distribute the Group's mobile phones. Details of which are set out in note 17 below.
3. The Group entered the Tianjin market in 2005. As the mobile phone distributor at the Tianjin market at that time could not meet the purchase target of the Group, the Group ceased cooperation with that distributor in 2006. No suitable mobile phone distributor in Tianjin was identified by the Group for the nine months ended 30 September 2007.
4. During the year ended 31 December 2005, the Group ceased cooperation with a mobile phone distributor in Jilin as it could not meet the purchase target of the Group at that time and engaged another distributor during the same year. As such, there were two mobile phone distributors engaged by the Group during the year.
5. During the year ended 31 December 2004, the Group ceased cooperation with a mobile phone distributor in Heilongjiang as it could not meet the purchase target of the Group at that time and engaged another distributor during the same year. As such, there were two mobile phone distributors engaged by the Group during the year.
6. During the years ended 31 December 2004 and 2005, the Group ceased cooperation with a mobile phone distributor in Gansu as it could not meet the purchase target of the Group at that time and engaged another distributor during the same year. As such, there were two mobile phone distributors engaged by the Group during the years ended 31 December 2004 and 2005 respectively.
7. The Group first entered Xinjiang market during the nine months ended 30 September 2007.
8. During the year ended 31 December 2005, the Group ceased cooperation with a mobile phone distributor in Henan as it could not meet the purchase target of the Group at that time and engaged another distributor during the same year. As such, there were two mobile phone distributors engaged by the Group during the year.
9. During the years ended 31 December 2004 and 2005, the Group ceased cooperation with a mobile phone distributor in Hebei as it could not meet the purchase target of the Group at that time and engaged another distributor during the same year respectively. As such, there were two mobile phone distributors engaged by the Group during the years ended 31 December 2004 and 2005 respectively.
10. During the year ended 31 December 2005, the Group ceased cooperation with a mobile phone distributor in Shanxi as it could not meet the purchase target of the Group at that time and engaged another distributor during the same year. As such, there were two mobile phone distributors engaged by the Group during the year.
11. During the year ended 31 December 2005, the Group ceased cooperation with a mobile phone distributor in Jiangsu as it cannot meet the purchase target of the Group at that time and engaged another distributor during the same year. As such, there were two mobile phone distributors engaged by the Group during the year. In the second half of 2007, given that the Group's market development in Jiangsu during the last three years, the Group has started to directly sell the Group's mobile phones to more mobile phone distributors instead of only engaging one distributor who was responsible for distribution of the Group's mobile phones in Jiangsu.

BUSINESS

12. During the years ended 31 December 2004, the Group ceased cooperation with a mobile phone distributor in Hunan as it could not meet the purchase target of the Group at that time and engaged another distributor during the same year respectively. As such, there were two mobile phone distributors engaged by the Group during the years ended 31 December 2004 respectively. During the years ended 31 December 2005, the Group ceased the cooperation with two mobile phone distributor in Hunan as they cannot meet the purchase target of the Group at that time and engaged another distributor during the same year respectively. As such, there were three mobile phone distributors engaged by the Group during the years ended 31 December 2005 respectively.
13. During the year ended 31 December 2005, the Group ceased cooperation with a mobile phone distributor in Fujian as it could not meet the purchase target of the Group at that time and engaged another distributor during the same year. As such, there were two mobile phone distributors engaged by the Group during the year.
14. During the years ended 31 December 2004, the Group ceased cooperation with a mobile phone distributor in Yunnan as it cannot meet the purchase target of the Group at that time and engaged another distributor during the same year respectively. As such, there were two mobile phone distributors engaged by the Group during the years ended 31 December 2004 respectively.
15. The Group engaged three, two and six distributors in Guangdong in 2005, 2006 and for the nine months ended 30 September 2007 respectively, covering different cities in Guangdong province.
16. In May 2007, the Group entered into cooperation agreements with a Hong Kong distributor, an Independent Third Party, pursuant to which the mobile phone distributor purchased the mobile phones produced by the Group which contained the logo provided by such distributor. Further details are elaborated in the following paragraphs below.
17. For the nine months ended 30 September 2007, the Group engaged four mobile phone distributors, three of them distributed the Group's mobile phones in the PRC through its own chain-stores covering various provinces and regions, namely, including but not limited to, Zhejiang, Jiangsu, Shandong, Huan, Anhui, Shanxi, Shanghai. The remaining one mobile phone distributor distributed the Group's mobile phones through its television programme in the PRC.

Mobile phones produced by the Group were all sold to mobile phone distributors principally for further distribution in the PRC. Nevertheless, in addition to distributing the Group's mobile phones in the PRC, one local mobile phone distributor in 2006 and two local mobile phone distributors in 2007 had overseas clientele as well. From time to time, these mobile phone distributors placed purchase orders to the Group and requested the Group to deliver the relevant mobile phone products to Hong Kong for their onward distribution. For the three years ended 31 December 2006 and the nine months ended 30 September 2007, the sale of mobile phones by the Group to the said distributors under the said agreement amounted to approximately nil, nil, RMB17.4 million and RMB52.5 million, representing approximately nil, nil, 3.6% and 13.1% of the revenue generated from the sale of mobile phones by the Group during the corresponding period.

To further broaden revenue sources of the Group's mobile phone business, in May 2007, the Group entered into agreements with a Hong Kong distributor, an Independent Third Party, pursuant to which the mobile phone distributor purchased the mobile phones produced by the Group which contained the logo provided by such distributor. Save for that, all other principal terms are similar to the terms as set out below. For the nine months ended 30 September 2007, the sale of the Group's mobile

phones to such mobile phone distributors amounted to approximately RMB4.0 million, representing approximately 1.0% of the revenue generated from the sale of mobile phones by the Group during the corresponding period. As the sale amount of such mobile phone products did not contribute significantly to the Group's mobile phone business and it was considered not operationally efficient to directly oversee such sale activities given the fact that most of sale of mobile phones was conducted in the PRC during the Track Record Period, the Group ceased such the sale of mobile phone products to the said mobile phone distributor as at the Latest Practicable Date.

The Group normally delivers the goods to the distributors after the payment is settled. The distributors are not required to pay any lump sum payment to the Group to secure their business with the Group. The Group is obligated to provide all the after sales repair and maintenance services. The Group does not have its own retail shop for sale of mobile phones to customers and currently does not have any plan to open its own retail shop for the direct sales of mobile phones.

The distributorship agreements that the Group entered into with its mobile phone distributors generally include the following principal terms:

- *Sales network* — Distributors may develop their sales network in their own designated geographical area and may enter into agreements with wholesalers and retailers in the geographical area.
- *Payment and credit terms* — Payments are made to the Group by either cash or banker's acceptance (承兌匯票). The distribution agreements do not specify any credit term. However, the Group normally requires the distributors to settle the purchase amount by way of cash or banker's acceptance (承兌匯票) before the delivery of relevant products. During the Track Record Period, the Group granted credit period of up to 60 days to mobile phone distributors for sales promotion and before the major holidays such as Chinese New Year and National Day.
- *Pricing policy* — Distributors are generally suggested to sell the Group's mobile phones within 5% range of the indicative price, if any, provided by the Group. The Directors confirm that the mobile phones were sold by the mobile phone distributors with a selling price that corresponded with the Group's indicative price during the Track Record Period.
- *Sales return policy* — All products are sold to the distributors without recourse and sales return is not allowed. In case of confirmed defective mobile phones, the Group would provide replacement, after sales repair and maintenance services for these defective mobile phones. As such, there is no sales return regarding the mobile phones during the Track Record Period.
- *Marketing activities* — Distributors are required to carry out promotional activities in accordance with the Group's requirements and provide after sale services to its customers.
- *Reporting and inspection requirements* — Distributors are required to report the sales figures, inventory level, changes in market conditions and other business information to the Group. The Group's financial, sales and marketing departments may conduct inspection on the distributors.

- *Minimum purchase target* — The Group set monthly purchase targets for each of the mobile phone distributors to purchase. In case the mobile phone distributors cannot meet the target, the Group will review the cooperation with these mobile phone distributors.
- *Termination* — The Group has the right to unilaterally terminate the distribution agreement if a distributor is unable to fulfill the monthly purchase target set by the Group.

All mobile phone distributors are bound by the above terms and conditions which were mutually agreed by the Group and the mobile phone distributors. In addition, regular meetings will be held between the mobile phone distributors and the Group so as to evaluate the performance of the mobile phone distributors.

During the Track Record Period, all the mobile phones manufactured by the Group were sold to the distributors, and no distributors terminated relationships with the Group for financial reasons. Generally, the Group ceased the cooperation relationship with mobile phone distributors that are unable to achieve the minimum purchase target set by the Group during the Track Record Period.

The title of mobile phone products is actually passed after the Group sells the mobile phones to mobile phone distributors without recourse. The mobile phone distributors assume all losses of any unsold mobile phones ordered by them and revenue is recognised in the Group's income statement when the products are delivered to the distributors. The Group does not have any sales incentive policy related to the distributors. However, in case of sales promotion, the Group may, among others, grant credit terms to the distributors.

During Track Record Period, no mobile phone distributors were also the MLCC distributors of the Group.

The sales and marketing team of the mobile phone business comprises 163 staff and is responsible for promoting the Group's own brand mobile phones to distributors, maintaining good relationships with them and implementing planned marketing strategies such as seeking suitable distributors in each province so as to reach its target customers. The selection criteria of mobile phone distributors of the Group include, among others, credibility and track record in distributing consumer electronic products in the PRC. To the best knowledge and belief of the Directors, four mobile phone distributors, all of them are Independent Third Parties, are subsidiaries of the same group of companies but are located at different regions in the PRC to distribute the Group's mobile phones.

Marketing of "EY" branded mobile phones

The Group focused on sales and marketing of mobile phones with its own brand — "EY". In order to reinforce the brand building of the Group's "EY" branded mobile phones, and increase the coverage of the existing promotion of the Group's mobile phones, the Group launched marketing and promotion activities during the Track Record Period, which include television advertisements, newspapers, magazines, posters and large bill boards.

The sales and marketing team visits the Group's distributors from time to time in order to understand first hand needs and preferences of the targeted customers directly from the distributors.

Regular meetings will be held and during such time the sales and marketing team will report to the senior management information they have gained from their communication with the distributors so as to evaluate the positioning of the Group's existing products and prepare new products that match with the changing needs and preferences of customers.

PRICING POLICY

The Group's pricing policy regarding the MLCC business and the mobile phone related business is arrived at based on the following elements:

- Target customers' expectation;
- The prices of similar products offered by the Group's competitors;
- The terms of actual orders;
- The customer's credit history;
- The market demand of the products and the general market trend; and
- The production cost of the particular products.

For mobile phones produced by the Group under its own brand, the indicative retail price and the function of the products are discussed before the design and development process of that particular product series. The senior management, the sales and marketing team together with the research and development team will analyse the three months prospective market trend in order to decide the kind of mobile phones that will be popular in the target market and the competitive price range for each product. The teams will then determine the functions of the product series with the corresponding target price. Once the design and development team approve the feasibility of the product series after investigation, the production of that product series will commence. The Group's mobile phones are comparatively priced lower than the average market price. According to the research report entitled "2006–2007 中國手機市場年度報告" (The 2006–2007 China mobile phone market research report) conducted by CCID Consulting in 2007, the average market price of mobile phones sold in the PRC has been maintained at approximately RMB1,500 since 2005. Nevertheless, as the Group focused on the development of mobile phones equipped with simple functions with a relatively low pricing strategy for customers with relatively low purchasing power, such as customers in the rural market in the PRC, during the Track Record Period, the mobile phones developed by the Group under its own brand name generally had an indicative retail price ranging from approximately RMB339 to RMB1,980. The mobile phones sold under the Group's own brand to the customers of the Group during the Track Record Period had an average unit price of approximately RMB390, which is lower than the average market price of approximately RMB1,500 in the PRC. Along with the growth of the Group's operation, and in order to increase the competitiveness of the Group's mobile phones, the Group successfully developed its first mobile phone equipped with PDA functions in January 2007 which was subsequently launched in May 2007 with an indicative retail price of RMB899.

INVENTORY CONTROL

The demand and supply of electronic components and end-products are constantly changing. The Directors believe that an effective inventory control system is crucial to reduce the risk of inventory shortage when demand is high or inventory obsolescence.

MLCC business

A sales committee comprises staff from the MLCC sales department and the Group's senior management prepares weekly rolling forecasts to reflect the expected sales for the next week, month and three-month period. The forecasts will pass to the production planning team. The team will analyse the estimated sales together with the purchase order from customers, and the MLCC procurement of raw material, production and delivery planning are then allocated accordingly.

It is the Group's inventory management policy to maintain a necessary level of MLCC inventory so as to prevent them from becoming obsolete. To achieve the objective, all procurement of raw materials and determination of production volume are driven and guided by sales forecasts based on purchasing orders. The Group possessed a computer system to keep track of the procurement, production and sales situation. Meanwhile, the storage house is responsible for monitoring the inventory, ensuring that the usage of raw material is within three months, and ensuring the amount of buffer stock is maintained as per the Group's instructions.

Mobile phone related business

Given that the product cycle of mobile phones and mobile phone components is relatively shorter than MLCC products and is subject to rapid change in market trends and conditions, a weekly update will be provided by the sales personnel to the management of the mobile phone related business of the Group regarding latest sales trend of the Group's mobile phone products and general mobile phone market conditions. In addition, relevant information regarding the balance of the principal raw materials and finished goods will be prepared for the procurement and the sales team respectively, and will also be reviewed by the management of the mobile phone related business. Based on the latest sales trend and market conditions and the existing orders received from the customers, the management will formulate the production plan and consider adjusting the relevant production plan according to the latest market trend to ensure the production is generally in line with sales of relevant mobile phone products and appropriate level of inventory could be maintained. If the relevant mobile phone products are considered relatively older models, they generally will be sold at a discount for the purpose of minimising the risk of inventory obsolescence.

Inventory provision

The inventory of the Group mainly comprises raw materials, finished goods and work-in-progress of MLCC business and raw materials and finished goods of mobile phone related business. The Group normally values the inventories by the approximate market value at the end of each year/period to determine whether provision for obsolete inventories is necessary to be made in the respective year/period under review. If there is no sales reference of relevant inventory at year-end/period-end, the Group usually will (1) refer to the latest transaction of relevant inventories of the year under review, unless it is too out-of-date to be a reference; (2) refer to other similar inventory sales near the year-end,

or (3) use NRV (Net Realisable Value) estimation. Provisions would be made if the inventories considered by the management of the Group as obsolete stock which market value of these stocks were expected to be lower than their cost.

As the market values and net realisable values are determined based on the current market condition and the historical experience of purchasing and selling products/raw materials of a similar nature, they could change accordingly as a result of changes in economic environment, market conditions and new application of the relevant products.

In particular, as mentioned above, given the fact that the product cycle of mobile phones is relatively shorter than MLCC products and is subject to rapid change in market trends and conditions, it is the Group's inventory management policy that relevant information regarding the balance of the principal raw materials and finished goods will be reviewed by the management weekly. If the relevant mobile phone products are considered relatively older models, they generally will be sold at a discount for the purpose of minimising the risk of inventory obsolescence. As at each year/period end, the balance of inventory of the mobile phones is reviewed and provisions will be made if the relevant inventory is considered by the management of the Group as obsolete inventory which market value of these stock were expected to be lower than their cost mainly because the mobile phones were old models in the respective year under review or the relevant raw materials and components cannot be used for further production and after-sales services.

During the Track Record Period, provision for approximately RMB3.9 million, RMB2.3 million, RMB3.2 million and RMB2.8 million respectively was made for slow-moving inventories. The provision against slow-moving inventories recorded during the corresponding period was mainly made for MLCC products and mobile phones which were considered by the management of the Group as obsolete stock which market value were expected to be lower than their cost during the respective year under review. These provisions were made at the time under review according to the Group's inventory provisioning policy and taking into account the then market condition of that period. In addition, during the Track Record Period, the Group has written back provisions of nil, nil, nil and RMB3.8 million respectively.

No write-back provision had been made for each of the three years ended 31 December 2006 because the Group was unable to find a market for the inventories being provided for in the preceding years during the year under review.

For the nine months ended 30 September 2007, the Group wrote back a provision of RMB3.8 million which was all the finished goods of MLCC products provided for before 2007 and had been subsequently sold during the nine months ended 30 September 2007. As these MLCC products were principally residual MLCC products, i.e. the spare MLCC products produced for each purchasing order for buffer purposes, produced for various manufacturers in the previous year comprising of over 2,000 different models with relative smaller quantity, it was difficult to sell the residual MLCC products separately in the market. As such, these MLCC products were provided for accordingly during the pervious year. Nevertheless, during the nine months ended 30 September 2007, the Group successfully located several MLCC distributors who were willing to purchase various MLCC products at an average discount of approximately 28% of the cost, and the relevant write-back was made accordingly. As these MLCC

distributors are end customers of the Group, upon completion of sale to these MLCC distributors, the risk and reward of the inventories have been passed to the distributors and are no longer retained by the Group. Such sales were settled by the relevant MLCC distributors by cash.

The Directors confirm that the inventory provision policy of the Group has been consistently applied during the Track Record Period and the write-back provision of RMB3.8 million during the nine months ended 30 September 2007 does not reflect an over provision in prior years. The reporting accountants to the Company and the Sponsor also concur with the Directors' view as set out above.

RESEARCH AND DEVELOPMENT

The Group has placed great emphasis on research and development which the Directors believe to be a crucial factor contributing to the success of the Group.

During the Track Record Period, the total expenses for research and development incurred by the Group amounted to approximately RMB2.7 million, RMB12.4 million, RMB9.7 million and RMB7.3 million respectively.

MLCC business

As at the Latest Practicable Date, the Group's research and development team of the MLCC business consisted of 90 staff. The Group's MLCC research and development team has worked closely with Tsinghua University in research and development of advanced MLCC technology. In particular, the Group has participated in projects under the National High Technology Research and Development Program of the PRC (國家高技術研究發展項目, commonly known as the "863 Project"). Pursuant to a project agreement (課題任務合同書, the "Project Assignment") under the 863 project entered into, among others, the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) and Tsinghua University dated 30 January 2007, Eyang Shenzhen (for the avoidance of doubt, Eyang Shenzhen is not a party to the Project Assignment) was invited as one of the cooperating units to assist Tsinghua University to conduct research and development in relation to the key production technologies and materials for MLCC with high capacitance and ultra-thin dielectric layers (大容量超薄層陶瓷電容器材料與器件的關鍵工藝技術). According to the terms of the Project Assignment, it will expire on 31 December 2008, and the primary task of Eyang Shenzhen is to assist Tsinghua University in producing relevant MLCC by using the method and materials developed by Tsinghua University under the Project Assignment. Pursuant to the budget provided by the Ministry of Science and Technology of the PRC in relation to the Project Assignment, the total project cost is estimated to be RMB950,000 which will be fully subsidised by the Ministry of Science and Technology of the PRC. Of the said RMB950,000, Eyang Shenzhen is entitled to a subsidy of RMB95,000 for its assistance to Tsinghua University under the Project Assignment.

In accordance with the terms of the Project Assignment, Tsinghua University and Eyang Shenzhen entered into an agreement, which forms a part of the Project Assignment, in relation to, among others, sharing of profit and intellectual property rights that would derived from the Project Assignment (the "Sharing Agreement"). Pursuant to the Sharing Agreement, Tsinghua University and Eyang Shenzhen are jointly entitled to the profits derived from any transfer or licensing of the research results (the "Profit Taking") under the Project Assignment, and the details of sharing of the profits

should be determined before the Profit Taking. Tsinghua University and Eyang Shenzhen are jointly entitled to the ownership of any patents or other intellectual property rights arising out of the jointly developed products or technology under the Project Assignment.

In June 2007, the Group and Tsinghua University completed the preliminary testing on the MLCC with high capacitance and ultra-thin dielectric layers and concluded that such MLCC product type can meet the relevant reliability requirements as set out in the Project Assignment. As at the Latest Practicable Date, the Group and Tsinghua University continued to cooperate on the further improvement of MLCC with high capacitance and ultra-thin dielectric layers in accordance with the requirements of the Project Assignment.

Mobile phone related business

The scope of research and development of mobile phones can generally be categorised into four areas:

1. Appearance design ● Appearance design of mobile phones involves the design of appearance of mobile phones which include but is not limited to, the general outline and size of the mobile phones, the colour of the mobile phone surface and various components mounded on the surface of mobile phones, the screen size and the materials to be used for the mobile phone casing. The mobile phone appearance design should reflect the market positioning, characteristics and the brand image of the Group.
2. Structural design ● According to the finalised appearance design of the mobile phones, structural design of mobile phones would proceed which involves the design of the different positions of mobile phone components such as cameras, mobile phones crusts, screen, speaker and keyboard to fit the appearance design. In addition, the structural design will also take into account the use of the different mobile phone components to optimise the size and structure of the mobile phones.
3. Hardware design ● According to the functionality requirements of the Group, the electronic circuit board will be designed for a PCB on which all relevant mobile phone parts and components such as chipset, antenna, screen, microphone and keyboard will be mounted thereon.
4. Software design ● Software design involves the design of general operating system and platform for mobile phones. Under the general operating system and platform, various hardware drivers will be designed to activate the relevant mobile phone parts, such as screen, microphone, keyboard and battery charger to function properly under general operating system and platform.

The Group commenced its mobile phone production in April 2004. Since then, in respect of the four principal areas of the research and development of mobile phones, namely appearance design, structural design, hardware design and software design, the Group's mobile phone research and development team has conducted the appearance design and structural design of mobile phones. Whereas hardware design and software design for mobile phones were firstly outsourced by the Group to Jingwei, details of the outsourcing agreement entered into between the Group and Jingwei are set out in the paragraph headed "Agreement with Jingwei" below, and subsequently hardware design and software design were outsourced to a then non-wholly owned subsidiary, Lingying, when it was established in October 2004. Under the outsourcing arrangements with Jingwei and Lingying, Jingwei and Lingying will provide the hardware design and software design according to the requirements of the Group.

In addition, under the cooperation arrangement with Infineon, the Group has been granted the rights to use, modify and reproduce the relevant hardware and software designs which include circuit board design, hardware driver design source code such as driver software for audio, charger and keyboard for mobile phones provided by Infineon under the relevant agreements entered into between the Group and related companies of Infineon (the "Infineon Platform"). Details of the cooperation with Infineon has been set out in the paragraph headed "Production" in this section. As such, during the Track Record Period, the Group's mobile phone research and development team, based on the Infineon Platform, has further modified and developed the relevant hardware and software solutions according to the functionality requirement as set by the Group for several mobile phone models.

During the Track Record Period, the Group has developed a total of 41 mobile phone models, of which 6 models were developed and produced under the Mobile Phone Production Arrangement for the Mobile Phone Partner, and the remaining 35 mobile phone models were developed by the Group under its own brand name, "EY".

Among 6 mobile phone models under the Mobile Phone Production Arrangement, the hardware and software design solutions of 3 models were provided by Jingwei, whilst the hardware and software design solutions for the remaining 3 models were provided by Lingying.

Among 35 mobile phone models developed under the Group's own brand, the hardware and software designs of 22 models were provided by Lingying, whereas the remaining 13 models were developed by the Group based on the Infineon Platform.

Research and development policy for mobile phones

With operational experience in the production and sales of mobile phones since April 2004, the Group considers that (i) the appearance of mobile phones directly reflects the market positioning, brand awareness and characteristics of the mobile phones produced by the Group for its customers; and (ii) the customers would want to purchase the mobile phones based on the attractive appearance design of the mobile phones. The Group is of the view that the appearance design and structural design of mobile phones are important to the development of the Group's brand and thus, such research and development process must be retained by the Group to ensure the design of mobile phones is in line with the Group's mobile phone development strategy.

On the other hand, the hardware design and software design of the mobile phones, i.e. electronic circuit design and the operating systems and the relevant application software, are relatively standard products and have a developed industry segment to provide such service to the mobile phone industry. The Directors consider that it is more operationally effective to outsource research and development of several mobile phone models to enable the Group to allocate more resources and efforts to the appearance design and structural design of mobile phones.

In view of the above and close to the time when the Group was granted an approval by NDRC to engage in the manufacture of mobile phones under its own brand “EY” in December 2005, the Group decided to concentrate and consolidate the Group’s resources on the development of its mobile phone business under its own brand, and focus particularly on the appearance design and structural design of mobile phones to enhance its brand awareness among customers. As such, the Group disposed all of its 60% equity interests in Lingying to Ms. Li Chunmei, an Independent Third Party, at a consideration of RMB900,000 with reference to the capital contribution made by the Group in Lingying at that time.

Following the divestment of Lingying by the Group in December 2005, as (i) the terms of the Lingying Agreements are three years expiring in 2008; (ii) the software solutions sourced pursuant to the Lingying Agreements are basic parts of the mobile phones; (iii) the quality and services provided by Lingying under the Lingying Agreements satisfy the Group’s requirements; (iv) the Group maintains established relationships with Lingying and there is no dispute between the Group and Lingying since the commencement of such relationship, the Group has been continuing its outsourcing arrangements with Lingying under the Lingying Agreements. The Directors confirm that there are no material changes to the terms of the Lingying Agreements after the Group’s divestment of Lingying.

Since the divestment of Lingying by the Group in December 2005, the research and development policy of the Group is to develop new mobile phone models by way of allocating more resources to (i) its mobile phones’ appearance and structural design; and (ii) further develop mobile phone hardware and software based on the Infineon Platform. For mobile phone designs not based on the Infineon Platform, the hardware design and software design would continue to be outsourced to Lingying.

In order to keep abreast of the latest mobile phone trend and introduce new ideas and elements to the Group’s mobile phones, the research and development team of the Group’s mobile phone related business regularly keeps updates on the styles and functionality of mobile phones available in the market from different catalogs and magazines. The research and development team also attempts to introduce new materials into the mobile phone product design in order to enhance the durability and style of the Group’s mobile phones.

As at the Latest Practicable Date, the Group’s research and development team of mobile phone related business consisted of 89 staff.

Research and development procedure adopted by the Group to prevent the infringement of third parties’ appearance intellectual property rights

As the research and development team of the Group’s mobile phones related business has placed a greater emphasis on appearance design and structural design, the Group has also implemented research and development controlling procedures (the “Control Procedures”) for mobile phone development since May 2004. According to the Control Procedures, a committee (the “Review

Committee”), chaired either by Mr. Chen or Ms. Shuang Mei, both of them are executive Directors, and consisted of representatives from the research and development team, comprising, among others, Chen Yi, the product supervisor of mobile phone related business of the Group and Zhao Lei, the chief technician of mobile phone related business of the Group, and representatives from the marketing and sales department, including Li Jingsong, the manager of the marketing department of mobile phone related business of the Group and Zhang Pingran, the manager of the sales department of mobile phone related business of the Group, will review and approve each new mobile phone design, including but not limited to, the appearance design. The appearance design is prohibited from being the same as those of the mobile phone models of other mobile phone manufacturers which have been launched and must be approved by the supervisors of the marketing and sales department. For the purpose of preventing the new mobile phone designs of the Group from possible infringement on other third parties’ appearance design, the sales and marketing department will review the new mobile phones launched monthly. In case any potential infringement of intellectual property rights in respect of mobile phone appearance is found, the new design will be rejected by the Review Committee.

With the aforementioned Control Procedure in place and, in particular, having considered that:

- (i) during the Track Record Period, the Group has developed 41 models of mobile phone, of which 6 models were developed under the Mobile Phone Production Arrangement and 35 models were developed under the Group’ own brand, none of them have been rejected by the Review Committee on the basis of potential infringement on the intellectual property rights of third party’s mobile phone appearance and all of the Group’s mobile phones have been approved by the Review Committee;
- (ii) during the Track Record Period and up to the Latest Practicable Date, the Group has not been questioned or claimed by any third parties in respect of any potential infringement of third parties’ mobile phones’ appearance designs by the Group; and
- (iii) the PRC legal advisers to the Company confirmed that they are not aware of any other similar or potential litigation which has arisen from or related to any infringement of a third party’s intellectual property rights in respect of mobile phone appearance,

the Directors consider that the Control Procedure is effective and it will be continuously implemented in the future. As such, the Directors believe that the Group has not infringed any third parties’ right regarding mobile phone appearance design of the phone models developed by the Group during the Track Record Period.

Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date, namely, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen, have provided an indemnity in favour of the Group to cover any loss, damage or cost that the Group may suffer or incur in relation to the claims or litigations regarding the infringement of third parties’ intellectual property rights in respect of the mobile phone appearance design of the phone models developed by the Group during the Track Record Period. Details of such indemnity are set out in the paragraph headed “Other Information” in Appendix VI to this prospectus.

Agreement with Jingwei

In order to supplement the Group's research and development capabilities in mobile phone manufacturing technology, Eycom entered into a design, software licensing and service agreement with Jingwei (the "Jingwei Agreement") in 2004. The term of the Jingwei Agreement was three years.

Pursuant to the Jingwei Agreement, Jingwei granted a licence for the Group with the non-exclusive right to use its mobile phone application technology software in the mobile phone products. Jingwei reserves its intellectual property rights in all the technical materials for the software design and application provided to the Group. Pursuant to the Jingwei Agreement, the Group is required to pay a lump-sum design and software application fee as specified in the Jingwei Agreement to Jingwei by installments in accordance with the different stages of testing for the relevant mobile phone product. As confirmed by the Directors, the said design and software application fee have been fully paid to Jingwei. The Group is also required to pay a fixed royalty as specified in the Jingwei Agreement for every unit of mobile phone product which is installed with Jingwei's mobile phone application technology software, and such royalty should be settled by the Group on a monthly basis with a credit period of no more than 25 days.

The Jingwei Agreement is terminable upon written notices served by either party thereto in accordance with the terms of the Jingwei Agreement. Upon termination of the Jingwei Agreement for whatever reason, the Group shall not use the information provided by Jingwei to produce mobile phone products and is required to return all information to Jingwei. In particular, if the termination of the Jingwei Agreement is caused by Eycom, all outstanding fees and royalties payable by Eycom should be paid to Jingwei within one week after the date the written notice is served.

After the establishment of Lingying (the then non wholly-owned subsidiary of the Group) on 21 October 2004, which was also engaged in the provision of hardware and software solutions for mobile phones, the Group subsequently ceased its outsourcing arrangements with Jingwei under the Jingwei Agreement in early 2005 and engaged Lingying for such services. As confirmed by the Directors, as at the Latest Practicable Date, there was no outstanding fee or royalty due to Jingwei from the Group.

For each of the two years ended 31 December 2005, the Group paid approximately RMB1.5 million and RMB0.5 million, respectively, to Jingwei in accordance with the Jingwei Agreement. The Group did not pay any fees to Jingwei in 2006 as the outsourcing arrangement with Jingwei had been terminated.

For the relationship between Jingwei and the Group during the Track Record Period, please refer to the paragraph headed "Entities formerly forming a part of the Group during the Track Record Period" in this section.

Agreements with Lingying

After the Group ceased its outsourcing arrangements with Jingwei under the Jingwei Agreement in early 2005, it engaged Lingying to provide mobile phone application technology software to the Group. As such, the Group entered into a number of design, software licensing and service agreements with Lingying, a then non-wholly owned subsidiary of the Group since 2005. Generally, the term of the Lingying Agreements is three years.

Pursuant to the Lingying Agreements, Lingying grants the Group the non-exclusive right to, among other things, use its mobile phone application technology software in mobile phone products. The right is not transferable and may not be sub-licensed to any third party. Lingying has reserved the intellectual property rights of all technical materials for the software design and application provided to the Group. The Group shall pay a royalty for every unit of mobile phone which is installed with Lingying's mobile phone application technology software, and the amount of such royalty is determined based on complexity and functionality of the software designed by Lingying for the mobile phone products of the Group as specified under each of the Lingying Agreements. Generally, the Group is entitled to a reduced level of royalty per unit of mobile phone if the number of mobile phone products that installed with Lingying's mobile phone application technology software exceeds a specific amount. However, there is no cap on the maximum amount of royalty that may be paid under the Lingying Agreements. Pursuant to the Lingying Agreements, the Group is required to settle the royalty on a monthly basis with a credit period of no more than 25 days.

The Lingying Agreements are terminable upon written notices served by either party thereto in accordance with the terms of the Lingying Agreements. Upon termination of the Lingying Agreements for whatever reason, the Group shall not use the information provided by Lingying to produce mobile phone products and is required to return all information to Lingying. In particular, if the termination of Lingying Agreements is caused by Eycom, all outstanding fees and royalties payable by Eycom should be paid to Lingying within one week after the date the written notice is served.

For each of the two years ended 31 December 2006 and the nine months ended 30 September 2007, the Group paid approximately RMB5.0 million, RMB14.0 million and RMB14.5 million, respectively, to Lingying in accordance with the Lingying Agreements. The Group did not pay any fees to Lingying in 2004 as the outsourcing arrangements with Lingying commenced in 2005.

For the relationship between Lingying and the Group during the Track Record Period, please refer to the paragraph headed "Entities formerly forming a part of the Group during the Track Record Period" in this section.

QUALITY CONTROL

The Directors believe that the quality of the Group's products is essential in maintaining customer trust and loyalty. The Group has adopted a stringent overall quality and management control system which aims to monitor the overall management process with emphasis on continuous quality maintenance and production efficiency through tackling production error at the point of occurrence. As at the Latest Practicable Date, the Group had a total of 117 quality control staff members working at different departments to ensure that the quality control programmes are properly implemented and followed. Apart from that, regular weekly, monthly and yearly meetings are held by quality control teams or together with senior management aiming to inspect and investigate the steps needed to maintain the quality of the Group's products so as to adhere to the requirements of the Group's customers. Before production, MLCC customers are involved in the quality control in the stages of sourcing and product development while the mobile phone customers are involved in the quality control in the stage of product development.

The Group imposes strict quality control standards at each stage of its production of both its MLCC business and mobile phone related business:

- *sourcing* — All of the raw materials or semi-finished goods are purchased from suppliers approved by the Income Quality Control (ICQC) team of the Group. Prior to the storage of raw materials or semi-finished goods or production of these goods, each raw material or semi-finished good is strictly and carefully inspected to ensure that quality standards and requirements are met and maintained. The MLCC customers normally require the Group to source raw materials from their designated suppliers list so as to maintain the quality control standard of MLCC manufactured by the Group. All substandard raw materials or semi-finished goods will be returned to suppliers;
- *product development* — during the design and development stage, the Group’s engineers, both from MLCC and mobile phone research and development teams, work closely with the Group’s quality control team and component procurement team, to ensure that new products meet the quality assurance standards of the Group and its customers. A small quantity of sample MLCC and mobile phone products are produced according to product specifications in the product development stage for a series of technical testing carried out by the Group;
- *production* — the Group’s In Process Quality Control (IPQC) team conducts quality control tests concerning safety and reliability at different stages of the production process, ensuring that there are no production errors during the process. To ensure that the quality and consistency of MLCC products and mobile phones manufactured by the Group closely adhere to the product specifications, regular quality checks are carried out in each stage of the production process by the Quality Audit (QA) team;

For MLCC production, each of the 16 processes is under inspection by different quality control teams. Each team continues to check with the semi-finished products by reference to the “circulate passing rate” which is set solely for the products under that particular process. Each team prepares a weekly report to reflect the performance of each process. In the “weekly quality investigation meeting”, the quality control team will investigate and propose necessary actions to improve any process that failed to reach the satisfactory standard.

In the “monthly quality investigation meeting”, the senior management examines the reasons for the failure of any processes that could not meet the standard.

- *finished products* — after the final assembly stage, all of the finished products are subject to quality control tests carried out by QA. While each of the MLCC products needs to pass the reliability test, mobile phones from different product series will be randomly tested. Out Quality Control (OQC) inspects the appearance, quality, functionality and packaging by randomly selecting samples from each batch of product series. OQC will evaluate and score the sample products and come up with statistics reflecting the overall performance of each product line. A weekly and monthly meeting will be held to discuss and impose necessary actions to improve any product series which failed to reach the satisfactory standard.

As a result of the implementation of the stringent quality control and in recognition of the Group's quality control system satisfying the relevant international standards, the Group's MLCC business was granted an ISO 9001:2000 certification in 2002 and 2005 by Universal Certification Service Company Limited. The mobile phones business was granted ISO 9001:2000 certification in 2005 by Beijing TIRT Quality Certification Center. For the Group as a whole, it was granted the ISO 14001:1996 in 2004 by Universal Certification Service Company Limited, which was upgraded to an ISO 14001:2004 certification in 2005.

The certificates obtained by the Group from Universal Certification Service Company Limited and Beijing TIRT Quality Certification Center are important to the Group because:

1. the obtaining of the certification means that the Group is able to develop and offer products meeting specifications that have international acceptance; and
2. conformity of products and services to International Standards provides assurance to the customers about the quality, safety and reliability of the Group's products.

As at the Latest Practicable Date, no material claim or complaint had been made against the Group in respect of the quality or safety of the Group's products.

For the MLCC business, the Group provides after sales services for its customers. A timely response from the technical supporting team will be provided to the customers when they encounter any problems related to the Group's products. Apart from that, the sales and marketing team will gain and share feedback from the customers with the corresponding team in the MLCC department so to improve the overall quality of the products.

The after sales service is provided to the Group's mobile phone customers in the following ways:

1. While PRC regulation provides that a 15 days product exchangeable period is required, the Group offers a 30 days product exchangeable period to its customers. In addition, the Group must strictly comply with the PRC law related to the product warranty requirements and has committed to all of its customers a warranty period of at least one year for its mobile phones. Within this period, if the mobile phone is found to be defective because of the raw materials used, or because of the design and the production process of the product, the Group is responsible for repair, exchange of the product and the repair expenses.
2. Apart from the customer service hotlines, the Group provides a complaint hotline to respond to the customers' complaints regarding the mobile phones' quality.
3. Repair and maintenance: It is the business strategy for the Group to continuously improve quality of the mobile phones and the repair and maintenance fee for the mobile phones should be low in order to meet customers' expectation. Starting from the procurement process, the Group has selected raw materials with stable performance and competitive prices for its branded mobile phones. In addition, design and development team and the quality controlling team of the Group have been working together to enhance the quality of the mobile phones to minimize the repairing rate.

INTELLECTUAL PROPERTY RIGHTS

The Group has registered certain trademarks for the purpose of carrying out its MLCC and mobile phone businesses, details of which are set out in the section headed “Further information about the Company’s business” in Appendix VI to this prospectus. As at the Latest Practicable Date, apart from the three trademarks registered by the Group as disclosed in Appendix VI to this Prospectus, the Group has not applied for patent registration in respect of its production technology including, the application of the BME technology by the Group to its products and the manufacturing process of the Group’s MLCC products. Other companies or manufacturers may develop technologies similar to those of the Group and may obtain patents for such technologies in the PRC or other jurisdictions. This will create competition against the Group and the profitability of the Group may be adversely affected. In addition, the Group may need to resort to litigation to claim for or defend its proprietary rights in intellectual property and litigation may be costly. The outcome of litigation may not be in the Group’s favour which may cause the Group’s operation and profitability being adversely affected.

The Group may infringe third party’s intellectual property rights in its production process or its application of the protected technology to its products. There is no assurance that infringement claim from third parties will not occur in these respects. Should there be any infringement claim from third parties in these aspects, the Group’s business and financial position may be adversely affected. In addition, should any infringement claim from third parties occur, the Group may incur significant legal costs to defend its rights and interests or be required to pay substantial damages and be forced to develop non-infringing technology or obtain licences for such technology. The Group may not be able to develop non-infringing technology or obtain licences acceptable to the Group and as a result, the business of the Group may be adversely affected.

Despite the above, the Directors consider that, other than registering its patent for the purpose of protecting the intellectual property rights in the method of applying the BME technology into the manufacture of MLCC products (the “Production Method”), it is also appropriate to use trade secrets to protect its intellectual property rights in this regard.

While the Group is aware of the fact that the registration of patents would offer, to certain extent, the protection of its Production Method, it is also concerned about the requirement for public disclosure of the relevant information of the patent under the existing patent law of the PRC (the “Patent Law”). As advised by the PRC legal advisers to the Company, a registered patent for an invention or utility model (實用新型專利) must disclose the relevant information of that invention or utility model to the public and such registered patent may only last for a limited period of 20 years and 10 years respectively from the date of patent registration.

On the other hand, the Directors consider that, through the protection of trade secrets, the Group will be able to protect the Production Method from public disclosure without a time limit, provided that the Production Method is continued to be kept as a secret by the Group. In this connection, the Group has taken a number of measures to maintain the secrecy of the Production Method. The relevant information of the Production Method, such as the materials and the detailed combination of these materials, are classified by a coding system. Only a restricted number of core technicians have the right to access the codes and each of them is under a confidentiality agreement with the Group.

In addition, the PRC legal advisers to the Company further confirmed that, based on the PRC laws and regulations, if the Group continues producing similar products or using the same process within its original scope, i.e. the Production Method, it shall not be considered as infringing the third parties' patent right if the Group has already made that similar products by using the same process prior to the date of patent registration of the relevant production methods by that third party.

The Directors and the PRC legal advisers to the Company confirmed that, as at the Latest Practicable Date, they were not aware of any litigation, investigation or administrative punishment which had arisen from or related to any infringement of a third party's intellectual property rights by the Group, including but not limited to, the application of BME technology to the Group's products. In addition, as at the Latest Practicable Date, the Group had not received any claim nor been involved in any dispute relating to third party rights regarding its production process or intellectual property rights during the Track Record Period.

COMPETITION

MLCC business

Most of the customers of MLCC manufacturers are consumer electronics appliances, computers and computer peripherals and telecommunications equipment manufacturers around the world. The competition faced by the Group is not only confined to the PRC market, but also includes competitors around the globe, some of which are even the global industry leaders with the most advanced technical knowledge in MLCC manufacturing and substantial production capacity and market share.

According to Pday Research, an independent research house based in the PRC, Japanese manufacturers and Taiwanese manufacturers consisted of 61% and 14% of global MLCC production in 2006 respectively. As such the Directors consider that the major competitors of the Group in the MLCC business are mainly Japanese MLCC manufacturers as well as other manufacturers located in the PRC and Taiwan. The MLCC products produced by these competitors are generally used in products such as consumer electronics, computers and mobile phones.

Having considered that, (i) during the Track Record Period, MLCC products manufactured by the Group were mainly sold to the customers of the Group who subsequently applied the Group's MLCC products to other electronics products including, consumer electronics, computers and computer peripherals and communication equipment, which are similar to that of other MLCC products manufactured by the Group's competitors; and (ii) based on the opinion as set out in the Science and Technology Achievement Appraisal Certificate (科學技術成果鑒定證書) dated 24 October 2002 issued by the Shenzhen Bureau of Science and Technology (深圳市科學技術局, currently known as Shenzhen Bureau of Technology and Information (深圳市科技和信息局)), the Directors are of the view that (a) the 0402 BME MLCC could substitute other similar imported MLCC products which have already been used on portable consumer electronic products, including mobile phones and digital cordless phones; and (b) 0402 BME MLCC was comparable, in terms of the production technology and functionality, to the MLCC products under the same class manufactured by international MLCC manufacturers.

In view of the above, the Directors consider that the Group is able to maintain its competitiveness in the market.

According to Pday Research, the global MLCC sales volume in 2006 was approximately 1,200 billion units, and the Group's MLCC sales volume was approximately 14.5 billion units in 2006, representing approximately 1.2% of the total global MLCC sales volume in 2006.

Mobile phone related business

The mobile phones market in the PRC, especially in the cities, like provincial capitals and large cities, is highly competitive. It is also noted that, pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the requirement for obtaining the approval for investment in mobile phone production has been cancelled. Such cancellation will lower the entry barriers of mobile phone market in the PRC and will further intensify market competition. While it is difficult for new local entrants to compete in these market tiers, during the Track Record Period, the Group's strategy for its mobile phone business is to focus on customers with relatively lower purchasing power, such as the customers in the rural market, like towns and counties. These customers generally look for inexpensive mobile phones with common mobile phone functions. As such, the Directors believe that direct competition with the major mobile phone markets can be minimised with the Group's focus on township and county levels. The Directors also believe that the potential market of lower purchasing power cities is enormous given the penetration rate of mobile phones in towns and counties of the PRC is still low when compared with the major cities in the PRC. It is the Group's long-term objective to become a major mobile phone manufacturer in the PRC. As such, in addition to continue development of low cost mobile phones for customers with relatively lower purchasing power, the Group is also expanding its product mix of mobile phones by introducing mobile phones equipped with more sophisticated functions to better serve potential customers with relatively higher purchasing power, such as the customers in the urban market in the PRC. As such, the Group developed its first mobile phone with PDA functions which was launched in May 2007. With the abovementioned business strategy for the mobile phone business, the Directors consider that the Group is able to better capture the business opportunities in the mobile phone market in the PRC in the future.

According to CCID Consulting, the mobile phone sales volume in the PRC in 2006 was approximately 119 million units, and the Group's mobile phone sales volume was approximately 1.2 million units in 2006, representing approximately 1% of the total PRC market demand for mobile phones in 2006.

BUSINESS

AWARDS, ACCREDITATIONS AND AIDS

In recognition of the Group's commitment to the provision of quality products and product development, particularly its commitment to the research and development of MLCC products, the Group has been granted the following major awards and official accreditations by several government authorities and professional organizations:

Name of accreditation	Endorsing organisation	Year	Importance <i>(note)</i>
ISO9001: 2000	Universal Certification Service Co., Ltd.	2002, 2005	(1)
ISO14001: 1996	Universal Certification Service Co., Ltd.	2004	(1)
ISO9001: 2000	Beijing TIRT quality certification center	2005	(1)
ISO14001: 2004	Universal Certification Service Co., Ltd.	2005	(1)

Name of awards	Endorsing organisation	Year	Importance <i>(note)</i>
「雙高一優」項目 Double High One Superior Project	State Economic and Trade Commission	2001	(2)
重大建設項目 Significant Development Project	Planning Bureau of Shenzhen Government	2002	(3)
Significant Development Project	Development and reform bureau of Shenzhen Government	2003	(3)
High-Tech Enterprise of Shenzhen Municipal	Science and Technology Bureau of Shenzhen Government	2003	(3)
Rank 2nd in 2005 China “Top 50 Hi-tech, High accretion enterprises”	Deloitte & Touche	2005	(4)

BUSINESS

Name of awards	Endorsing organisation	Year	Importance <i>(note)</i>
Rank 5th in 2005 “Top 500 Hi-tech, High accretion enterprises” within Asia Pacific Zone	Deloitte & Touche	2005	(4)
Rank 57th in 18th China Top 100 Electronic Components Manufactories	Ministry of Information Industry of the PRC Bureau of Economy System Reformation & Economy Operation, China Electronic Components Association,	2005	(4)
Rank 51st in 19th China Top 100 Electronic Components Manufactories	Ministry of Information Industry of The PRC Bureau of Economy System Reformation & Economy Operation, China Electronic Components Association	2006	(4)
Rank 52nd in 20th China Top 100 Electronic Components Manufactories	Ministry of Information Industry of the PRC Bureau of Economy System Reformation & Economy Operation, China Electronic Components Association,	2007	(4)

Notes:

- (1) The ISO certification means that the Group is able to develop and offer products meeting specifications that have international acceptance which can assure the customers of the quality, safety and reliability of the Group’s products.
- (2) The Double High One Superior Project certification means that the Group is able to develop and offer products meeting specifications that have national acceptance which can assure the customers of the quality, safety and reliability of the Group’s products.
- (3) The Significant Development Project certification and the High-Tech Enterprise of Shenzhen Municipal were designated to the Group’s MLCC business, which demonstrated the Group’s MLCC business is significant in terms of technology available to the PRC at that time.
- (4) The rankings given by Deloitte & Touche and various PRC governmental departments demonstrated the Group is an enterprise with growth and production technology comparable to industry benchmark.

BUSINESS

The Group has obtained various financial support measures designed by various government authorities in the PRC given to high-tech business for the purpose of research and development of specific hi-tech products. All the financial aid granted by PRC government authorities were received by Eyang Shenzhen and were not of recurring nature. Such financial aid are approved by the relevant government authorities based on, among others, the development feasibility of the products proposed by the Group as set out in the respective application made by the Group. The use of such financial support is subject to the only condition that they must be used specifically for the designated high-tech projects. The following table sets forth the special purpose of the financial aid received by the Group for its MLCC business from various government authorities during the Track Record Period:

Name of the program	Date of obtaining the financial aids	Project name	Government authorities	Amount <i>RMB' million</i>	Type of financial aids
Funds for Development of National Electronic Information Industry	February 2004	MLCC specific for digital TV receivers	Ministry of Information Industry	1	Financial grant
Technology Modifying Project of Dongguan	March 2004	MLCC modifying project	Economic and Trade Bureau of Dongguan	0.2	Discounted interest loan
Funds for Development of Science and Technology of Dongguan	2004	BME ceramic material with high dielectric constant	Science and Trade Bureau of Dongguan	0.3	Financial grant
Special Funds for Enterprise Technology Advancement and Industrial Promotion	December 2004	Large capacitance MLCC	National Development and Reform Commission	8	Financial grant
Funds for Development of National Electronic Information Industry	December 2006	Research and industrialization of TV mobile set	Ministry of Information Industry	1	Financial grant

Notes:

- (1) All the financial aids were not of recurring nature.
- (2) Such financial aid were designed by the various government authorities specifically for the research and development activities carried out by high-tech businesses in the PRC, and the financial aid obtained by the Group are therefore also made available to other companies apart from the Group.
- (3) The government grants of RMB4 million was received prior to 2004 and was credited to a deferred income account. The amount is released to the income statement over the expected useful life of the relevant assets which are in use during the year ended 31 December 2004 by equal annual installments.

INSURANCE

The Group's insurance policies primarily cover damages to the MLCC production facilities of the Group with an insured limit of approximately RMB24.5 million, the policy specifications and insured limit of which are in line with the normal commercial practice in the PRC.

As there is no legal requirement in the PRC to maintain product liability insurance, the Group has not obtained product liability insurance for its products. Up to the Latest Practicable Date, the Group had not received any material claim from third parties in relation to the use of its products. Please refer to the paragraph headed “The Group does not maintain certain insurance, such as product liability insurance and business interruption insurance” in the section headed “Risk Factors” of this Prospectus for details of risks associated with the sufficiency of product liability insurance maintained by the Group.

ENVIRONMENTAL PROTECTION

The Group has installed waste treatment facilities and implemented waste treatment procedures in each of its production facilities to treat waste discharged during the MLCC production process. According to 建設項目竣工環境保護驗收申請表 (“Environmental Inspection on Construction Project Application”) issued by Ministry of Environmental Protection of the PRC dated 7 June 2002, it is certified that (i) the production factory for MLCC business of the Group has minimal noise pollution and air pollution; and (ii) minimal water pollution provided that all the sewage water is treated. Throughout the MLCC production process, an average of approximately 61 tonnes of waste water is discharged per day. In addition, the process of casting, printing and stacking would-be-used adhesives and toluene produce waste gas. All waste produced by the Group is treated before being discharged in compliance with applicable environmental standards. The following are the environmental protection measures adopted by the Group since the commencement of operation:

- Construction of anti-pollution facilities such as sewage treatment stations
- Engagement of environmental inspection organizations to ensure that the Group is in compliance with PRC rules and regulations
- Afforestation to absorb dust emitted by the Group’s factories

During the Track Record Period, the Group’s sewage treatment facilities had annual maximum capacities of 43,800 tons, 43,800 tons, 43,800 tons and 32,800 tons respectively. The utilisation rate of these facilities during the Track Record Period was approximately 37.18%, 44.27%, 48.56%, and 52.60% respectively. The designed maximum handling capacity of the Group is 120 tons per day. The Group is allowed to discharge 80 tons of production sewage per day. The Group currently handles and discharges approximately 61 tons of production sewage daily and has not breached the relevant requirements.

In accordance with the requirements set out in the National Catalogue of Hazardous Wastes, metal and plastic waste produced by the Group is subject to recycling treatment. A third party organization engaged by the Group inspects the waste treatment facilities annually to ensure that the Group complies with the relevant PRC rules and regulations, as well as meets the standards set out by Guangdong Province, the PRC.

The Group treats waste differently depending on whether or not the waste is hazardous. Regarding general waste, it is the requirement for all the staff of the Group to separate the waste into recyclable and non-recyclable waste. The former is delivered to recycling companies, while the latter is sent to the environmental hygiene centre set up by the provincial government. Regarding the hazardous waste,

there are many clearly labeled containers designed to receive such waste throughout the Group's facilities. This waste is then regularly delivered to qualified waste treatment companies for treatment in accordance with the relevant rules and regulations.

In compliance with relevant PRC environmental protection laws and regulations and to reduce the damage to the environment, the Group has set up its own waste treatment system and facilities for sewage and waste gas, and relevant toxic sewage sludge and chemicals produced by the Group's sewage treatment plants are periodically collected and handled in compliance with the requirements and regulations. Sewage, waste gas and dusts produced during the production process of the Company are discharged or emitted after up-to-standard treatment by sewage and waste gas treatment facilities. The damage caused to the environment is minimal, and complies with the environmental protection policies and relevant requirements of the national and local governments. Since the inception of the Company, the Company has not been penalised by any government authorities.

In addition, the Group has adopted the RoHS Directive. The RoHS Directive is a directive issued by the European Parliament and enforced in the European Union, which came into force on 1 July 2006. It restricts the use of six major hazardous substances in the manufacture of various types of electronic and electrical equipment, namely, lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyl and polybrominated diphenyl ether flame retardants. In order to ensure compliance with the RoHS Directive, the Group has implemented a hazardous substance management system to control the use of hazardous substances during the manufacturing process covering, including but not limited to, the selection of raw material, production process and product development. The Group also periodically sends its hazardous substance management system to a qualified third party for examination. As of the Latest Practicable Date, all the Group's products have met the requirements under the RoHS Directive that they must not contain any of the six major hazardous substances as specified in the directive. In addition, the Group adopted a lead-free production process since May 2005 and provided in-house training for their production staff from time to time which covered RoHS Directive standards.

In June 2005, the Group established a hazardous substance management system in order to ensure compliance with the RoHS Directive and also in order to satisfy customer requirements. Regarding this system, the chief administrator formulated the Hazardous Materials Management Manual in addition to nine procedural documents which regulate matters such as the development of new products and the management of raw materials. The chief administrator designated administration representatives to oversee the hazardous substance management system.

BUSINESS

The following is a table showing the annual expenditures incurred for environmental protection:

	For the year ended 31 December			For the nine months ended 30 September
	2004	2005	2006	2007
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Design costs for environmentally friendly proposals	—	10,000	—	—
Operation cost for the waste gas and sewage treatment facilities	114,000	126,000	138,000	94,500
Construction cost for environmentally friendly facilities	85,000	—	36,000	—
Review fee for the ISO 14001 certification	18,900	9,000	9,000	20,500
Environmental inspection fee	7,500	6,000	8,800	11,400
RoHS inspection fee	10,000	8,000	8,000	36,000
Total	<u>235,400</u>	<u>159,000</u>	<u>199,800</u>	<u>162,400</u>

The Group maintains an environmental quality control office (the “Office”), which gathers information concerning PRC environmental protection laws and regulations as well as ensures the Group’s compliance with these rules. The Office is divided into several departments, each of which identifies and evaluates different aspects of the environment in order to minimize damage to the environment. The Office also re-evaluates the Group’s compliance with PRC rules and regulations at least once a year to ensure the Group’s ongoing compliance.

The Group’s PRC legal advisers confirmed that the Group is in compliance with the PRC laws and regulations on environmental protection throughout the Track Record Period. The Directors confirm that the Group has also complied with the emission limits of air pollutants (《大氣污染物排放限值》) and the emission limits of water pollutants (《水污染物排放限值》) for Guangdong Province and the relevant levels of waste water and waste gas as set down by Dongguan City Environmental Protection Bureau throughout the Track Record Period. As at the Latest Practicable Date, the Group has no record of accidents and fatalities in relation to environmental protection in the Group’s manufacturing process.

The Group obtained the ISO 14001 Environmental Management System Certification of the China Quality Certification Centre in 2004. ISO 14001 is an international standard for the operation of an environmental management system.

LEGAL AND REGULATORY**Mobile phone production arrangement before 2006**

Prior to obtaining approval from NDRC in December 2005 to allow the Group to produce mobile phones for its own brand (the “Mobile Phone Approval”), the Group cooperated with a mobile phone manufacturer (the “Mobile Phone Partner”), an Independent Third Party that had obtained approval from NDRC to produce mobile phones for its own brand, to manufacture mobile phones for such manufacturer’s brand (the “Mobile Phone Production Arrangement”) for the period from April 2004 to December 2005. Under the Mobile Phone Production Arrangement, Eyang Dongguan was principally responsible for the manufacture of the mobile phones, whereas Eycom was principally responsible for the distribution and marketing of the mobile phones. The principal terms of the Mobile Phone Production Arrangement are set out below:

Sourcing

The Mobile Phone Partner sourced various kinds of mobile phone components including PCBAs manufactured by the Group, LCDs, cases and batteries, as well as mobile phone design solutions such as hardware and software design solutions for mobile phones, from third party suppliers designated by Eycom. These third party suppliers included Eyang Shenzhen. In respect of each purchase for mobile phone components from such third party suppliers, the third party suppliers would notify Eycom of the relevant amount of payment and Eycom would then pay the Mobile Phone Partner, so that the Mobile Phone Partner could settle account directly with the relevant third party suppliers. Such payments were made on a back-to-back basis and were settled at the same time. The relevant payments were calculated with reference to the number of mobile phones to be produced under the Mobile Phone Production Arrangement.

The mobile phone components sourced by the Mobile Phone Partner were then delivered to Eyang Dongguan or other designated third party for assembly into mobile phone products under the Mobile Phone Partner’s own brand.

As the Mobile Phone Production Arrangement commenced in April 2004 while the Group began to set up its first mobile phone production line in June 2004, the Mobile Phone Partner and the Group jointly appointed an Independent Third Party (the “Third Party Contractor”) to assist in assembling of mobile phone products for the period from April 2004 to October 2004. The principal terms of the arrangement included the following:

1. the Third Party Contractor should assist in assembling mobile phones in accordance with the design, technology standards and quality requirements as instructed by the Group; and
2. Same as the settlement of sourcing of mobile phone components as mentioned above, the Third Party Contractor would notify the Group of the relevant assembly fee and the Group would then pay the Mobile Phone Partner, so that the Mobile Phone Partner could settle account directly with the Independent Third Party. Such payments were made on a back-to-back basis and were settled at the same time. The assembly fee was determined after the arm’s length negotiation with reference to the number of mobile phones to be assembled by the Third Party Contractor with price range of

approximately RMB15 per unit to RMB50 per unit. Assembly fees of approximately RMB2.1 million had been paid by the Group in respect of the said arrangement. For the period from April 2004 to October 2004, the Third Party Contractor produced two types of mobile models under the said arrangement.

The mobile phone production was fully taken up by Eyang Dongguan in October 2004 after the Group fully completed the set-up of its first mobile phone production line in 2004. The Directors confirm that the Group has not engaged the Third Party Contractor for the production of mobile phones since cessation of the said arrangement in October 2004. No compensation was paid either by the Group or the Mobile Phone Partner to the Third Party Contractor for cessation of the said arrangement.

In addition, under the Mobile Phone Production Arrangement, the SMT procedures of the mobile phone production were also outsourced to Independent Third Parties including Yixu. Details of the outsourcing arrangement are set out in the paragraph headed “Production — mobile phone related business — mobile phones” of this section.

Quality control requirements

The mobile phones produced under the Mobile Phone Production Arrangement were required to comply with the PRC national quality standards. If the quality of the mobile phones produced under the Mobile Phone Production Arrangement did not meet the relevant PRC national quality requirements, the Mobile Phone Partner had the right to terminate the Mobile Phone Production Arrangement and the relevant mobile phones produced under the Mobile Phone Production Arrangement were not allowed to be launched into the market.

The Directors confirm that no mobile phones produced under the Mobile Phone Production Arrangement had been prohibited from being launched into the market during the term of the cooperation, i.e., from April 2004 to December 2005.

Technology specifications of mobile phones

The technology specifications for the mobile phones produced under the Mobile Phone Production Arrangement were provided by the Group and were required to comply with the PRC national quality standards. The Group had outsourced the hardware and software designs for six mobile phones under the Mobile Phone Production Arrangement, three to each of Jingwei and Lingying. On the other hand, the appearance and structural designs for these mobile phones were done by the Group. For details of the outsourcing arrangement, please refer to the paragraphs headed “Agreement with Jingwei” and “Agreements with Lingying” in this section.

Guarantee deposit

Eycom was required to pay a product brand guarantee deposit to the Mobile Phone Partner under the Mobile Phone Production Arrangement. The total product brand guarantee deposit paid by the Group under the Mobile Phone Production Arrangement amounted to RMB700,000. The Mobile Phone Partner had a right to forfeit the product brand guarantee deposit if: (a) Eycom sourced identical mobile phone models through other channels for onward sale outside of the Mobile Phone Production Arrangement, (b) Eycom used fake labeling on the mobile phones

produced under the Mobile Phone Production Arrangement, or (c) the reputation of the Mobile Phone Partner's brand had been adversely damaged due to the handling of after sales services by Eycom. If Eycom did not pay the Mobile Phone Partner another amount equivalent to the product brand guarantee deposit within 3 days after such forfeiture, the Mobile Phone Partner was entitled to terminate the Mobile Phone Production Arrangement.

As confirmed by the Directors, the said product brand guarantee deposit had not been forfeited by the Mobile Phone Partner and all product brand guarantee deposits paid by Eycom had been repaid by the Mobile Phone Partner.

Sales

Eycom was responsible for the onward sale of the mobile phones to customers and to provide them with after sales services. The mobile phones that were sold may not be refunded and Eycom's general practice was to replace those mobile phones found to be defective.

Profit and cost sharing

Eycom was responsible for all production costs. The Mobile Phone Partner required Eycom to pay an agreed profit for each unit of mobile phones produced, which ranged from approximately RMB17 to RMB32 per unit and varied between different mobile phone models. Such agreed profit was arrived at after arm's length negotiation between the Group and the Mobile Phone Partner and by reference to, among others, the mobile phone production amount under the Mobile Phone Production Arrangement. Such payments were settled by cash on delivery with no credit terms. The total amount of the agreed profit paid to the Mobile Phone Partner was approximately RMB2.1 million and RMB6.6 million for the years ended 31 December 2004 and 2005, respectively. There had not been any further production arrangement with the Mobile Phone Partner after the Group obtained the Mobile Phone Approval in December 2005.

Pricing

The retail prices for the onward sale of the mobile phones were determined by Eycom with reference to the market conditions from time to time. Eycom was required to notify the Mobile Phone Partner within two working days after the retail prices were fixed and to inform the Mobile Phone Partner prior to making any substantial adjustment to those retail prices.

Termination

The Mobile Phone Partner was entitled to terminate the Mobile Phone Production Arrangement if, among others, the mobile phones produced were found to have material quality defects, the quality of mobile phones failed to meet the PRC national quality standards or the mobile phones did not conform with the agreed appearance and trademark requirements or there was any adverse impact on the Mobile Phone Partner's brand resulting from the mobile phones produced under the Mobile Phone Production Arrangement.

In addition to the above, all the relevant expenses such as the fees required to be paid to the relevant authorities for permission to sell the mobile phones produced under the Mobile Phone Production Arrangement in the PRC, should be borne by the Group. The Group was also responsible for the transportation, insurance, after sales services and the related expenses for the mobile phones ordered and sold by the Group under the Mobile Phone Production Arrangement.

The Mobile Phone Production Arrangement ceased in December 2005 as the Group has obtained the Mobile Phone Approval. No compensation was paid by the Group to the Mobile Phone Partner for cessation of the Mobile Phone Production Arrangement. After cessation of the Mobile Phone Production Arrangement, the Mobile Phone Partner continued to produce its mobile phones and did not source any mobile phone components from the Group as at the Latest Practicable Date.

Compliance with the PRC laws and regulations

The PRC legal advisers to the Company advise that, based on the Several Provisions on Approval of Mobile Telecommunication Systems and Terminals Investment Project (移動通信系統及終端投資項目核准的若干規定) (the “Old Measure”) issued by NDRC, NDRC’s approval was required for the investment in mobile telecommunication systems and terminals.

However, the PRC legal advisers to the Company advise that, pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the relevant requirement for obtaining the approval for investment in mobile phone production as set out in the Old Measure was cancelled.

Under the Mobile Phone Production Arrangement, Eyang Dongguan was principally responsible for the manufacture of mobile phones. The PRC legal advisers to the Company advise that, the relevant PRC laws and regulations, including the Old Measure, do not prohibit a manufacturer from being engaged by any eligible mobile phone manufacturer to produce mobile phones for that eligible mobile phone manufacturer. Nevertheless, Eyang Dongguan’s engagement in the mobile phone production under the Mobile Phone Production Arrangement may constitute non-compliance with the relevant requirements in the Old Measure.

Under the Mobile Phone Production Arrangement, Eycom was principally responsible for distribution and marketing of the mobile phones. The PRC legal advisers to the Company consider that it is not required to obtain approval from relevant government authorities to engage in distribution and marketing of mobile phones. As such, the distribution and marketing of the mobile phones produced under the Mobile Phone Production Arrangement by Eycom complies with the PRC laws and regulations.

The principal supervising authorities in respect of Eyang Dongguan's engagement in the mobile phone production under the Mobile Phone Production Arrangement and their respective duties and responsibilities

The principal supervising authorities in respect of Eyang Dongguan's engagement in the mobile phone production for the period from April 2004 to December 2005 were NDRC, MII and Dongguan Administration for Industry and Commerce. They are different PRC governmental departments with different duties and responsibilities, details of which are set out below:

- (i) under the Old Measure, NDRC was the authority responsible for reviewing the relevant investment in mobile phone production projects and assessing, among others, the feasibility of the said investment projects and determining whether to grant approval for the implementation of such investment projects;
- (ii) MII is the government authority overseeing the mobile phone industry and is responsible for supervising the mobile phone production within the industry, and permitting the connection of the mobile phones into the public communication networks;
- (iii) according to the relevant PRC laws and regulations, MII would provide its opinion as a supervising authority for mobile phone industry to NDRC in respect of the relevant investment project. Nevertheless, NDRC had the right to make the final decision whether or not to grant an approval for the relevant mobile phone production project; and
- (iv) based on the PRC company law (中華人民共和國公司法) and the Revocation Method For Operations Without License (無照經營查處取締辦法), the administration for industry and Commerce is responsible for supervising and investigating illegal operations of registered companies. According to the PRC Company Registration Management Regulation (中華人民共和國公司登記管理條例), it states that “city administration for industry and commerce, county administration for industry and commerce, the branch of municipality administration for industry and commerce and district administration for industry and commerce are responsible for the company registration of their respective jurisdiction (except for the relevant aspects as stipulated under the management of State Administration for Industry and Commerce, or provincial administration for industry and commerce, or autonomy district administration for industry and commerce or municipality administration for industry and commerce) (“設區的市（地區）工商行政管理局、縣工商行政管理局，以及直轄市的工商行政管理分局、設區的市工商行政管理局的區分局，負責本轄區內（除法律規定由國家工商管理總局或省、自治區、直轄市工商行政管理局負責管理以外）公司的登記”）。 In view of the fact that Dongguan Administration for Industry and Commerce is the registration administration of Eyang Dongguan, the PRC legal advisers to the Company consider that Dongguan Administration for Industry and Commerce is the competent authority to supervise whether Eyang Dongguan violates any relevant industrial and commercial laws and regulations in its daily production and operations.

In summary, the aforesaid three authorities are responsible for the different stages of the mobile phone production projects. NDRC is responsible for assessing the mobile phone production investment project and granting approval for implementation of the project under the Old Measure. After the approval is granted and mobile phone production is commenced, MII is responsible for supervision and management of the mobile phone production and permitting the connection of the mobile phones into the public communication networks. Dongguan Administration for Industry and Commerce is responsible for supervising the compliance of the relevant PRC laws and regulations by Eyang Dongguan in its daily production and operations.

The PRC legal advisers to the Company opine that according to the relevant PRC laws and regulations, NDRC, MII and Dongguan Administration for Industry and Commerce do not belong to each other and each of them has different functionality and responsibility as mentioned above. As such, Dongguan Administration for Industry and Commerce is the competent authority to issue an opinion on whether Eyang Dongguan violates any relevant industrial and commercial laws and regulations. According to the relevant PRC laws and regulations, NDRC and MII have no right to overturn the legal and valid opinion issued by Dongguan Administration for Industry and Commerce.

Legal consequence in respect of Eyang Dongguan's engagement in the mobile phone production under the Mobile Phone Production Arrangement

Although Eyang Dongguan's engagement in the mobile phone production under the Mobile Phone Production Arrangement for the period from April 2004 to December 2005 may constitute non-compliance with the relevant requirements under the Old Measure, the PRC legal advisers to the Company considered that Eyang Dongguan will not be penalised for its engagement in mobile phone production under the Mobile Phone Production Arrangement based on the following reasons:

- (i) Eyang Shenzhen, the direct holding company of Eyang Dongguan, has obtained the Mobile Phone Approval since December 2005. It is also noted that Eyang Shenzhen has already disclosed in the application for the Mobile Phone Approval that the Group has been already engaged in the mobile phone production prior to obtaining the Mobile Phone Approval. Based on the relevant PRC laws and regulations, NDRC had sought the opinion from MII in respect of the application for the Mobile Phone Approval. Both NDRC and MII, after reviewing the application for the Mobile Phone Approval submitted by the Group, did not impose any penalty in this regard, and granted the Mobile Phone Approval to Eyang Shenzhen. Eyang Dongguan now is able to produce the mobile phone for the Group's own brand;
- (ii) the relevant PRC laws and regulations, including the Old Measure do not stipulate any fine, i.e., the maximum amount of fine, penalty or administrative punishment that may be imposed by the relevant authorities in respect of the Mobile Phone Production Arrangement. According to the general principle of the PRC laws, if the laws and regulations do not stipulate any penalty, fine or administrative punishment, the relevant authorities have no right to impose any penalty, fine or administrative punishment on Eyang Dongguan;

In view of the above, the PRC legal advisers to the Company considered that Eyang Dongguan will not be penalised by NDRC and MII for its engagement in mobile phone production under the Mobile Phone Production Arrangement;

- (iii) pursuant to the Decision Regarding Fourth Batch of the Cancellation and Adjustment of Administration Approval Project (關於第四批取消和調整行政審批項目的決定) issued by the State Council on 9 October 2007, the relevant requirement for obtaining the approval for the relevant investment in mobile phone production as set out in the Old Measure was cancelled.

In view of the above and according to the general principle of the PRC laws, the PRC legal advisers to the Company consider that Eyang Dongguan will not be penalised for its engagement in the mobile phone production under the Mobile Phone Production Arrangement; and

- (iv) based on the confirmation letter dated 19 April 2007 issued by Dongguan Administration for Industry and Commerce, Eyang Dongguan had not been found to violating any relevant PRC rules and regulations. Eyang Dongguan had never been questioned or penalised in respect of the Mobile Phone Production Arrangement. Furthermore, Dongguan Administration for Industry and Commerce, as the direct supervising authority in respect of Eyang Dongguan's compliance with relevant industrial and commercial laws and regulations, is the competent authority to issue the said confirmation letter on whether Eyang Dongguan violates any relevant industrial and commercial laws and regulations, and the said confirmation letter issued by Dongguan Administration for Industry and Commerce will not be overturned by NDRC and MII.

Based on the above, the PRC legal advisers to the Company consider that Eyang Dongguan will not be penalised by Dongguan Administration for Industry and Commerce for its engagement in the mobile phone production under the Mobile Phone Production Arrangement.

Notwithstanding the above, Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date, namely, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen, have provided an indemnity in favour of the Group to cover any loss, damage or relocation cost that the Group may suffer or incur in relation to the above Mobile Phone Production Arrangement. Details of such indemnity are set out in the paragraph headed "Other information" in Appendix VI to this prospectus.

In addition, according to the PRC legal advisers to the Company, as there are changes in the nature of Eyang Shenzhen as a result of the Reorganisation, i.e. from a domestic company to a wholly foreign owned enterprise (the "Shareholding Change"), Eyang Shenzhen, the subsidiary of the Group, which has obtained the relevant approval from NDRC for manufacturing mobile phones for the Group's own brand, proceeded with the relevant administrative procedures with NDRC regarding the Shareholding Change. As at the Latest Practicable Date, the relevant administrative procedure has been completed.

Property

Property interest held and occupied by the Group in the PRC

The Group owns a property comprising a parcel of land with a site area of approximately 83,000 sq.m. located in Dongguan, the PRC, with five buildings and various ancillary structures erected thereon as its production base. The Group has obtained the valid land use rights for the land for 50 years expiring

on 30 May 2052 for industrial use. The five buildings erected thereon include a 3-story factory, three dormitories and a canteen, whereas the ancillary structures mainly comprise temporary workshops, temporary warehouses, a basketball court, roads and a sewage treatment station. Details of the land, buildings and structures are set out in the paragraph headed “Group I — Property interest held and occupied by the Group in the PRC” of the property valuation report, the text of which is set out in Appendix IV to this prospectus.

As at the Latest Practicable Date, all construction of the five buildings and ancillary structures was completed. In addition, among the five buildings, the factory, two dormitories and the canteen already obtained the relevant property ownership certificates while the remaining dormitory (the “Defective Property”) had not obtained relevant property ownership certificate as at the Latest Practicable Date. Details of the Defective Property is as follows:

The construction proposal for the Defective Property has been submitted to relevant authorities, however, no construction permit, examination for construction completion or registration of such examination has been obtained, conducted or made for the Defective Property.

According to the PRC legal advisers to the Company, in view of the situation as mentioned above and the relevant PRC laws and regulations, the Group is subject to (i) a maximum penalty of 2% of the total construction price of the Defective Property for not obtaining a construction permit; (ii) a maximum penalty of 4% of the total construction price of the Defective Property for not conducting an examination for construction completion; and (iii) a maximum penalty of RMB500,000 for no registration of passing results of the examination for construction completion.

Based on the total construction price of the Defective Property of approximately RMB2.3 million, the Group is subject to a maximum penalty of approximately RMB0.6 million for the Defective Property.

In view of the above, the PRC legal advisers to the Company are of the view that, prior to obtaining of relevant property ownership certificate for the Defective Property, there is legal impediment for the Group to use the Defective Property.

In view of the above and having considered the following factors:

1. the Defective Property is ancillary facility which is used as dormitory and is not crucial to the Group’s business operations;
2. the Defective Property was not used for production or sales purposes, hence no revenue or profit was derived from the use of the Defective Property during the Track Record Period;
3. during the Track Record Period and up to the Latest Practicable Date, the Group has never been evicted from the Defective Property nor has the Group been questioned, fined or penalised by the relevant PRC government authorities for the use of the Defective Property;
4. if the relevant authorities determine that the construction and the use of the Defective Property was not in compliance with relevant laws and regulations, the maximum penalty to the Group for the Defective Property is approximately RMB0.6 million in total, which is considered by the Directors as insignificant; and

5. should the Group be required by the relevant authorities to suspend the use of the Defective Property, the Directors consider that the relevant dormitory can be easily relocated. For the relocation of dormitory, the Directors consider that there is a plentiful supply of quarters available for rent near the production plant. Therefore, the Directors expect that the relocation of dormitory would take less than one week with an estimated rental cost of approximately RMB10,300 per month.

The Directors are of the view that the absence of relevant title certificate of the Defective Property will not have a material effect on the Group's business and operations.

Notwithstanding the above, in order to secure the use of the Defective Property, the Group will strive to obtain the relevant permits and finish the relevant registration for the Defective Property, and relevant application procedures are under progress.

In addition, Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date, namely, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen, have provided an indemnity in favour of the Group to cover any loss, damage and relocation cost that the Group may suffer or incur in relation to the above owned property. Details of such indemnity are set out in the paragraph headed "Other Information" in Appendix VI to this prospectus.

On the other hand, the Group owns another property comprising a parcel of land with a site area of approximately 3,584 sq.m. located in Shenzhen Hi-tech Industrial Park, the PRC, with an eight-storey and a basement industrial building which is now under construction and is expected to be completed in January 2008. The PRC legal advisers to the Company are of the opinion that the Group has obtained all the necessary certificates for the construction, including the planning permit for using land for construction purposes, construction project planning permit and construction project commencement permit. The Group will apply for inspection examination on construction completion for such construction as soon as practicable. The PRC legal advisers to the Company confirm that there is no legal impediment for the Group to obtain the building ownership certificate for such construction after passing the inspection examination upon completion of construction.

Property interest rented and occupied by the Group in the PRC

As at the Latest Practicable Date, the Group leased two properties located in Shenzhen.

Eycom has leased from Wuhan Yancao (Group) Company Limited (武漢煙草(集團)有限公司), an Independent Third Party, a property (the "Defective Leased Property") with a total area of approximately 1,000 sq.m. located in 27 Floor, Hubai Mansion, no. 9003 Binhe Road, Futian District, Shenzhen, Guangdong, the PRC as its general administrative office. Eycom subsequently leased a gross floor area of approximately 150 sq.m. of the Detective Leased Property to Eyang Shenzhen as its general administrative office. Details of such property are set out in the property numbered 4 of the property valuation report set out in Appendix IV to this prospectus. The relevant lease agreements have been registered with relevant PRC authorities. However, Wuhan Yancao (Group) Company Limited (武漢煙草(集團)有限公司) failed to provide the Group with the proper authorisation from the owner of this property to authorise it to lease such property to the Group.

In view of the above, the PRC legal advisers to the Company are unable to confirm whether the lessor has the legal rights to execute the relevant lease agreements, whether such lessor has the legal right to let or sub-let the relevant property, or whether they can assume duties and responsibilities as the legal landlords under such lease. Accordingly, the PRC legal advisers to the Company are unable to confirm whether the Group is able to legally use the Defective Leased Property.

Having taken into account the following:

1. during the Track Record Period and up to the Latest Practicable Date, the Group has never been evicted from the Defective Leased Property;
2. the Defective Leased Property is used as one of the offices of the Group to provide general administrative services (the “General Office”) to the Group and is not involved in any production or sales operations of the Group. As such, it did not contribute revenue or profit to the Group during the Track Record Period; and
3. the operations in the General Office can be easily relocated less than one week with estimated relocation cost of approximately RMB10,000 since there are many similar premises with comparable rent nearby available for lease;

the Directors consider that the absence of proper authorisation from the lessor for the leased property will not have a material effect on the Group’s business and operations. Nevertheless, the General Office will be relocated to Shenzhen Hi-tech Industrial Park, the construction of which is expected to complete in January 2008, and the Group will terminate the lease agreement of the Defective Leased Property accordingly.

The PRC legal advisers to the Company are of the opinion that there are no fines possibly to be imposed on the Group for the use of the Defective Leased Property.

Notwithstanding the above, the operations of the General Office and all other offices and workshops located in Shenzhen will be relocated to the headquarters of the Group at Shenzhen Hi-tech Industrial Park which is currently under construction and is expected to be completed in January 2008. In addition, Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date, namely, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen, have provided an indemnity in favour of the Group to cover any loss, damage or relocation cost that the Group may suffer or incur in relation to the above leased property. Details of such indemnity are set out in the paragraph headed “Other Information” in Appendix VI to this prospectus.

On the other hand, Eyang Shenzhen and Eycom respectively occupy a leased property (the “Meihua Properties”) located on Level 3, Block 2, Duoli Industrial Area, Meihua Road, Futian District, Shenzhen, Guangdong Province, the PRC as mentioned in property numbered 3 of the property valuation report set out in Appendix IV of this prospectus. Eyang Shenzhen and Eycom have respectively leased a unit with a total gross floor area of approximately 105 sq.m. and 150 sq.m. respectively in Meihua Properties for the packaging and taping of MLCC products and software installation for the mobile phone products respectively. The Meihua Properties are leased by a landlord, Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司) and the relevant lease agreements between Shenzhen City Fuzhongda Investment Holdings Company Ltd.

(深圳市福中達投資控股有限公司) and Eyang Shenzhen and Eycom respectively are already registered with the PRC authorities. According to the PRC legal advisers to the Company, the current registered owner of the Meihua Properties is Shenzhen Futian Investments Development Company (深圳福田投資發展公司). According to the “Notice regarding allocation of the assets of Shenzhen Futian Investments Development Company” (關於劃撥深圳福田投資發展公司資產的通知) issued by Futian District national assets management committee office (福田區國有資產管理委員會辦公室) dated 15 November 2005 and a notice dated 31 December 2005 jointly issued by Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司) and Shenzhen Futian Investments Development Company (深圳市福田投資發展公司) to leasees, including Eyang Shenzhen and Eycom, the Meihua Properties are allocated to Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司). The Directors confirm that the legal title of the Meihua Properties are currently being transferred from Shenzhen Futian Investments Development Company (深圳福田投資發展公司) to Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司). Based on the above, the PRC legal advisers to the Company confirm that the lease agreements entered into between Shenzhen City Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司) and each of Eyang Shenzhen and Eycom are legally binding on the parties thereto and are valid, legal and enforceable, and hence the use of the Meihua Properties by Eyang Shenzhen and Eycom is legal.

The PRC legal advisers to the Company confirm that no penalty/fines will be imposed on the Group in respect of its lease of the Meihua Properties.

Having considered that:

- (a) the total floor area of the Meihua Properties is approximately 255 sq.m., accounting for approximately 0.75% of the total floor area of approximately 34,000 sq.m. occupied by the Group as at 31 August 2007;
- (b) among the production processes housed in the Meihua Properties, i.e. taping and packaging for MLCC products and software installation for mobile phones, during the Track Record Period, the process of software installation for mobile phones has been relocated to the Group’s production base in Dongguan. On the other hand, the taping and packaging capacity for MLCC products, based on the number of the machinery deployed in the Meihua Properties, only accounts for approximately 8% of the entire taping and packaging for MLCC products process of the Group, the remaining 92% of the taping and packaging for MLCC products process of the Group was carried out at the Group’s production base in Dongguan as at the Latest Practicable Date. As such, in the event that the relevant production processes housed in the Meihua Properties cannot normally operate for whatever reasons, the relevant production process can be easily taken up by the same operations located at the Group’s production base in Dongguan; and
- (c) such production processes can be easily relocated, if necessary, within one week with the estimated relocation cost of approximately RMB10,000 since there are many similar premises with comparable rent nearby available for lease,

the Directors consider that such production process housed in the Meihua Properties is not crucial to the Group’s overall production operations. In any event, the Controlling Shareholder, i.e. Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date,

namely, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen, have provided an indemnity in favour of the Group to cover any loss, damage or relocation cost that the Group may suffer or incur in relation to the Meihua Properties. Details of such indemnity are set out in the paragraph headed “Other Information” in Appendix VI to this prospectus.

Others

Pursuant to the certification issued by Dongguan Provident Fund Administration Centre dated 18 April 2007 (the “Certification”), Eyang Dongguan and Eyang Shenzhen (Dongguan branch) have completed all the procedures of account opening and housing provident fund payment for their staff in accordance with the Housing Provident Fund Administration Regulation. Prior to the Certification, both Eyang Dongguan and Eyang Shenzhen (Dongguan branch) had not completed the aforementioned procedures of account opening and housing provident fund payment for their staff.

The PRC legal advisers to the Company are of the view that:

- (i) both Dongguan Eyang and Eyang Shenzhen (Dongguan branch) have completed the procedures of opening accounts and payment of housing provident fund for its staff; and
- (ii) Dongguan Provident Fund Administration Centre has been aware that both Eyang Dongguan and Eyang Shenzhen (Dongguan branch) have not contributed to the housing provident fund in the past, but no retrospective payment or penalty has been imposed on Dongguan Eyang and Eyang Shenzhen (Dongguan branch).

Therefore, there is a small likelihood that Dongguan Provident Fund Administration Centre will demand retrospective payment from, or will even impose penalty on Eyang Dongguan and Eyang Shenzhen (Dongguan branch) in future.

According to the Provisional Insurance Measures for Maternity of Employees, the Group should be obliged to pay and deposit maternity insurance fund in full amount in a timely manner for its female employees to the special account established by the competent authority of maternity insurance and then, upon the examination by such competent authority of maternity insurance. The amount of the maternity insurance fund paid by the Group per employee will not exceed 1% of the employee’s total salary.

Nevertheless, the Group did not pay maternity insurance for its employees in Dongguan. The PRC legal advisers to the Company are of the opinion that, according to the certification dated 18 January 2007 issued by 東莞市鳳崗社會保險基金管理中心 (Center of Social Insurance Fund Management of Dongguan Fenggang), maternity insurance is not implemented in Dongguan, and therefore, the Group is not subject to any fine and administrative punishment due to its non-payment of the maternity insurance in Dongguan.

General

Save as disclosed in this paragraph “Legal and regulatory”, the PRC legal advisers to the Company are of the view that the Group has obtained all licenses, permits or certificates necessary to conduct its operations from the relevant governmental bodies and complies with all applicable laws and regulations in the PRC, including the relevant rules and regulations as set out in the section headed “Regulations” of this prospectus during the Track Record Period.

As at the Latest Practicable Date, no member of the Group was engaged in litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group.

NON-COMPETITION UNDERTAKING

Each of Mr. Chen, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen (each individual hereinafter referred to as the “Covenantor”) has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of its subsidiaries) that upon and after the listing of the Shares on the Stock Exchange, he/she would not, and would procure that his/her associate(s) (except any members of the Group) would not, during the restricted period set out below, directly or indirectly, either on his/her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the business of any member of the Group (the “Restricted Business”). Such non-competition undertaking does not apply where:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available to the Company, and the Company, after review and approval by the Directors or Shareholders as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, provided that the principal terms by which the Covenantor (or his/her relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favorable than those disclosed to the Company; or
- (b) having interests in the shares of a company whose shares are listed on a recognised stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; or
 - (ii) the total number of the shares held by the Covenantor and/or his/her associate(s) in aggregate does not exceed 5% of the issued shares of that class of the company in question and the Covenantor and/or his/her associates are not entitled to appoint a majority of the directors of that company.

BUSINESS

The “restricted period” stated above refers to the period during which (i) the Shares remain listed on the Stock Exchange; (ii) the Covenantor and/or his/her associate(s), individually or jointly, are entitled to exercise or control of the exercise of not less than 30% of the voting power at general meetings of the Company and (iii) the Covenantor remains as a director of any member of the Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDER

The Directors are satisfied that the Company can carry on its business independently of the Controlling Shareholder. Save as disclosed in this prospectus, there is no business transaction between the Group on one hand and the Controlling Shareholder or any of their associates on the other hand. As at the Latest Practicable Date, the Controlling Shareholder is not interested in any business apart from the Group’s business which competes or is likely to compete with the Group’s business.

CONNECTED TRANSACTIONS

SUMMARY

Members of the Group have entered into certain transactions with parties who are Connected Persons of the Company and the transactions will continue after the Listing, thereby constituting continuing connected transactions of the Company under the Listing Rules. A summary of these continuing connected transactions is set out below:

	Type of Transaction	Term	Applicable Listing Rule	Waiver Sought
1.	Lease agreement with Guangtong	9 years and 8 months	Rule 14A.33(3)	None (<i>De minimis transaction</i>)
2.	Supply agreement with Guangtong	3 years	Rule 14A.35	Exemption from reporting, announcement and independent shareholders' approval requirements

CONNECTED PERSON

Guangtong is the relevant Connected Person, with whom members of the Group have entered into continuing connected transactions. Guangtong is a limited liability company incorporated in the PRC on 11 July 2006 and is owned as to 80% by Chen Weizhi (陳偉志), 10% by Chen Shuling (陳淑玲) and 10% by Chen Shurong (陳淑蓉). The registered paid-up capital of Guangtong is RMB500,000, out of which, RMB200,000 was borrowed by Mr. Chen Weizhi from Mr. Chen, the controlling shareholder and an executive Director, for the establishment of Guangtong. Such amount was fully repaid by Mr. Chen Weizhi to Mr. Chen on 29 July 2006. Chen Weizhi is a brother of Chen Weirong, an executive Director. Chen Shuling (陳淑玲) and Chen Shurong (陳淑蓉) are both sisters of Chen Weirong, an executive Director. Chen Weizhi (陳偉志), Chen Shuling (陳淑玲) and Chen Shurong (陳淑蓉) are therefore associates of Chen Weirong under Rule 14A.11(4)(b) of the Listing Rules, and Guangtong is therefore a Connected Person of the Company pursuant to Rule 14A.11(5) of the Listing Rules. Guangtong is principally engaged in the manufacture of mobile handset casings.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The following connected transaction will constitute an exempted continuing connected transaction for the Group under Rule 14A.33(3) of the Listing Rules and accordingly, will be exempted from the reporting, announcement and independent shareholders' approval requirements stipulated under the Listing Rules. The following transaction is undertaken on an arms-length basis and on normal commercial terms or terms more favourable to the Group and the percentage ratios (other than the profit ratio) of the following transaction on an annual basis is less than 0.1% or if more than 0.1% is less than 2.5% and the annual consideration is less than HK\$1.0 million (equivalent to RMB0.99 million).

1. Lease Agreement with Guangtong

Terms of the Lease Agreement

On 25 April 2007, Eyang Dongguan entered into a lease agreement with Guangtong, whereby Eyang Dongguan agreed to lease to Guangtong for an annual rent of RMB56,680.80 land with an area of approximately 2,147 m² situated in Shibikeng, Sanlian Village, Fenggang Town, Dongguan, Guangdong Province, the PRC. The lease agreement is for a term of 9 years and 8 months commencing from 1 May 2007 to 31 December 2016. The purpose of the lease agreement is to enable Guangtong to carry out its production of mobile handset casings at the above location.

The annual rental is determined with reference to the prevailing market rent. Savills, an independent property valuer, has confirmed that the proposed annual rent payable under the lease agreement with Guangtong is comparable to the prevailing market rate and is fair and reasonable. The Directors, including the independent non-executive Directors, consider that the lease agreement is carried out in the ordinary and usual course of business, on normal commercial terms, is fair and reasonable and in the interests of the Shareholders as a whole.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Set out below are the terms of the continuing connected transaction which is subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules (the "Non-exempt Continuing Connected Transaction").

1. Supply agreement with Guangtong

Background

As the mobile phone production process of the Group principally involved, among others, the assembly of different mobile phone components into a set of mobile phone product, various mobile phone components, i.e. mobile phone casings, are sourced by the Group rather than produced by the Group itself. During the Track Record Period, in addition to the purchase of mobile phone casings from Guangtong, the Group also sourced the mobile phone casings from a total of nine other mobile phone casings suppliers (the "Independent Suppliers"), who are Independent Third Parties.

Terms of the supply agreement

On 30 November 2007, Eycom entered into a supply agreement with Guangtong, whereby Guangtong agreed to manufacture and supply mobile phone casings to Eycom from time to time on normal commercial terms which are no less favorable than those available from Independent Third Parties. The supply agreement become effective from the Listing Date to 31 December 2009.

CONNECTED TRANSACTIONS

Having considered that:

- (a) the terms and conditions offered to the Group by the Independent Suppliers and Guangtong are similar in all material respects;
- (b) as compared with the Independent Suppliers, the location of the production base of Guangtong was the closest one to the Group's mobile phone production base in Dongguan. Three out of the four Independent Suppliers are located in Shenzhen. The remaining one is located in Dongguan but not located on the same piece of land owned by the Group as is the case with Guangtong. The close vicinity of Guangtong would (i) relatively further shorten the delivery time, and (ii) increase the effectiveness of inventory control of the Group as the Group is able to shorten the storage time and provide less storage areas for mobile phone casings, which in turn would reduce storage costs for mobile phone casings;
- (c) taking into account (i) Guangtong supplied approximately 79.5% and 54.5% of the total mobile phone casings purchased by the Group for the year ended 31 December 2006 and the nine months ended 30 September 2007; and (ii) the Group has not experienced any dispute with Guangtong since date of commencement of business relationship and up to the Latest Practicable Date. The Directors consider that there is an established relationship between the Group and Guangtong.

The Directors are of the view that the entered into the supply agreement with Guangtong is in the ordinary course of business of the Group and is in the interests of the Group and the Shareholders as a whole.

Pricing

The prices of mobile phone casings to Eycom will be agreed between Guangtong and Eycom from time to time on arm's length basis at prevailing market price, and the prices the Group pays to other independent suppliers, for similar mobile phone casings.

Historical transaction amounts

As Guangtong was established in July 2006, the Group has commenced the source of mobile phone casings in 2006. For the year ended 31 December 2006 and the nine months ended 30 September 2007, purchases of mobile phone casings by the Group from Guangtong amounted to approximately RMB16.4 million and approximately RMB12.5 million respectively, representing approximately 79.5% and 54.5% of the total purchase of mobile phone casings by the Group respectively, and representing approximately 2.9% and 2.8% of the total purchases of the Group respectively. For the year ended 31 December 2006 and the nine months ended 30 September 2007, total sales to the Group by Guangtong represents approximately 97.3% and 55.3% of Guangtong's total sales, respectively. The remaining approximately 2.7% and 45.7% of the total sales of Guangtong during the corresponding period were the sales made by Guangtong to other customers respectively.

CONNECTED TRANSACTIONS

The Directors confirm that the terms and conditions offered to the Group by the abovementioned four independent suppliers and Guangtong are similar in all material respects. The suppliers generally grant a 30 to 60 days credit period to the Group for its purchases of mobile phone casings from them. The supplied products must conform to the technological standard and specifications as set by the Group, and the Group has the rights to return the supplied products if they failed to meet these standards and specifications. The suppliers are responsible for collection of any returned products, which must be collected within 3 days after being notified of the return. The suppliers are generally subject to a late delivery penalty calculated as 0.3% of the contract price per day, up to a maximum of 5% of the contract price.

Proposed annual caps

The Directors estimate that the annual value of the transactions under the supply agreement with Guangtong for each of the years ending 31 December 2009 are as follows:

	For the year ending 31 December		
	2007	2008	2009
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Supply agreement with Guangtong	20.0	33.3	41.7

The above annual caps are the product of (i) the estimated production volume of mobile phones of the Group for each of the three years ending 31 December 2009; (ii) the estimated average purchase price of each of the mobile phone casings for each of the three years ending 31 December 2009; and (iii) the estimated percentage of the mobile phone casings to be purchased by the Group from Guangtong to the total mobile phone casings to be purchased by the Group for each of the three years ending 31 December 2009. In arriving at the abovementioned annual caps, the Directors have taken into account the following factors:

1. The production volume of mobile phones of the Group for the year ending 31 December 2007 is estimated to increase by approximately 38.5% as compared with that of 2006 after taking into account (i) the actual production volume of mobile phones for the seven months ended 31 July 2007 which is approximately 36% higher than the production volume for the seven months ended 31 July 2006; and (ii) expected higher utilisation rate of the mobile phone production capacity in 2007 as compared with that of 2006 due to the expected increase in the sale volume of the mobile phones of the Group during the year;
2. The production volume of mobile phones of the Group for the two years ending 31 December 2009 is estimated to increase by an average of approximately 46% per annum for each of the two years ending 31 December 2009 after taking into account (i) the estimated rate of increase in the production volume of mobile phones of approximately 38.5% for the year ending 31 December 2007 as set out in point 1 above; (ii) the increase in the mobile phone production capacity of the Group as a result of utilising part of its net proceeds derived from the Share Offer; and (iii) the continuing increase in sales volume of the mobile phones of the Group which in turn should stimulate the production volume of mobile phones of the Group;

CONNECTED TRANSACTIONS

3. The estimated average purchase price for each of the mobile phone casings for each of the three years ending 31 December 2009 is expected to remain stable after taking into account: (i) the historical average purchase price for the seven months ended 31 July 2007 remained stable as compared with that for the year ended 31 December 2006; and (ii) although there may be a growing demand for the mobile phones casings as a result of the continuous increase in the production volume of mobile phones in the PRC, the average purchase price for the mobile phone casings per units may continue to remain stable resulting from the competition within the mobile phone casings industry; and
4. The Group would continue to purchase mobile phone casings from Guangtong which may account for up to approximately 70% of total purchase of mobile phone handset casings by the Group for each of the three years ending 31 December 2009. It is considered the established relationship between the Group and Guangtong with reference to the fact that (i) Guangtong supplied approximately 79.5% of the total mobile phone casings purchased by the Group for the year ended 31 December 2006; and (ii) the Group has not experienced any dispute with Guangtong since the commencement of the business relationship and up to Latest Practicable Date.

Confirmation from the Directors and the Sponsor

The Directors (including the independent non-executive Directors) and the Sponsor both confirm that the Non-exempt Continuing Connected Transaction has been entered in the ordinary and usual course of business of the Company and the terms of the Non-exempted Continuing Connected Transaction, including the proposed annual caps, are normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

APPLICATION FOR WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The Non-exempt Continuing Connected Transaction would require compliance with reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Non-exempt Continuing Connected Transaction will continue after the Listing and are of an ongoing nature, the Directors consider that strict compliance with the reporting, announcement and independent shareholders' approval requirements under the Listing Rules be unduly burdensome and impractical. In addition, the Directors (including the independent non-executive Directors) and the Sponsor both confirm that the Non-exempt Continuing Connected Transaction has been entered in the ordinary and usual course of business of the Company and the terms of the Non-exempted Continuing Connected Transaction, including the proposed annual caps, are normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

CONNECTED TRANSACTIONS

Accordingly, the Company has applied for, and have received from, the Stock Exchange a waiver from strict compliance with reporting, announcement and independent shareholders' approval requirements as set out in Rules 14A.45 and 14A.48 of the Listing Rules for the Non-Exempt Continuing Connected Transaction on the condition that:

- (a) the annual cap for the Non-exempt Continuing Connected Transaction shall not exceed the respective amount for the respective years as set out below:

	For the year ending 31 December		
	2007	2008	2009
	(RMB million)	(RMB million)	(RMB million)
Supply agreement with Guangtong	20.0	33.3	41.7

- (b) the Company confirms that it will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules, and will re-comply with Rules 14A.35(3) and (4) of the Listing Rules if any of the respective annual caps set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

DISCONTINUED CONNECTED TRANSACTION

The Group also entered into connected transactions with Ritong during the Track Record Period which has been discontinued in 2005. Ritong was established in the PRC as a limited liability company on 24 September 2004, and beneficially owned as to 60% by, Ms. Shuang Mei, an executive Director, and as to 40% by, Mr. Liao Jie, an executive Director. Ritong is therefore a Connected Person of the Company pursuant to Rule 14A.11(4) of the Listing Rules. During the Track Record Period, Eyang Shenzhen sold electronic components of mobile phone to Ritong, and the total sale amounted to approximately RMB45.4 million in 2004 and approximately RMB7.5 million in 2005, and such sales ceased in 2005. During the Track Record Period, Eyang Dongguan leased office premises to Ritong, the aggregate lease payments amounted to approximately RMB3,000 in 2004, RMB10,000 in 2005 and RMB7,000 in 2006.

In 2005, Eycm purchased mobile phones components from Ritong which amounted to RMB4.14 million for sales and distribution. Ritong has ceased operation since 25 July 2006 and is now under the process of deregistration.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

MLCC business

The Group aims at becoming a leading MLCC manufacturer serving local and international major consumer electronics appliances, computers and computer peripherals and telecommunications manufacturers. As such, the Group intends to use part of the net proceeds derived from the Share Offer to implement its business strategies of the MLCC business. The details are set out below:

Expansion of MLCC production capacity

In view of the fact that the Group's production of MLCC reached more than 90% of the maximum production capacity during the Track Record Period, the Group plans to increase the production capacities to meet the continuing uprising global market demand for MLCC products. As such, the Group intends to acquire new MLCC production facilities to increase its MLCC production capacity. The MLCC production facilities expected to be purchased by the Group including the following:

1. Stacking machines — to stack the inner electrodes-printed ceramic film following the designed positions to form the multi-layer structure of MLCC
2. Sintering machines — to process the MLCC under high temperature to make it become a ceramic body
3. Cutting machines — to cut the laminated bar into individual chips
4. Tumbling machines — To ensure the inner electrode of the product fully exposed to connect the outer electrode

The Group intends to use approximately RMB59 million for acquisition of MLCC production facilities, of which approximately RMB50 million and RMB9 million is expected to be used in 2008 and 2009 thereafter respectively. As at the Latest Practicable Date, the Group has entered into agreements in relation to the purchase of MLCC production facilities.

The newly acquired production facilities is expected to increase the Group's production capacity of MLCC to approximately 45 billion pieces per year. In order to operate the new MLCC production facilities at their full capacity, the Group intends to recruit additional workers for the expansion of production capacities.

Enhancement of the research and development capability for MLCC products

The Group will continue to invest in MLCC research and development so as to enhance its capability in development of MLCC products. In consideration of strong market demand for high capacitance mini size MLCC, the research and development will focus on the reduction of size and increase of capacitance of the MLCC products to suit the market demands.

FUTURE PLANS AND USE OF PROCEEDS

As such, the Group plans to recruit more research staff in this aspect with doctoral degree from different universities in the PRC and to provide the existing research staff with overseas training to learn the MLCC production technology adopted by overseas counterparts. In addition, the Group would upgrade the existing machineries for research and development of MLCC products.

The Group intends to use approximately RMB12 million for develop the ultra-thin and ultra-high capacitance MLCC with one micrometer thickness of internal electrode, of which, approximately RMB10 million and RMB2 million is expected to be used in 2008 and 2009 respectively.

Mobile phones related business

The Group's long-term objective is to become a major mobile phone manufacturer in the PRC. As such, in addition to continuing development of low cost mobile phones for the customers with relatively lower purchasing power in the rural market, the Group is also expanding its product mix of mobile phones by introducing mobiles phones equipped with more sophisticated functions to better serve potential customers with relatively higher purchasing power, such as customers in the urban market in the PRC. For example, in May 2007, the Group launched first mobile phone with PDA function, and in the future, the Group plans to produce 3G mobiles phones. Besides, the Group also plans to increase its mobile phone production capacity and allocate more resources to marketing and brand building of the Group's mobile phones. Details of which are set out below:

Development of 3G mobile phone by way of acquisition of 3G mobile phone solutions

The Directors expect that the demand for 3G mobile phones in the PRC is vast after 3G license is granted to the mobile communication operators in the PRC by the PRC government. In preparation for the open of 3G mobile service in the PRC, the Group's strategy is to acquire 3G solutions directly from third parties so as to shorten the whole research and development cycle and the risks associated to such development. The Group intends to use approximately RMB6 million for the development of 3G mobile phones, of which, approximately RMB3 million for acquisition of 3G solutions from third parties and approximately RMB3 million for upgrading the existing computers and machineries.

Subject to the granting of 3G license by the PRC government to the mobile communication operators to officially operate the 3G services in the PRC, the Group intends to use approximately RMB2 million to upgrade parts of the existing computers and machineries in 2008, and use the balance of approximately RMB4 million for acquiring 3G solutions from third parties and upgrade the remaining parts of the existing computers in 2009 afterwards.

Expansion of mobile phone production capacity

To expand the mobile phone market share and to satisfy the growing demand of mobile phones in the PRC, the Group would enhance its production capacity by increasing production lines from 3 in 2007 to 11 in 2008, 2 of which are designated for the production of 3G mobile phones and the remaining 9 are designated for the production of existing generation of mobile phones.

FUTURE PLANS AND USE OF PROCEEDS

A mobile phone production line mainly includes the followings:

1. Assembly machines — to assemble various mobile phone components into a whole set of mobile phone
2. Testing machines — to perform functionality and safety testing

Subject to the granting of 3G license by the PRC government to mobile communication operators to officially operate 3G services in the PRC, the Group intends to use approximately RMB9 million. Among the RMB9 million, approximately RMB5 million is intended to acquire mobile phone production facilities for existing generation of mobile phones and approximately RMB4 million is intended to acquire 3G mobile phone production facilities.

With the commencement of operation of the new production lines, the Group's production capacity of mobile phones is expected to increase to approximately 4.4 million sets per year, of which, approximately 1.3 million sets per year are 3G mobile phones and the remaining approximately 3.1 million sets per year are for existing generation of mobile phones. In order to operate the new mobile phone production facilities at their full capacity, the Group intends to recruit additional workers for the expansion of production capacities.

Strengthening the marketing, sale and distribution of mobile phones with "EY" brand

In order to reinforce the brand building of the Group's "EY" branded mobile phones, and increase the coverage of the existing promotion of the Group's mobile phones, the Group intends to launch marketing and promotion activities in 2007 and 2008, which include advertisement on television, newspapers, magazines and large bill boards.

To achieve the above marketing plans, the Group intends to use approximately RMB9 million for advertising and promotion of its mobile phones, of which approximately RMB8 million is expected to be use in 2008 while the balance of approximately RMB1 million is expected to be used in 2009 afterwards.

General

Upgrade the computer system to further enhance the business management

The existing computer systems of the Group principally serve the Group's human resources, financial reporting, raw material purchasing and production. However, those functions are not fully integrated into one information management system and sometimes manual operation are required. In view of the expansion of the Group's business and to support the Group's future development, the Group intends to upgrade the computer systems in order to consolidate the management of the Group's human resources, financial reporting, raw material purchasing and production under an integrated information management system. The Directors considers that the new computer system can provide more efficient, accurate and timely management reporting for future business decision making.

The Group intends to use approximately RMB3 million to upgrade the existing computer systems, of which approximately RMB2 million is expected to be used in 2008, while the remaining approximately RMB1 million is expected to be used in 2009.

FUTURE PLANS AND USE OF PROCEEDS

USE OF PROCEEDS

The net proceeds from the Share Offer will be utilised to finance the implementation of the development plans of the Group and to strengthen the capital base of the Group.

Based on the Offer Price of HK\$1.30 per Offer Share, the net proceeds from the Share Offer, after deduction of related expenses payable by the Company, are estimated to be approximately HK\$100 million. The Directors intend to apply the net proceeds from the Share Offer as followings:

- as to approximately HK\$59 million to acquire MLCC production facilities to expand the production capacity of MLCC products;
- as to approximately HK\$12 million to enhance the research and development capability of MLCC products;
- as to approximately HK\$6 million to acquire third party solutions designated for the applications of 3G mobile phones;
- as to approximately HK\$9 million to acquire mobile phones production facilities to expand the production capacity of mobile phones;
- as to approximately HK\$9 million to further strengthen the marketing, sale and distribution of mobile phones with “EY” brand;
- as to approximately HK\$3 million to upgrade the existing computer system; and
- the remaining balance of approximately HK\$2 million will be reserved as general working capital.

In the event that the Over-allotment Option is exercised in full, the Group will receive additional net proceeds of approximately HK\$19 million and the Directors intend to allocate approximately HK\$16 million to further acquire production facilities of MLCC products and mobile phones and approximately HK\$3 million for the Group’s general working capital.

To the extent that the net proceeds from the Share Offer are not immediately applied for the above purposes, it is the present intention for the Group that such proceeds will be placed on short-term deposits with authorised financial institutions in Hong Kong and/or the PRC.

DIRECTORS

Executive Directors

Mr. Chen Weirong (陳偉榮), aged 48, is an executive Director and the chairman of the Company. He is in charge of the corporate strategy, planning and overall development of the Group. He is also the founder of the Group. Mr. Chen graduated from 華南工學院 (South China Institute of Technology*, now known as 華南理工大學, South China University of Technology*) in 1982 with a bachelor's degree in engineering. Upon graduation, Mr. Chen started his career as a technician in 康佳集團股份有限公司 (Konka Group Company Limited*) in 1982, a major consumer electronics manufacturing and distribution enterprise in the PRC, and became its managing director in 1994 until 2001. Mr. Chen has over 20 years of experience in electronics manufacturing industry. In 1996, Mr. Chen was elected as “Outstanding Young Entrepreneur of Shenzhen”, in 1997, he was awarded the “National ‘May 1st’ Labour Medal” (全國「五一」勞動獎章) and in 1998, he was elected as a representative in the Standing Committee of the 9th National People's Congress. Mr. Chen is the Chairman and general meeting of Eyang Shenzhen, and joined the Group in November 2001.

Ms. Shuang Mei (霜梅), aged 39, is an executive Director of the Company. She is the general manager of mobile phone division of the Group and is in charge of the strategic planning and development of mobile phone business of the Group. Ms. Shuang graduated from 南京大學 (Nanjing University*) in 1991 with a bachelor's degree in arts (Chinese language) and started her career as a journalist for two newspapers until 1999. In 2000, she obtained a master's degree in business administration from the University of Lancaster, and joined the Group in 2001 as a head of general management in Eyang Shenzhen. Ms. Shuang Mei subsequently was promoted to general manager of MLCC division in February 2004 and was appointed as vice-president of Eyang Shenzhen in November 2004. Ms. Shuang Mei has served as the general manager of mobile phone division of Eyang Shenzhen since August 2005.

Mr. Liao Jie (廖杰), aged 39, is an executive Director of the Company. He is also the general manager of MLCC division of the Group and is in charge of the strategic planning and development of MLCC business of the Group. Mr. Liao graduated from 華中理工大學 (Huazhong University of Science and Technology*, now known as 華中科技大學) with a bachelor's degree in engineering in June 1990. He obtained Master of Science specialising in electronics components research from 華中理工大學 (Huazhong University of Science and Technology*, now known as 華中科技大學) in 1993. Upon graduation, Mr. Liao joined Konka Group Company Limited as a manager, responsible for supervising the quality control of electronics raw materials. His last position in Konka Group Company Limited was the general manager (Eastern China) in charge of the overall sales and marketing of consumer electronic products in eastern part of the PRC in October 2001. Mr. Liao joined the Group in October 2001 after he left Konka Group Company Limited. After joined the Group, Mr. Liao Jie worked as head of sales of Eyang Shenzhen until August 2005 and was promoted as general manager of MLCC division of Eyang Shenzhen since August 2005.

Non-executive directors

Mr. Cheng Wusheng (程吳生), aged 39, is a non-executive Director of the Company. Mr. Cheng has 20 years of experience in trading business. He was initially employed as a sales promoter by 深圳市雲鵬企業發展公司 (Yunpeng Industrial Development Co., Ltd.*). He was then a regional manager of Konka Group Company Limited and a deputy general manager of 陝西康佳電子有限公司 (Shaanxi

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Konka Electronic Co., Ltd.*) from October 1990 to June 1996. Through these positions, he was responsible for sales and promotion of products. Mr. Cheng is currently a director of 深圳市金邁新貿易有限公司 (Shenzhen Jinmaixin Trading Co., Ltd.*) and 深圳市南華亞星實業有限公司 (Shenzhen Nanhua Yaxing Industrial Co., Ltd.*), both of which are trading companies. Mr. Cheng initially joined the Group in February 2001 and subsequently left the Group in March 2001 to devote himself full-time on his own trading business. He was and remained a shareholder of Eyang Shenzhen and then rejoined the Group as a director of Eyang Shenzhen in April 2003. He has shareholding interests in the Company through his wholly-owned company WU SHENG Management Limited.

Mr. Li Heqiu (李賀球), aged 44, is a non-executive Director of the Company. Mr. Li has been a director of 東莞市永泰建築工程有限公司 (Dongguan Yongtai Construction and Engineering Co., Ltd.*) since 25 March 2002 to 1 November 2005 and general manager from 25 March 2002 to present. Through these positions, he was responsible for decision making in construction projects and operation management. He is currently a director of a manufacturing company, 東莞市永泰實業有限公司 (Dongguan Yongtai Industrial Co., Ltd.*), and also a director of an investment company, 東莞市永龍實業投資有限公司 (Dongguan Yonglong Industrial Investment Co., Ltd.*). Mr. Li joined the Group in June 2005. Mr. Li has shareholding interests in the Company through his wholly-owned company HEQ Management Limited.

Mr. Zhang Zhilin (張志林), aged 56, is a non-executive Director of the Company. Mr. Zhang has over 20 years of experience in manufacturing industry. He was a factory director of 上海浦東新區合慶鎮向陽村向陽電鍍廠 (Shanghai Pudong Heqing Town Xiangyang Village Xiangyang Electroplating Factory*) from February 1981 to November 1985 and was also a factory director of 上海浦東美靈塑膠製品廠 (Shanghai Pudong Meiling Plastics Factory*) from December 1985 to January 1994. As a factory director, he was responsible for production operation and human resource management. Mr. Zhang is currently a director of 上海華勵包裝有限公司 (Shanghai Huali Packing Co., Ltd.*), 上海美陽精密模具有限公司 (Shanghai Meiyang Precision Moulding Co., Ltd.*), 上海匯陽實業有限公司 (Shanghai Huiyang Industrial Co., Ltd.*), 上海泰匯液晶顯示器有限公司 (Shanghai Taihui LCD Co., Ltd.*) and 上海浦東美靈塑膠製品廠 (Shanghai Pudong Meiling Plastics Factory*), all of which are manufacturing companies. He joined the Group on 10 April 2003.

Mr. Chen Hao (陳浩), aged 42, is a non-executive Director of the Company. Mr. Chen graduated from 華中理工大學 (Huazhong University of Science and Technology*, now known as 華中科技大學) with a bachelor's degree in computer science in 1989. He has over 15 years of experience in the information technology industry, especially in business management and operations, and information technology applications/services. Mr. Chen joined Legend Group in 1992. He was the founder and the general manager of Legend Advanced System Ltd.. During his tenure, he was responsible for strategic management and business implementation. Mr. Chen founded Legend Capital, a venture capital firm, in 2001, and has served as head of investment ever since. He is responsible for overall control and coordination of investment activities at Legend Capital. Mr. Chan is currently a director of a number of information technology companies, including Taner International Limited, 廣州滾石移動網絡有限公司 (Guangzhou Rock Mobile Network Co., Ltd.*), 文思創新軟件技術有限公司 (Worksoft Creative Software Tech., Ltd.*), 北京開拓天際信息技術有限公司 (Beijing Kaitone Information Technologies Co., Ltd.*) and 北京中搜在線軟件有限公司 (Beijing ZhongSou Online Software Co., Ltd.*). He is also a director of a number of investment companies. He joined the Group in December 2003.

Independent non-executive directors

Mr. Pan Wei (潘偉), aged 51, is an independent non-executive Director of the Company. Mr. Pan graduated from 北京鋼鐵學院 (Beijing Institute of Steel*, now known as 北京科技大學, University of Science and Technology Beijing*) with a bachelor's degree in physical chemistry in 1982. He obtained a master's degree in engineering and doctoral degree in engineering from Nagoya University in 1987 and 1990 respectively. He is currently a professor in the Department of Materials Science and Engineering, Tsinghua University. Mr. Pan specialises in research and educational projects, including thermal barrier materials, transparent ceramic materials and devices and other conductive materials. He was appointed as an independent non-executive Director in April 2007.

Mr. Chu Kin Wang, Peleus (朱健宏), aged 43, is an independent non-executive Director of the Company. Mr. Chu graduated from the University of Hong Kong in 1998 with a master's degree in business administration. Mr. Chu is a fellow practicing member of Hong Kong Institute of Certified Public Accountants, fellow member of the Association of Chartered Certified Accountants, associate member of Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Chu was the executive director of Apex Capital Limited, an investment company listed on the Stock Exchange with a designated stock code of 905, for the period from 16 September 2005 to 9 March 2007. He is currently the Qualified Accountant and Company Secretary of Hong Long Holdings Limited, a company listed on the Stock Exchange with a designated stock code of 1383. He was appointed as an independent non-executive Director in April 2007.

Mr. Liu Huanbin (劉煥彬), aged 66, is an independent non-executive Director of the Company. Mr. Liu graduated from 華南工學院 (South China Institute of Technology*, now known as 華南理工大學, South China University of Technology*) in 1965 with a bachelor's degree in engineering. He holds professorship in chemical engineering in 華南理工大學 (South China University of Technology*), and was later promoted to the principal of the university for the tenure from May 1995 to September 2003. In 2001, Mr. Liu was awarded as a foreign academician by Academy of Engineering of Russia. He is currently a professor in the South China University of Technology. He was appointed as an independent non-executive Director in April 2007.

Save as disclosed above, none of the Directors had held any directorships in other listed public companies in the last three years.

SENIOR MANAGEMENT

Mr. Xu Chuncheng (徐純誠), aged 45, is the chief financial officer of the Company. He is responsible for overall financial and strategic planning of the Group. Mr. Xu graduated from 湖南師範學院 (Hunan Normal College*, now known as 湖南師範大學, Hunan Normal University*) in 1982 with a bachelor's degree in science. He obtained a master's degree in quantitative economics from 長沙鐵道學院 (Changsa Railway College*, now known as 中南大學鐵道學院, Railway College of Central South University*) in 1987 and further obtained a doctoral degree in international finance from the Graduate School of the People's Bank of China in 1996. Prior joining the Group in August 2006, Mr. Xu worked in Konka Group Company Limited as a deputy chief financial officer in charge of strategic corporate financial planning and international trading from 1998 to 2006.

Mr. Zeng Zhi (曾志), aged 35, is the company secretary, qualified accountant and an authorised representative of the Company. He is responsible for the Group's financial reporting procedures, internal controls and compliance with the Listing Rules with regard to financial reporting and other accounting-related issues. Mr. Zeng graduated from 深圳大學 (Shenzhen University*) in 1994 with a bachelor's degree in Accounting. He obtained a master's degree in finance from 中南財經政法大學 (Zhongnan University of Economics and Law*) in 2004. Before joining the Group in December 2006, Mr. Zeng worked as an auditor for Arthur Andersen from 1994 to 1997. He then worked in ABN AMRO Asia Limited as an analyst from 1997 to 2001. Mr. Zeng is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Zeng Zhi (曾志), is the company secretary, qualified accountant and an authorised representative of the Company. The particulars of Mr. Zeng Zhi are set out in the paragraph headed "Senior Management" above in this section. Mr. Zeng Zhi is employed on a full-time basis as required under Rule 3.24 of the Listing Rules.

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations and manufacturing facilities are located in the PRC, members of our senior management are and will therefore be expected to continue to be based in the PRC. At present, Mr. Zeng Zhi, the company secretary, qualified accountant and one of the authorised representatives, is ordinarily resident in Hong Kong but none of our executive Directors are Hong Kong residents or based in Hong Kong. The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12.

The Company has received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) The Company appoints two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives appointed are Mr. Zeng Zhi, who is ordinarily resident in Hong Kong, and Mr. Chen Weirong, an executive Director. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by mobile or residential telephone, facsimile or email. Each of the two authorised representatives has been duly authorised to communicate on behalf of the Company with the Stock Exchange;
- (b) The Company will appoint CAF Securities as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as the Company's communication channel with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which the Company distributes the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules;

DIRECTORS, SENIOR MANAGEMENT AND STAFF

- (c) Both authorised representatives have means to contact all members of the board of Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. The Company will implement a policy whereby (a) each executive Director will provide his or her respective mobile phone number, residential phone number, fax number and email address to the authorised representatives; (b) each executive Director will provide valid phone numbers or means of communication to the authorised representatives when he or she travels; and (c) each executive Director will provide his or her mobile phone number, residential phone number, office phone number, fax number and email address to the Stock Exchange; and
- (d) All executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they hold valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required.

AUDIT COMMITTEE

The Company has approved the formation of an audit committee on 30 November 2007 with written terms of reference in compliance with the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the financial information of the Company and oversee the financial reporting process and internal control procedures of the Group and to provide report to the Board on the matters set out in the code provisions.

The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Pan Wei and Mr. Liu Huanbin. Mr. Chu Kin Wang, Peleus is the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 30 November 2007 with written terms of reference in compliance with the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to formulate and make recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management of the Group.

The remuneration committee currently has five members, namely Mr. Chen, Ms. Shuang Mei, Mr. Pan Wei, Mr. Liu Huanbin and Mr. Chu Kin Wang, Peleus. Mr. Liu Huanbin is the chairman of the remuneration committee.

REMUNERATION OF DIRECTORS

The aggregate amount of salaries, pension scheme contributions, other allowances and benefits-in-kind paid to the Directors during the Track Record Period were approximately RMB884,000, RMB987,000 and RMB999,000 respectively.

Save as disclosed above, no other payments have been paid or are payable, during the Track Record Period by the Company or any of its subsidiaries to the Directors.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Each of the executive Directors has entered into a service contract with the Company, further details of which are set out in the sub-paragraph headed “Particulars of service agreements and Directors’ remuneration” in the paragraph headed “Disclosure of Interests” in Appendix VI to this prospectus.

COMPLIANCE ADVISER

The Company will appoint CAF Securities, which is also the sponsor to the Company, as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules to advise the Company on the following matters in accordance with Rule 3A.23 of the Listing Rules:

1. before the publication of any regulatory announcement, circular or financial report;
2. where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
3. where the Company proposes to use the proceeds of the Listing in a manner different from that detailed in the listing document or where the business activities, developments or results of the Group deviate from any forecast, estimate, or other information in the listing document; and
4. where the Stock Exchange makes an inquiry of the Company of unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The appointment is exclusive and shall commence on the Listing Date and end on the date on which the Company sends its financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date.

STAFF

As at the Latest Practicable Date, the Group employed a total of 1,920 full-time employees. The analysis by function of the Group’s staff (excluding temporary staff) is as follows:

Functions	MLCC	Mobile phones	Total number of employees
Management and Administration	97	69	166
Research and development	90	89	179
Procurement	65	53	118
Sales and marketing	47	163	210
Manufacturing and operations	764	366	1,130
Quality Control	<u>72</u>	<u>45</u>	<u>117</u>
Total	<u>1,135</u>	<u>785</u>	<u>1,920</u>

The Group's relationship with staff

The Directors believe that the Group's staff are among the most valuable assets of the Group and have contributed to the success of the Group. The Group provides in-house training to its staff to enhance their knowledge of the Group's products, production methods, corporate culture and sales techniques and provides training to individual employees according to their own job description.

Since the Group was established, it has not experienced any significant turnover of staff nor any disruption to its business operations due to labour disputes. The Directors consider that the Group has maintained a very good relationship with its staff.

BENEFITS

As required under the Regulation on Injury Insurance (工傷保險條例), the Interim Measures concerning the Maternity Insurance (企業職工生育保險試行辦法), the Interim Regulations concerning the Levy of Social Insurance (社會保險費徵繳暫行條例) and the Interim Measures concerning the Management of the Registration of Social Insurance (社會保險登記管理暫行辦法) in the PRC, the Group is obliged to provide its employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

Nevertheless, the Group did not pay maternity insurance for its employees in Dongguan. The PRC legal advisers to the Company are of the opinion that, according to the certification dated 18 January 2007 published by 東莞市鳳崗社會保險基金管理中心 (Center of Social Insurance Fund Management of Dongguan Fenggang), maternity insurance is not implemented in Dongguan, and therefore, the Group is not subject to any fine and administrative punishment due to its non-payment of the maternity insurance in Dongguan. The Directors confirm that the Group has complied with the relevant requirements in relation to the insurance plans during the Track Record Period except that disclosed above.

Share Option Scheme

Pursuant to a written resolution of all the Shareholders passed on 30 November 2007 and a resolution of the Board on 30 November 2007, the Company has conditionally adopted the Share Option Scheme which the Directors consider will assist the Group in its recruitment and retention of high calibre employees, directors, consultants and advisers. The principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Share Offer (but without taking into account Shares to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) and the Capitalisation Issue, the persons who have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company are as follows:

Name	Capacity	Number of Shares	Approximate percentage of shareholding
EY Ocean	Beneficial owner	262,020,000	65.51%
EY SHINE Management Limited	Interest of a controlled corporation ⁽¹⁾	262,020,000	65.51%
Eversharp Management Limited	Interest of a controlled corporation ⁽²⁾	262,020,000	65.51%
Everbright Management Limited	Interest of a controlled corporation ⁽³⁾	262,020,000	65.51%
Mr. Chen	Interest of controlled corporations ⁽⁴⁾	262,020,000	65.51%
Legend New-Tech Investment Limited	Beneficial owner	26,920,000	6.73%
Right Lane Limited	Interest of a controlled corporation ⁽⁵⁾	26,920,000	6.73%
聯想控股有限公司 (Legend Holding Limited*)	Interest of a controlled corporation/ Beneficiary of trusts ⁽⁶⁾	26,920,000	6.73%
中國科學院國有資產經營有限公司 (Chinese Academy of Sciences Holdings Co., Ltd.*)	Interest of a controlled corporation ⁽⁶⁾	26,920,000	6.73%
聯想控股有限公司職工持股會 (Employees' Shareholding Society of Legend Holding Limited*)	Interest of a controlled corporation ⁽⁶⁾	26,920,000	6.73%

SUBSTANTIAL SHAREHOLDERS

Notes:

1. EY SHINE Management Limited (“EY Shine”) is interested in approximately 60.31% of the issued capital of EY Ocean and is entitled to exercise or control the exercise of one-third or more of the voting power at its general meeting. EY Shine is therefore deemed to be interested in all the Shares held by EY Ocean.
2. Eversharp Management Limited (“Eversharp”) is interested in approximately 42.71% of the issued capital of EY Shine and is entitled to exercise or control the exercise of one-third or more of the voting power at its general meeting. Eversharp is therefore deemed to be interested in all the Shares held by EY Ocean.
3. Everbright Management Limited (“Everbright”) is interested in approximately 36.01% of the issued capital of EY Shine and is entitled to exercise or control the exercise of one-third or more of the voting power at its general meeting. Everbright is therefore deemed to be interested in all the Shares held by EY Ocean.
4. Mr. Chen Weirong legally owns the entire issued share capital of Eversharp and the entire issued share capital of Everbright. Mr. Chen Weirong is therefore deemed to be interested in all the Shares held by EY Ocean.
5. Right Lane Limited legally owns the entire issued share capital of Legend New-Tech Investment Limited. Right Lane Limited is therefore deemed to be interested in all the Shares held by Legend New-Tech Investment Limited.
6. 聯想控股有限公司 (Legend Holding Limited*) is interested in the entire issued share capital of Right Lane Limited. 聯想控股有限公司 (Legend Holding Limited*) legally owns 50% of the issued share capital of Right Lane Limited and also owns the remaining 50% the issued share capital of Right Lane Limited as a beneficiary of two trusts. Liu Chuanzhi is holding 25% of the issued share capital of Right Lane Limited as a trustee for and on behalf of Legend Holding Limited. Zhang Zuxiang is holding 25% of the issued share capital of Right Lane Limited as a trustee for and on behalf of Legend Holding Limited. 聯想控股有限公司 (Legend Holding Limited*) is owned as to 65% by 中國科學院國有資產經營有限公司 (Chinese Academy of Sciences Holdings Co., Ltd.*) and 35% by 聯想控股有限公司職工持股會 (Employees’ Shareholding Society of Legend Holding Limited*).

Save as aforesaid and without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options granted or to be granted under the Share Option Scheme, the Company does not have any other substantial shareholder (being defined in the Listing Rules as any person who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company, or being any person who is required to disclose his interest or short position in the Shares and underlying shares of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO) immediately following completion of the Share Offer and Capitalisation Issue.

The Directors are satisfied that the Company can carry on its business independently of the Controlling Shareholders. There is no business transaction between the Group on one hand and the Controlling Shareholders or any of their associates on the other hand. As at the Latest Practicable Date, the Controlling Shareholders are not interested in any business apart from the Group’s business which competes or is likely to compete with the Group’s business.

Further, as at the date of this prospectus, the Company’s board of directors consists of ten members (of which three are independent non-executive directors). These Directors understand that their fiduciary duties are owed to the Company and its shareholders as a whole but not to any particular shareholder of the Company.

SHARE CAPITAL

Authorised share capital:

HK\$

<u>1,000,000,000</u>	Shares	<u>10,000,000</u>
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Shares issued and to be issued, fully paid or credited as fully paid:

5,000,000	Shares in issue at the date of this prospectus	50,000
295,000,000	Shares to be issued pursuant to the Capitalisation Issue	2,950,000
<u>100,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>1,000,000</u>
<u>400,000,000</u>	Shares	<u>4,000,000</u>

Notes:

Assumptions

The above table assumes the Share Offer and the Capitalisation Issue become unconditional and issue of Shares is made pursuant thereto.

It takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of Over-allotment Option or any options that may be granted under the Share Option Scheme, or any Shares which may fall to be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraphs headed “General mandate to issue new Shares” and “General mandate to repurchase Shares” below.

Capitalisation Issue

Under certain conditions, the Directors were authorised to capitalise HK\$2,950,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 295,000,000 Shares for allotment and issue to the Shareholders whose name appears on the register of members of the Company as at the close of business on 30 November 2007 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their existing holdings. Details of such are set out in paragraph (a)(iv) under the paragraph “Written resolutions of all the Shareholders passed on 30 November 2007” under the section headed “Further information about the Company” in Appendix VI to this prospectus.

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue and to be issued as mentioned herein. In particular, for all dividends and other distributions hereafter declared, made or paid on the Shares save for the entitlement under the Capitalisation Issue.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus.

General mandate to issue new Shares

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot and issue or deal with unissued Shares with an aggregate nominal value of not more than:

- (a) 20% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue; and
- (b) the total nominal amount of the share capital of the Company repurchased pursuant to the mandate referred to in the paragraph headed “General mandate to repurchase Shares” below.

SHARE CAPITAL

This mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- at the expiration of the period within which the Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- when varied, renewed or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed "Written resolutions of all the Shareholders passed on 30 November 2007" in the section headed "Further information about the Company and its subsidiaries" in Appendix VI to this prospectus.

General mandate to repurchase Shares

Subject to the Share Offer becoming unconditional, the Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Share Repurchase Mandate" in the section headed "Further information about the Company and its subsidiaries" in Appendix VI to this prospectus.

This mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- at the expiration of the period within which the Company is required by an applicable laws or the articles of association to hold its next annual general meeting; or
- when varied, renewed or revoked by an ordinary resolution of the Company's shareholders in a general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed "Written resolutions of all the Shareholders passed on 30 November 2007" in the section headed "Further information about the Company and its subsidiaries" in Appendix VI to this prospectus.

INDEBTEDNESS

Borrowings

As at 31 October 2007, being the latest practicable date for the purpose of this indebtedness section prior to the printing of this prospectus, the Group had outstanding borrowings of approximately RMB50.7 million, all of which were secured interest-bearing bank loans. All the outstanding borrowings are repayable within one year.

Securities and guarantee

As at 31 October 2007, the Group's borrowings were secured by (i) certain land use rights of the Group with net book value of approximately RMB1.4 million; (ii) certain property, plant and equipment with net book value of approximately RMB69.7 million; (iii) certain bank deposits of RMB36 million and (iv) personal guarantees provided by Mr. Chen of approximately RMB10 million. As at the Latest Practicable Date, the personal guarantees set out in (iv) have been released.

Contingent liabilities

As at 31 October 2007, the Group had no material contingent liabilities.

Commitments

As at 31 December 2004, 2005 and 2006 and 30 September 2007, the capital commitments of the Group were approximately nil, RMB4.6 million, RMB14.7 million and RMB13.2 million, respectively. As the payment for the purchase of the production facilities and equipments was substantially settled during 2004, no significant capital commitment was recorded in 2004. The capital commitments of approximately RMB4.6 million of the Group as at 31 December 2005 was the amount relating to the purchase of production facilities and equipment for the expansion of the production capacity of the MLCC business. The capital commitments of the Group increased from approximately RMB4.6 million in 2005 to RMB14.7 million in 2006. Such increase was because the Group recorded (i) a commitment of approximately RMB8.3 million which was the balance of cost to be paid for the construction of the new headquarters of the Group situated in Shenzhen Hi-Tech Industrial Park upon completion. As at 31 December 2006, such construction was still in progress; and (ii) approximately RMB6.4 million which should be paid for the purchase of production facilities and equipment for the expansion of the production capacity of the MLCC business. As at 30 September 2007, the said commitments for construction of the headquarters was approximately RMB1.7 million, whereas the commitments for the purchase of production facilities increased to approximately RMB11.5 million as the Group intended to further increase its MLCC production capacities to meet the continuously increasing demand for the Group's MLCC products.

As at 31 October 2007, the Group had capital commitments of approximately RMB1.7 million in respect of the outstanding payment for the construction of the said headquarters and approximately RMB9.8 million for the purchase of production facilities.

FINANCIAL INFORMATION

Disclaimers

Save as disclosed in this paragraph “Indebtedness”, and apart from trade and bills payable and intra-group liabilities, the Group did not have outstanding loan capital issued or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other contingent liabilities outstanding as at the close of business on 31 October 2007.

The Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 October 2007.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current asset

As at 31 October 2007, the Group had net current assets of approximately RMB122 million comprising:

RMB'000
(unaudited)

CURRENT ASSETS

Inventories	104,611
Trade and bills receivables	119,748
Prepayments, deposits and other receivables	16,185
Cash and bank balances	<u>129,126</u>

Total 369,670

CURRENT LIABILITIES

Trade and bills payables	150,832
Deferred income, accruals and other payables	28,564
Tax payable	4,604
Provisions	8,416
Bank loans	50,729
Dividends payable	<u>4,450</u>

Total 247,595

NET CURRENT ASSETS 122,075

FINANCIAL INFORMATION

Cash flows

The following table summaries the combined cash flows of the Group during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Net cash inflow/ (outflow) from operating activities	18,291	41,957	83,120	20,567	(14,193)
Net cash/outflow from investing activities	(11,904)	(29,456)	(19,394)	(16,283)	(36,773)
Net cash inflow/ (outflow) from financing activities	(55,302)	12,196	(6,005)	(2,200)	(28,459)
Cash and cash equivalents at the end of year/period	42,500	67,233	125,130	69,454	46,004

Cash flows from operating activities

For the year ended 31 December 2005, the Group recorded a net cash inflow of approximately RMB42.0 million. The increase in net cash flows from operating activities for the year ended 31 December 2005 as compared with a cash inflow of approximately RMB18.3 million for the year ended 31 December 2004 was mainly due to the increase in deferred income, accruals and other payables as at the year end of 2005 as compared with that of 2004. Such increase was because the Group shifted its focus of the mobile phone business from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phone in 2005. As such, more cash inflow was recorded as at the year ended 31 December 2005 as more deposits were paid by the customers of the Group to purchase mobile phones in late 2005 to meet the upcoming peak season of Chinese New Year in January 2006.

Net cash inflow from operating activities of the Group increased to approximately RMB83.1 million for the year ended 31 December 2006 which was principally as a result of the increase in revenue generated from the sale of mobile phones under the Group's own brand in 2006 after the Group allocated more resources to strengthen its mobile phone business following the obtaining of the approval from NDRC to allow the Group to manufacture mobile phones for its own brand in December 2005.

For the nine months ended 30 September 2007, the Group recorded a net operating cash outflow of approximately RMB14.2 million. The net cash outflow from operating activities for the nine months ended 30 September 2007 was principally because an increase in the trade and bills receivables from approximately RMB52.6 million as at 31 December 2006 to approximately RMB152.0 million as at 30 September 2007. Such increase was principally because more sales of MLCC and mobile phone products were made by the Group to meet the increasing demand of mobile phones in the peak season of

FINANCIAL INFORMATION

National Day holiday, i.e. 1 October. Particularly, more sales of mobile phones were made by the Group on credit before the National Day holidays and more purchase of mobile phones was settled by way of banker's acceptance (承兌匯票), which in effect increased the balance of trade and bills receivables as at 30 September 2007 as compared with that as at 31 December 2006. Detailed explanation is set out below:

The Group normally requires its mobile phone distributors to settle the purchase amount either by cash or by banker's acceptance (承兌匯票) before product delivery. However, to facilitate the sales operation of the Group during the peak season of National Day holiday, more sales of mobile phone products were made by the Group by granting credit periods of no more than 60 days to the relevant mobile phone distributors. Among the trade and bills receivables of RMB152.0 million as at 30 September 2007, RMB83.4 million was attributable to the sale of mobile phones. In particular, out of the said RMB83.4 million, approximately RMB49.8 million was the sale of mobile phones made by the Group by granting credit periods of no more than 60 days to the relevant mobile phone distributors, the remaining approximately RMB33.6 million, which was accounted as bills receivable, was payment made by the relevant mobile phone distributors by way of banker's acceptance (承兌匯票). Banker's acceptance (承兌匯票) is a payment made by the relevant payees and guaranteed by relevant accepting banks and is easily discounted to cash if required. As such, assuming that all the said RMB33.6 million of bills receivable was discounted to cash as at 30 September 2007 and other operating cash inflow and outflow activities remained unchanged, approximately RMB23.2 million cash inflow would be recorded which in effect will render a positive net cash inflow from operating activities of the Group for the nine months ended 30 September 2007.

As at the Latest Practicable Date, all of the said RMB83.4 million was settled.

Among the trade and bills receivables of RMB152.0 million as at 30 September 2007, RMB68.6 million was attributable to the sales of MLCC products. As at the Latest Practicable Date, approximately RMB27.4 million out of the said RMB68.6 million was settled.

Cash flows from investing activities

Net cash outflow from investing activities increased from approximately RMB11.9 million for the year ended 31 December 2004 to approximately RMB29.5 million for the year ended 31 December 2005. The increase was mainly because approximately RMB21.9 million was used for purchase of the production facilities and for its expansion of MLCC business, approximately RMB1.5 million was used for the purchase of a parcel of land for establishing its new headquarters in Shenzhen, the PRC in 2005. In addition, the Group also purchased approximately RMB4.3 million of computer software for strengthening of its mobile phone design ability in 2005.

Net cash outflow from investing activities decreased from approximately RMB29.5 million for the year ended 31 December 2005 to approximately RMB19.4 million for the year ended 31 December 2006. Such cash outflow resulted from the Group's payment of approximately RMB24.0 million cash for settlement of the purchase of the production facilities and part of construction cost for the properties situated in Shenzhen Hi-Tech Industrial Park, the Group's new headquarters. Such cash outflow was mainly set off by the cash inflow principally resulted from the Group's disposal of its interests in Lingying, Jingwei and Weike in 2006 for the purpose of concentrating its resources to develop its own mobile phone business. As such, the Group recorded a decrease in net cash outflow from investing activities in 2006 as compared with that of 2005.

FINANCIAL INFORMATION

Net cash outflow from investing activities was approximately RMB36.8 million for the nine months ended 30 September 2007. Such cash outflow was mainly because (i) the Group purchased more production facilities during the period under review in order to meet the increasing demand for MLCC products; and (ii) the Group paid RMB3 million to Dongguan Fengguan to settle the consideration for the Group's acquisition of Dongguan Fengguan's then 10% minority interest in Eyang Dongguan, details of which are set out in the paragraph headed "Eyang Dongguan" under the section headed "Business" of this prospectus.

Cash flow from financing activities

The Group recorded a net cash outflow from financing activities of approximately RMB55.3 million during 2004, which was principally due to repayment of a loan of approximately RMB54.6 million which was borrowed by the Group in late 2003.

Net cash inflow from financial activities amounted to approximately RMB12.2 million for the year ended 31 December 2005. Such cash inflow in 2005 was principally due to a repayment of the loan from a shareholder in 2005.

The Group recorded a net cash outflow from financing activities of approximately RMB6.0 million for the year ended 31 December 2006. The cash outflow was principally due to the repayment of bank loan of approximately RMB9.4 million, advance of a loan of approximately RMB2.8 million to a shareholder and making dividend payment of approximately RMB70.2 million in 2006.

The Group recorded a net cash outflow from financing activities of approximately RMB28.5 million for the nine months ended 30 September 2007. Such cash outflow was mainly because the Group pledged bank deposits amounting to approximately RMB36 million to obtain the bank loans to finance the construction of new headquarters in Shenzhen High-tech Industrial Park, which is expected to be completed in January 2008, and the working capital requirements for the Group.

Banking facilities

As at 31 October 2007, the Group had aggregate banking facilities of approximately RMB100.0 million, of which approximately RMB50 million had not been utilised and is expected to be expired before 30 April 2008.

Financial resources

Prior to the completion of the Share Offer, the operations of the Group were financed principally by shareholders' equity, internally generated funds and bank loans. Upon completion of the Share Offer, the Group expects that its operations will be financed mainly by the net proceeds of the Share Offer, internally generated funds and bank loans.

Directors' opinion on sufficiency of working capital

Taking into account the financial resources available to the Group, including internally generated funds, present available banking facilities and the estimated net proceeds of the Share Offer, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

FOREIGN EXCHANGE

During the Track Record Period, approximately 12%, 22%, 18% and 22% respectively of the Group's sales were denominated in Hong Kong dollars. The majority of the Group's cost of sales and capital expenditures were denominated in Renminbi.

The Group did not enter into any hedging policy against fluctuations of the exchange rates from Renminbi and Hong Kong Dollars to other currencies during the Track Record Period.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

FINANCIAL INFORMATION

TRADING RECORD

The following table is a summary of the audited combined results of the Group during the Track Record Period, together with its unaudited comparative figures for the nine months ended 30 September 2006, which is extracted from the accountants' report set out in Appendix I to this prospectus. The summary has been prepared on the basis that the current structure of the Group had been in place throughout the Track Record Period. This summary should be read in conjunction with the full text of the accountants' report set out in Appendix I to this prospectus.

	Notes	Year ended 31 December			Nine months ended 30 September	
		2004 RMB'000 (Audited)	2005 RMB'000 (Audited)	2006 RMB'000 (Audited)	2006 RMB'000 (Unaudited)	2007 RMB'000 (Audited)
REVENUE	(2)	658,612	455,410	681,617	507,121	568,891
Cost of sales		<u>(601,615)</u>	<u>(385,663)</u>	<u>(575,459)</u>	<u>(433,327)</u>	<u>(483,261)</u>
Gross profit	(3)	56,997	69,747	106,158	73,794	85,630
Other income and gains		2,183	4,461	4,048	2,354	2,869
Selling and distribution costs		(9,769)	(16,970)	(22,624)	(15,452)	(13,936)
Administrative expenses		(11,510)	(13,356)	(17,629)	(12,069)	(12,920)
Research and development costs		(2,668)	(12,403)	(9,745)	(4,865)	(7,319)
Write-back of provision against slow-moving inventories		—	—	—	—	3,825
Other expenses		(4,963)	(6,280)	(6,745)	(6,432)	(9,505)
Finance costs		<u>(1,272)</u>	<u>(2,666)</u>	<u>(1,779)</u>	<u>(1,138)</u>	<u>(2,392)</u>
PROFIT BEFORE TAX		28,998	22,533	51,684	36,192	46,252
Tax		<u>(504)</u>	<u>(3,412)</u>	<u>(3,545)</u>	<u>(2,319)</u>	<u>(4,146)</u>
PROFIT FOR THE YEAR/ PERIOD		<u>28,494</u>	<u>19,121</u>	<u>48,139</u>	<u>33,873</u>	<u>42,106</u>
Attributable to:						
Equity holders of the Company		29,877	19,826	48,176	33,977	42,106
Minority interests	(5)	<u>(1,383)</u>	<u>(705)</u>	<u>(37)</u>	<u>(104)</u>	<u>—</u>
		<u>28,494</u>	<u>19,121</u>	<u>48,139</u>	<u>33,873</u>	<u>42,106</u>
DIVIDENDS	(4)	<u>—</u>	<u>—</u>	<u>70,160</u>	<u>—</u>	<u>4,500</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(6)					
Basic		<u>RMB0.100</u>	<u>RMB0.066</u>	<u>RMB0.161</u>	<u>RMB0.113</u>	<u>RMB0.140</u>

FINANCIAL INFORMATION

Notes:

- (1) The financial information of the Group included in the accountants' report as set out in Appendix I to this prospectus has been prepared to reflect the Reorganisation is under common control, in which Mr. Chen and the Concert Parties together had collective power to govern the financial and operating policies of the Company, Eyang Management, Hong Kong Eyang and Eyang Shenzhen were ultimately controlled by Mr. Chen throughout the Track Record Period. The financial information of the Group has been prepared on a combined basis as prescribed by Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA by applying the principles of merger accounting.

Accordingly, the combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Track Record Period, have been prepared on a combined basis and include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment, whichever is the shorter period.

The combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 September 2007 have been prepared to present the assets and liabilities of the Group as at those dates as if the current group structure had been in existence at those dates or since their respective dates of incorporation/registration where they did not exist at those dates or acquisition.

All material intra-group transactions and balances have been eliminated on combination.

Although Mr. Chen held less than 50% of equity interests in Eyang Shenzhen during the Track Record Period, Mr. Chen obtained the controlling power in Eyang Shenzhen throughout the Track Record Period by virtue of his direct or indirect equity interest in Eyang Shenzhen together with the voting rights in favour of him by Mr. Cheng Wusheng, Mr. Luo Chaoen, Shanghai Pudong Meiling Plastic Factory, Shenzhen Chuangce Investment Development Co., Ltd., Ms. Shuang Mei, Mr. Zhang Zhilin and Mr. Zhou Penghong pursuant to the concert party arrangements entered into between them as detailed in the section headed "History and Development — Corporate development" to this prospectus.

Mr. Chen and the relevant Concert Parties as aforementioned together had collective power to govern the financial and operating policies of the Company, Eyang Management, Hong Kong Eyang and Eyang Shenzhen throughout the Track Record Period and the power was not transitory. A business combination involving entities under common control is outside the scope of IFRS 3 "Business Combinations". Accordingly, the principle of merger accounting has been applied. Eyang Shenzhen was treated as a subsidiary of the Company during the Track Record Period. Its results are then consolidated in the financial statements of the Group for the Track Record Period.

- (2) The following table shows the breakdown of revenue of the Group during the Track Record Period:

	Year ended 31 December		Nine months ended 30 September		
	2004 RMB'000 (Audited)	2005 RMB'000 (Audited)	2006 RMB'000 (Audited)	2006 RMB'000 (Unaudited)	2007 RMB'000 (Audited)
MLCC business ^(Note 1)	115,470	151,737	182,402	136,142	164,346
Mobile phone related business					
<i>Mobile phones</i> ^(Note 2)	51,924	235,844	484,428	358,579	401,256
<i>Mobile phone components</i> ^(Note 3)	491,218	67,829	14,787	12,400	3,289
Total	<u>658,612</u>	<u>455,410</u>	<u>681,617</u>	<u>507,121</u>	<u>568,891</u>

FINANCIAL INFORMATION

Notes:

1. The revenue generated from the MLCC business is revenue derived from the manufacture, sale and trading of MLCC products.

The revenue generated from the Group's MLCC business increased in 2005 as compared to that in 2004, which was mainly because more MLCC products were produced and sold by the Group after it continued to increase its MLCC production capacity in 2005 to meet the increasing demand for the Group's MLCC products from the customers.

The revenue generated from the Group's MLCC business increased in 2006 as compared to that in 2005, which was mainly due to continuing demand for the MLCC products of the Group in 2006 as the demand for various consumer electronic products continued to increase due to the growth of global economy.

The revenue generated from the Group's MLCC business increased for the nine months ended 30 September 2007 as compared to that for the nine months ended 30 September 2006, which was mainly due to the fact that more MLCC products were produced and sold by the Group after it continues to increase its MLCC production capacity in 2007 to meet the increasing demand for the Group's MLCC products from the customers.

2. The revenue generated from the mobile phones segment of the Group's mobile phone related business is revenue derived from the manufacture and sale of mobile phones.

The revenue generated from the Group's mobile phone business increased in 2005 as compared to that in 2004, which was mainly because it has always been the Group's intention to directly engage in the business of manufacturing of mobile phones. Accordingly, after the Group accumulated relevant production experience regarding the mobile phone components and mobile phones since 2003 and 2004, the business focus of the Group's mobile phone related business had been shifted from the mobile phone component segment to the mobile phone segment and more efforts had been allocated by the Group into the manufacturing and sale of the mobile phones in 2005. As such, the turnover generated from the Group's mobile phone business increased in 2005 as compared to 2004.

The revenue generated from the Group's mobile phone business increased in 2006 as compared to that in 2005, because the Group focused more resources and efforts of the Group to enlarge the market shares for its own brand and more marketing and promotional efforts were spent on its own brand since the Group obtained the approval from NDRC to manufacture the mobile phones for its own brand in December 2005.

The revenue generated from the Group's mobile phone business increased during the nine months ended 30 September 2007 as compared to that for the nine months ended 30 September 2006, because several new models such as the mobile phones with PDA functions launched in 2007 have been received by the customers in the market, which stimulated the sales of mobile phones of the Group in the second half of 2007.

3. The revenue generated from the mobile phone components segment of the Group's mobile phone related business is revenue derived from the manufacture, sale and trading of mobile phone components.

The revenue generated from the Group's mobile phone component business decreased in 2005 as compared to that in 2004, because the business focus of the Group's mobile phone related business has been shifted from the mobile phone component segment to the mobile phone segment and more efforts have been allocated by the Group into the manufacturing and sale of the mobile phones since 2005.

FINANCIAL INFORMATION

- (3) Details of the Group's gross profit and gross profit margin for each of the three years ended 31 December 2006 and the nine months ended 30 September 2006 and 2007 are set out below:

	Year ended 31 December		Nine months ended 30 September		
	2004	2005	2006	2006	2007
MLCC business					
Gross profit (RMB'000)	34,033	33,338	53,281	37,131	44,689
Gross profit margin	29.5%	22.0%	29.2%	27.3%	27.2%
Mobile phone related business					
<i>Mobile phones</i>					
Gross profit/(loss) (RMB'000)	(4,051)	32,312	51,885	35,314	40,546
Gross profit margin	N/A	13.7%	10.7%	9.9%	10.1%
<i>Mobile phones components</i>					
Gross profit (RMB'000)	27,015	4,097	992	1,349	395
Gross profit margin	5.5%	6.0%	6.7%	10.9%	12.0%

(i) MLCC business

Both the gross profit and gross profit margin generated from the Group's MLCC business decreased in 2005 as compared with that in 2004, which was mainly due to (i) the decline in the price of one of the MLCC products, namely 0603 MLCC, during 2005, resulting from saturation in supply, which in turn reduced the Group's MLCC business' gross profit margin; and (ii) the increase in the depreciation of the production facilities given the fact that more production facilities for the MLCC production were purchased and used in 2005.

Both the gross profit and gross profit margin generated from the Group's MLCC business increased in 2006 as compared with that in 2005, which was mainly due to increase in the sale of 0402 MLCC products in 2006, which have higher profit margin than other MLCC products because of its relatively low unit cost as a result of its relatively smaller size.

The gross profit generated from the Group's MLCC business increased for the nine months ended 30 September 2007 when compared to the nine months ended 30 September 2006, which was mainly due to the increase in the sales of MLCC products during the period under review as explained in the Note 2(i) above. The gross profit margin generated from the Group's MLCC business for the nine months ended 30 September 2007 was comparable to that for the nine months ended 30 September 2006.

(ii) Mobile phone related business

Mobile phones

The Group recorded gross loss in the mobile phone segment in 2004 because the Group only commenced its business of mobile phones in March 2004 and thus the Group incurred relatively larger initial cost to manufacture mobile phones and had not reached economies of scale. The Group recorded gross profit in 2005, which was mainly due to increase in the revenue generated from the mobile phone segment in 2005.

The gross profit generated from the Group's mobile phone segment increased in 2006 as compared with that in 2005, which was mainly due to the fact that since the Group obtained the approval from NDRC to manufacture the mobile phones for its own brand in December 2005, the Group focused more resources and efforts of the Group to enlarge the market shares for its own brand and more marketing and promotional efforts were spent on its own brand as well in 2006. Accordingly, the sales of mobile phones increased in 2006 as compared with that of 2005. Nevertheless, the gross profit margin generated from the Group's mobile phone segment decreased from 2005 to 2006, which was mainly due to intense competition of the PRC mobile phone market in 2006.

FINANCIAL INFORMATION

The gross profit generated from the Group's mobile phone segment increased for the nine months ended 30 September 2007 when compared with that for the nine months ended 30 September 2006, which was mainly due to increase in revenue generated from the Group's mobile phone segment as explained in note (2)(ii) above. The gross profit margin of mobile phone segment for the nine months ended 30 September 2007 slightly increased as compared with that for the nine months ended 30 September 2006 because several new models launched in 2007, such as the mobile phones with PDA functions, have a relatively higher pricing due to its new function and appearance, and such models have been received by the customers in the market in 2007.

Mobile phone components

The gross profit generated from the Group's mobile phone component segment decreased in 2005 as compared with that in 2004, which was mainly due to decrease in revenue generated from the Group's mobile phone component segment as the business focus of the Group's mobile phone related business has been shifted from the mobile phone component segment to the mobile phone segment and more efforts have been allocated by the Group into the manufacture and sale of the mobile phones since 2005. Nevertheless, the gross profit margin of mobile phone component segment remained stable in 2005 compared with that of 2004.

The gross profit generated from the Group's mobile phone component segment decreased in 2006 as compared with that in 2005, which was mainly due to further decrease in revenue generated from the Group's mobile phone component segment as the business focus of the Group's mobile phone related business has been shifted from the mobile phone component segment to the mobile phone segment since 2005. Nevertheless, the gross profit margin of mobile phone component segment remained stable in 2006 compared with that of 2005.

The gross profit generated from the Group's mobile phone component segment decreased for the nine months ended 30 September 2007 as compared with that for the nine months ended 30 September 2006 as a result of further shift of the business focus of the Group's mobile phone related business from the mobile phone component segment to the mobile phone segment.

The gross profit margin slightly increased for the nine months ended 30 September 2007 as compared with that for the nine months ended 30 September 2006. Such increase was because the market supply of the Group's remaining mobile phone component inventories on hand was relatively in short in supply during the nine months ended 30 September 2007, the Group could sell out these inventories at relatively higher prices than that in 2006, which increased its gross margin.

- (4) During each of the three years ended 31 December 2006 and the nine months ended 30 September 2007, dividends of approximately nil, nil, RMB70 million and RMB4.5 million were declared by Eyang Shenzhen to its then shareholders. All these dividends were paid in cash out of the internal resources of the Group as at the Latest Practicable Date.
- (5) For the year ended 31 December 2004, the minority interests included (i) 10% equity interest in Eyang Dongguan held by 東莞市鳳崗實業總公司 (Dongguan Fengang Industrial Co., Ltd.*); (ii) 1% equity interest in Eyang Hong Kong held by Mr. Ma Jianhui and Mr. Chen respectively; (iii) 15% equity interest in Lingying held by Mr. Li Zhanpeng; and (iv) 25% equity interest in Lingying held by Ms. Luo Zhanli.

For the each of the two years ended 31 December 2006, the minority interests included 10% equity interest in Eyang Dongguan held by Dongguan Fengang Industrial Co., Ltd.

- (6) The calculation of the basic earnings per Share is based on net profit attributable to equity holders of the Company for the Track Record Period and on 300,000,000 Shares in issue and issuable comprising 5,000,000 Shares in issue as at the date of this prospectus and 295,000,000 Shares to be issued pursuant to the Capitalisation Issue.

Differences in accounting standards

The Company is essentially an investment holding company. Substantially all of the Group's business operations are conducted through its subsidiaries in both Hong Kong and the PRC. The Company's ability to pay dividends is dependent upon the earnings of its subsidiaries and their distribution of funds to it, primarily in the form of dividends. The profit available for distribution for the subsidiaries established in the PRC is determined in accordance with the PRC GAAP which may differ from that arrived at by adopting the IFRSs. There is no assurance that the distributable profits of the Group's PRC subsidiaries will be comparable to the reported accounting profits under the IFRSs. Accordingly, the Company may not have sufficient distribution from its PRC subsidiaries to support the profit distribution to its shareholders.

CRITICAL ACCOUNTING POLICY

The Group's financial statements have been prepared in accordance with IFRSs. The Group's principal accounting policies are set forth in section 3 of the accountants' report set out in Appendix I to this prospectus. IFRSs requires that the Group adopts accounting policies and makes estimates that it believes are most appropriate in the circumstances for the purpose of giving a true and fair view of the Group's results and financial position. The Group believes that the most complex and sensitive judgements, because of their significance to its financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could differ from the Group's estimates. Critical accounting estimates and judgement are those that require management to exercise judgement and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. The critical accounting policies, estimates and judgement adopted by the Group are described below.

Basis of presentation

Although Mr. Chen held less than 50% of equity interests in Eyang Shenzhen during the Relevant Periods (as defined in Appendix I to this prospectus), Mr. Chen obtained the controlling power in Eyang Shenzhen throughout the Relevant Periods by virtue of his direct or indirect equity interest in Eyang Shenzhen together with the voting rights acting in favour of him by Mr. Cheng Wusheng, Mr. Luo Chaoen, Shanghai Pudong Meiling Plastic Factory, Shenzhen Chuangce Investment Development Co., Ltd., Ms. Shuang Mei, Mr. Zhang Zhilin and Mr. Zhou Penghong pursuant to the concert party arrangements entered into between them as detailed in the paragraph headed "History and development" of the section headed "Business" of this prospectus.

Mr. Chen and the relevant Concert Parties as aforementioned together had collective power to govern the financial and operating policies of the Company, Eyang Management, Hong Kong Eyang and Eyang Shenzhen throughout the Relevant Periods and the power was not transitory. A business combination involving entities under common control is outside the scope of IFRS 3 "Business Combinations". Accordingly, the principles of merger accounting have been applied. Eyang Shenzhen was treated as a subsidiary of the Company during the Relevant Periods. Its results are then consolidated in the Financial Information for the Relevant Periods.

The financial information of the Group included in the accountants' report as set out in Appendix I to this prospectus has been prepared to reflect the Reorganisation is under common control, in which Mr. Chen are the relevant Concert Parties together had collective power to govern the financial and

FINANCIAL INFORMATION

operating policies of the Company, Eyang Management, Hong Kong Eyang and Eyang Shenzhen throughout the Track Record Period. The financial information of the Group has been prepared on a combined basis as prescribed by Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA by applying the principles of merger accounting.

Accordingly, the combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Track Record Period, have been prepared on a combined basis and include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/registration where they did not exist at those dates or acquisition.

The combined balance sheets of the Group as at 31 December 2004, 2005, 2006 and 30 September 2007 have been prepared to present the assets and liabilities of the Group as at those dates as if the current group structure had been in existence at those dates or since their respective dates of incorporation/establishment or acquisition where they did not exist at those dates or acquisition.

All material intra-group transactions and balances have been eliminated on combination.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries. Acquisitions of minority interests are accounted for as an equity transaction using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets is recognised directly in equity.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

FINANCIAL INFORMATION

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful lives	Residual values
Buildings	40 years	10%
Plant and machinery	10 years	10%
Office and other equipment	5 years	10%
Motor vehicles	5 years	10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

FINANCIAL INFORMATION

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

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

Land lease prepayments represent the cost of land use rights paid to the PRC government authorities. Land lease prepayments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

FINANCIAL INFORMATION

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (d) from the sale of investments, on the transaction dates when the relevant contract notes are exchanged.

All the Group's mobile phones and no more than 21% of MLCC products were sold to distributors during the Track Record Period. These distributors would distribute the Group's MLCC products or mobile phones through their distribution network or their own retail outlets to retail customers. The revenue recognition method of sale to the distributors is as same as point (a) above in this paragraph. Revenue generated from the distributor is recognised upon the Group's products are delivered to the distributors and the title of the mobile phones and MLCC are actually passed in the sales to the distributors and without any recourse, if applicable (i.e. the distributors assumes all losses of any unsold MLCC or mobile phones by them).

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently or the other assets held by the Group.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of assets

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgements regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately

FINANCIAL INFORMATION

be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of the deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow the utilisation of the carryforward of tax losses, that the asset balance will be reduced and charged to the combined income statements.

Provision for product warranties

The Group provides one-year warranties on the mobile phones sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back in the period in which such estimate has been changed.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Investors should read the following discussion and analysis in conjunction with the combined financial information of the Group during the Track Record Period, all of which is set forth in the accountants' report set out in Appendix I to this prospectus (the "Financial Information"). Except for the Financial Information, the remainder of the Group's financial information presented in this section has been extracted or derived from the unaudited management accounts or other financial records of the Group which the Directors have taken a reasonable amount of care to prepare. Investors should read the whole of the accountants' report and not rely merely on the financial synopsis contained in this section.

Overview

The Group focuses on two principal businesses, namely, the MLCC business and the mobile phone related business.

MLCC business

MLCC is a type of capacitor which is a basic electronic component that has been widely used in information technology, communication and consumer electronics products. During the Track Record Period, the Group was principally engaged in the manufacture sale and trading of the MLCC products. In addition, during the Track Record Period, certain MLCC products required by the customers of the Group are not MLCC products produced by the Group. As such, from time to time, the Group would help the customers to source, according to the customers' requirements, MLCC products mainly from Japanese and Korean manufacturers. Except packaging, the Group would not process such MLCC products and would directly sell these sourced MLCC products to the relevant customers.

FINANCIAL INFORMATION

During the Track Record Period, the revenue generated from the MLCC business was approximately RMB115.5 million, RMB151.7 million, RMB182.4 million and RMB164.3 million respectively, representing approximately 17.5%, 33.3%, 26.8% and 28.9% of the total revenue of the Group respectively. Among the revenue generated from the MLCC business of the Group, during the Track Record Period, approximately RMB17.2 million, RMB15.8 million, RMB10.3 million and RMB4.8 million were generated from the sourcing and sale of the MLCC products for the Group's customers respectively, which accounted for approximately 14.9%, 10.4%, 5.6% and 2.9% of the total revenue generated from the MLCC business of the Group for the corresponding period.

The Group was a pioneer in the PRC to develop 0402 mini MLCC by using the BME technology. According to the Science and Technology Achievement Appraisal Certificate (科學技術成果鑒定證書) dated 24 October 2002 issued by the Shenzhen Bureau of Science and Technology (深圳市科學技術局), currently known as Shenzhen Bureau of Technology and Information (深圳市科技和信息局), Eyang Shenzhen was accredited as the first PRC manufacturer which successfully developed 0402 mini MLCC by using the BME technology in the PRC.

The Group's MLCC research and development team have co-operated with Tsinghua University in the development of MLCC production technology under the National High Technology Research and Development Program of the PRC (國家高科技術研究發展項目), commonly known as the "863 Project".

In view of the trend of sophistication in functionality and increasing portability of consumer electronic products, the Group's strategy is to focus on the research and development of mini size and high capacitance MLCC with competitive pricing.

Mobile phone related business

In view of the uprising popularity of mobile phones and demand of mobile phones in the PRC, it was always the Group's business objective to engage in the manufacture and distribution of mobile phones with its own brand to capture business opportunities.

In order to accumulate experience in the manufacture and sale of mobile phones and related products and lay down the foundation for mobile phone related business, the development of the Group's mobile phone related business has gone through several major stages, which included (i) minority equity investment in the companies principally engaged in software and hardware designs of mobile phones in 2002 to understand the general mobile phone market environment in the PRC; (ii) engaging in the manufacture, sales and trading of mobile phone components in 2003 to accumulate manufacturing experience and understand the market of mobile phone components; (iii) cooperating with a mobile phone manufacturer to produce, distribute and market mobile phones for that manufacturer's brand in the PRC in 2004 by conducting marketing activities such as providing promotion posters and leaflets to distributors; and (iv) obtaining the approval of NDRC to directly engage in the manufacture of mobile phones for the Group's own brand since December 2005.

In May 2002, the Group invested in approximately 22.02% equity interest in Jingwei to first engage in research and development of hardware and software designs of mobile phones in order to gain an understanding in the general mobile phone market environment, particularly the market trend of mobile phone hardware and software design solutions in the PRC.

FINANCIAL INFORMATION

Since 2003, the Group commenced manufacturing, sale and trading of mobile phone components in order to accumulate experience in the manufacture of mobile phones and related components. The mobile phone components manufactured and sold by the Group were PCBAs, a PCB product to be installed inside a mobile phone on which relevant electronic components such as chipset and IC used in a mobile phone have been assembled together according to the pre-designed electronic circuit, whereas the components sourced and sold by the Group included chipsets, microphones, casings, diodes, capacitors and ICs.

In August 2003, the Group invested in 15% equity interest in Weike which is principally engaged in manufacture and sale of mobile phones in order to gain experience in manufacture of whole set mobile phone products.

In March 2004, with relevant experience and understanding in mobile phone industry, the Group decided to set up a wholly-owned subsidiary, Eycom, to directly enter into the mobile phone market. In June 2004, the Group set up its first production line for mobile phones.

Since the establishment of Eycom, the Group has been directly engaged in the manufacturing of mobile phones. Although NDRC had not granted its approval to the Group to manufacture mobile phones with the Group's own brand (the "Mobile Phone Approval") at that time, the Group was engaged by a mobile phone manufacturer (the "Mobile Phone Partner"), an Independent Third Party that had been approved by NDRC to manufacture mobile phone with its own brand, to produce and distribute mobile phones with such manufacturer's brand (the "Mobile Phone Production Arrangement") from April 2004 to December 2005. Under the Mobile Phone Production Arrangement, Eyang Dongguan was principally responsible for the manufacture of the mobile phones, whereas Eycom was principally responsible for distribution of the mobile phones. The principal terms of the Mobile Phone Production Arrangement are set out below:

Sourcing

The Mobile Phone Partner sourced various kinds of mobile phone components including PCBAs manufactured by the Group, LCDs, cases and batteries, as well as mobile phone design solutions such as hardware and software design solutions for mobile phones, from third party suppliers designated by Eycom. These third party suppliers included Eyang Shenzhen. In respect of each purchase for mobile phone components from such third party suppliers, the third party suppliers would notify Eycom if the relevant amount of payment and Eycom would then pay the Mobile Phone Partner, so that the Mobile Phone Partner could settle account directly with the relevant third party suppliers. Such payments were made on a back-to-back basis and are settled together at the same time. The relevant amounts were calculated with relevance to the number of mobile phone to be produced and the Mobile Phone Production Arrangement.

The mobile phone components sourced by the Mobile Phone Partner were then delivered to Eyang Dongguan or other designated third party for assembling into mobile phones under the Mobile Phone Partner's own brand.

FINANCIAL INFORMATION

As the Mobile Phone Production Arrangement commenced in April 2004 while the Group began to set up its first mobile phone production line in June 2004, the Mobile Phone Partner and the Group jointly appointed an Independent Third Party (the “Third Party Contractor”) to assist in assembling mobile phone products for the period from April 2004 to October 2004. The principal terms of the arrangement included the following:

1. the Third Party Contractor should assist in assembling mobile phones in accordance with the design, technology standards and quality requirements as instructed by the Group; and
2. The Third Party Contractor would notify the Group of the relevant assembly fee and the Group would then pay the Mobile Phone Partner, so that the Mobile Phone Partner could settle account directly with the Independent Third Party. Such payments were made on a back-to-back basis and were settled at the same time. The assembly fee was determined after the arm’s length negotiation with reference to the number of mobile phones to be assembled by the Third Party Contractor price range of approximately RMB15 per unit to RMB50 per unit. Assembly fees of approximately RMB2.1 million had been paid by the Group in respect of the said arrangement. For the period from April 2004 to October 2004, the Third Party Contractor produced two types mobile phone models under the said arrangement.

The mobile phone production was fully taken up by Eyang Dongguan after the Group fully completed the set-up of its first mobile phone production line in October 2004. The Directors confirm that the Group has not engaged the Third Party Contractor for the production of mobile phones since cessation of the said arrangement in October 2004. No compensation was paid either by the Group or the Mobile Phone Partner to the Third Party Contractor for cessation of the said arrangement.

In addition, under the Mobile Phone Production Arrangement, the SMT procedures of the mobile phone production were also outsourced to Independent Third Parties including Yixu. Details of the outsourcing arrangement are set out in the paragraph headed “Production — mobile phone related business — mobile phones” under the section headed “Business” of this prospectus.

Quality control requirements

The mobile phones produced under the Mobile Phone Production Arrangement were required to comply with the PRC national quality standards. If the quality of the mobile phones produced under the Mobile Phone Production Arrangement did not meet the relevant PRC national quality requirements, the Mobile Phone Partner had the right to terminate the Mobile Phone Production Arrangement and the relevant mobile phones produced under the Mobile Phone Production Arrangement were not allowed to be launched into the market.

The Directors confirm that no mobile phone produced under the Mobile Phone Production Arrangement had prohibited from being launched into the market during the term of the cooperation, i.e. April 2004 to December 2005.

Technology specifications of mobile phones

The technology specifications of the mobile phones produced under the Mobile Phone Production Arrangement were provided by the Group and were required to comply with the PRC national quality standards. The Group had outsourced the hardware and software designs for six mobile phones developed under the Mobile Phone Production Arrangement, three to each of Jingwei and Lingying. On the other hand, the appearance and structural design for these mobile phones were conducted by the Group. For details of the outsourcing arrangement, please refer to the paragraphs headed “Agreement with Jingwei” and “Agreements with Lingying” under the section headed “Business” in this prospectus.

Guarantee deposit

Eycom was required to pay a product brand guarantee deposit to the Mobile Phone Partner under the Mobile Phone Production Arrangement. The total product brand guarantee deposit paid by the Group under the Mobile Phone Production Arrangement amounted to RMB700,000. The Mobile Phone Partner had a right to forfeit the product brand guarantee deposit if: (a) Eycom sourced identical mobile phone models through other channels for onward sales outside of the Mobile Phone Production Arrangement, (b) Eycom used fake labeling on the mobile phones produced under the Mobile Phone Production Arrangement, or (c) the reputation of the Mobile Phone Partner’s brand had been adversely damaged due to the handling of after sale services by Eycom. If Eycom did not pay the Mobile Phone Partner another amount equivalent to the product brand guarantee deposit within three days after such forfeiture, the Mobile Phone Partner was entitled to terminate the Mobile Phone Production Arrangement.

As confirmed by the Directors, the said product brand guarantee deposit had not been forfeited by the Mobile Phone Partner and all paid product brand guarantee deposit had been repaid by the Mobile Phone Partner.

Sales

Eycom was responsible for the onward sale of the mobile phones to customers and to provide them with after sales services. The mobile phones that were sold may not be refunded and Eycom’s general practice was to replace those mobile phones found to be defective.

Profit and cost sharing

Eycom was responsible for all production costs. The Mobile Phone Partner required Eycom to pay an agreed profit for each unit of mobile phones produced, which ranged from approximately RMB17 to RMB32 per unit. Such agreed profit was arrived at after arm’s length negotiation between the Group and the Mobile Phone Partner with reference to, among others, the mobile phone production amount under the Mobile Phone Production Arrangement. Such payments were settled by cash on delivery with no credit terms. Total amount of the agreed profit paid to the Mobile Phone Partner was approximately RMB2.1 million and RMB6.6 million for the years ended 31 December 2004 and 2005, respectively. There had not been any further production arrangement with the Mobile Phone Partner after the Group has obtained the Mobile Phone Approval in December 2005.

Pricing

The retail prices for the onward sale of the mobile phones were determined by Eycom with reference to the market conditions from time to time. Eycom was required to notify the Mobile Phone Partner within two working days after the retail prices were fixed and need to inform the Mobile Phone Partner prior to making any substantial to the retail prices.

Termination

The Mobile Phone Partner was entitled to terminate the Mobile Phone Production Arrangement if, among others, the mobile phones produced were found to have material quality defects, the quality of mobile phones failed to meet the PRC national quality standards or the mobile phones did not conform with the agreed appearance and trademark requirements or there was any adverse impact on the Mobile Phone Partner's brand resulting from the mobile phones produced under the Mobile Phone Production Arrangement.

In addition to the above, all the relevant expenses, such as the fees required to be paid to the relevant authorities for permission to sell the mobile phones produced under the Mobile Phone Production Arrangement in the PRC, should be borne by the Group. The Group was also responsible for the transportation, insurance, after sales services and related expenses for the mobile phones ordered and sold by the Group under the Mobile Phone Production Arrangement.

For the year ended 31 December 2004, the entire revenue of approximately RMB51.9 million attributable to the sale of mobile phones was generated from the sale under the Mobile Phone Production Arrangement. Of the revenue of approximately RMB235.8 million attributable to the sale of mobile phones for the year ended 31 December 2005, approximately RMB199.8 million was generated from the sale under the Mobile Phone Production Arrangement and the remaining approximately RMB36 million was generated from the sale of the mobile phones under the Group's own brand.

In October 2004, the Group decided to set up a then non-wholly owned subsidiary, Lingying, of which the Group held 60% equity interest, to engage in provision of hardware and software design solutions for mobile phones. Since the establishment of Eycom and Lingying, the Group has directly engaged in the mobile phone business, and subsequently, the Group completed its disposal of equity interests in Jingwei and Weike in mid 2006.

In December 2005, the Group successfully obtained an approval from NDRC to manufacture mobile phones with its own brand name —“EY”. Subsequently, the Group ceased the Mobile Phone Production Arrangement. During the Track Record Period, the Group's strategy for its mobile phone business to focus on customers with low purchasing power, such as the customers in the rural market, who generally look for inexpensive mobile phones with all relevant common mobile phone functions. In addition, the Group is also expanding its product mix of mobile phones by introducing mobile phones equipped with more sophisticated functions to its product category, to better serve potential customers with relatively higher purchasing power, such as customers in the urban market in the PRC. As such, the Group developed its first mobile phone with PDA functions which was launched in May 2007.

Mobile phones produced by the Group were all sold to mobile phone distributors principally for further distribution in the PRC. Nevertheless, in addition to distributing the Group's mobile phones in the PRC, one mobile phone distributor in 2006 and two mobile phone distributors in 2007 had overseas

FINANCIAL INFORMATION

clientele as well. From time to time, these mobile phone distributors placed purchase orders to the Group and requested the Group to deliver the relevant mobile phone products to Hong Kong for their onward distribution. For the three years ended 31 December 2006 and the nine months ended 30 September 2007, the sale of mobile phones by the Group to the said distributors under the said arrangement amounted to approximately nil, nil, RMB17.4 million and RMB52.5 million, representing approximately nil, nil, 3.6% and 13.1% of the revenue generated from the sale of mobile phones by the Group during the corresponding period.

To further broaden revenue sources of the Group's mobile phone business, in May 2007, the Group entered into agreements with a Hong Kong distributor, an Independent Third Party, pursuant to which the mobile phone distributor purchased the mobile phones produced by the Group which contained the logo provided by such distributor. For the nine months ended 30 September 2007, the sale of the Group's mobile phones to such mobile phone distributors amounted to approximately RMB4.0 million, representing approximately 1.0% of the revenue generated from the sale of mobile phones by the Group during the corresponding period. As the sale amount of such mobile phone products did not contribute significantly to the Group's mobile phone business and it was considered not operationally efficient to directly oversee such sale activities given the fact that most of sale of mobile phones was conducted in the PRC during the Track Record Period, the Group ceased the sale of these mobile phone products to the said mobile phone distributor as at the Latest Practicable Date.

As the mobile phone related business of the Group evolved from the manufacture, sale and trading of mobile phone components to the manufacture and sale of mobile phones in 2004, the business focus of the Group's mobile phone related business had also been shifted from the former to the latter during the Track Record Period.

As at the Latest Practicable Date, the Group had ceased its sale of the mobile phone components to customers. Nevertheless, the Group continues to manufacture mobile phone components, i.e. PCBA, and source mobile phone components such as chipset and IC for the manufacture of the Group's own mobile phones.

FINANCIAL INFORMATION

Major income statement items

Revenue

The Group's revenue comprises the revenue generated from the two principal businesses, namely the MLCC business and the mobile phone related business. The breakdown of the revenue by these two principal businesses of the Group are set out below. Please also refer to the paragraph headed "Review of historical results" under this section for the analysis of the Group's revenue.

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	<i>RMB '000</i> <i>(Audited)</i>	<i>RMB '000</i> <i>(Audited)</i>	<i>RMB '000</i> <i>(Audited)</i>	<i>RMB '000</i> <i>(Unaudited)</i>	<i>RMB '000</i> <i>(Audited)</i>
MLCC business ^(Note 1)	115,470	151,737	182,402	136,142	164,346
Mobile phone related business					
<i>Mobile phones</i> ^(Note 2)	51,924	235,844	484,428	358,579	401,256
<i>Mobile phone components</i> ^(Note 3)	491,218	67,829	14,787	12,400	3,289
Total	<u>658,612</u>	<u>455,410</u>	<u>681,617</u>	<u>507,121</u>	<u>568,891</u>

Notes:

1. The revenue generated from the MLCC business is revenue derived from the manufacture, sale and trading of MLCC products.
2. The revenue generated from the mobile phone segment of the Group's mobile phone related business is revenue derived from the manufacture and sale of mobile phones.
3. The revenue generated from the mobile phone components segment of the Group's mobile phone related business is revenue derived from the manufacture, sale and trading of mobile phone components.

Other income and gains

Other income and gains of the Group mainly comprise bank interest income, rental income, sale of materials, government grants, amortization of deferred income, gain on disposal of a subsidiary and available-for-sale investments. Please refer to the paragraph headed "Review of historical results" under this section for the analysis of the Group's other income and gains.

Selling and distribution costs

Selling and distribution costs of the Group mainly comprise salaries and benefits for sales staff, promotional and advertising expenses and transportation expenses, travelling expenses for sales staff and depreciation charges relating to property, plant and equipments, such as office and vehicles used by salespersons. Please refer to the paragraph headed "Review of historical results" under this section for the analysis of the Group's selling and distribution costs.

Administrative expenses

Administrative expenses mainly comprise salaries and benefits for administrative staff, entertainment and travelling expenses for administrative staff, and office administration expenses. Please refer to the paragraph headed “Review of historical results” under this section for the analysis of the Group’s administrative expenses.

Research and development costs

Research and development costs of the Group mainly comprise of salaries and benefits for research staff and purchase cost of equipment for the purpose of research and development. Please refer to the paragraph headed “Review of historical results” under this section for the analysis of the Group’s research and development costs.

Write back of provision against slow-moving inventories

The inventory of the Group mainly comprises raw materials, finish goods and work-in-progress of MLCC business and raw materials and finished goods of mobile phone related business. The Group normally values the inventories by the approximate market value at the end of each year/period to determine whether it is necessary to make provision for obsolete inventories in the respective year/period under review. If there is no sales reference of relevant inventory at year-end, the Group usually (1) refers to the latest transaction of relevant inventories during the year under review, unless it is too out-of-date to be a reference; (2) refers to other similar inventory sales near the year-end, or (3) use NRV (Net Realisable Value) estimation. Provision would be made if the inventories considered by the management of the Group as obsolete stock which market value of these stocks were expected to be lower than their cost.

As the market values and net realisable values are determined based on the current market condition and the historical experience of purchasing and selling products/raw materials of a similar nature, they could change accordingly as a result of changes in economic environment, market conditions and new application of the relevant products.

Given the fact that the product cycle of mobile phones is relatively shorter than MLCC products and is subject to rapid change of the market trends and conditions, it is the Group’s inventory management policy that relevant information regarding the balance of the principal raw materials and finish goods will be reviewed by the management weekly. Should the relevant mobile phone products have been considered relatively older model, it generally will be sold at discount for the purpose of minimising the risk of inventory obsolescence. As at each year/period end, the balance of inventory of the mobile phone will be reviewed and relevant provision will be made for the relevant inventory which was considered by the management of the Group as obsolete inventory which market value of these stock were expected to be lower than their cost mainly because they were old models during the respective year under review or the relevant raw materials and components cannot be used for the further production and after-sales services for the mobile phone business.

For each of the three years ended 31 December 2006 and the nine months ended 30 September 2007, provision of approximately RMB3.9 million, RMB2.3 million, RMB3.2 million and RMB2.8 million was made for slow-moving inventories respectively. The provision against slow-moving inventories recorded during the corresponding period was the mainly provision made for MLCC

FINANCIAL INFORMATION

products and mobile phones which were considered by the management of the Group as obsolete stock and market value of these stock were expected to be lower than their cost during the respective year under review. These provisions were made at the time under review according to the Group's inventory provisioning policy and taking into account the then market condition for these inventories being provided. In addition, for each of the three year ended 31 December 2006 and the nine months ended 30 September 2007, the Group has written back provision of nil, nil, nil and RMB3.8 million respectively.

No write-back provision had been made for each of the three years ended 31 December 2006 was because the Group was unable to find the market for the inventories being provided in the preceding years during the year under review.

For the nine months ended 30 September 2007, the Group wrote back provision for slow-moving inventories of RMB3.8 million which was all the finish goods of MLCC products being provided before 2007 that has been subsequently sold during the nine months ended 30 September 2007. As these MLCC products were principally residual MLCC products, i.e. the spare MLCC products produced for each purchasing order for buffer purposes, produced for various manufacturers in the previous year which comprised of over 2,000 different models with relative smaller quantity, it was difficult to sell to market separately. As such, provision was made for MLCC products accordingly during the pervious year. Nevertheless, during the nine months ended 30 September 2007, the Group successfully located several MLCC distributors who were willing to purchase those MLCC products at an average discount of approximately 28% to the cost, the relevant write-back was made accordingly. As these MLCC distributors are end customers of the Group, upon completion of sales to these MLCC distributors, the risk and reward on the inventories has been passed to the distributors and no longer retained by the Group. Such sales were settled by the relevant MLCC distributors by cash.

The Directors confirm that the inventory provision policy of the Group has been consistently applied during the Track Record Period and the write-back provision of RMB3.8 million during the nine months ended 30 September 2007 does not reflect an over provision in prior years. The reporting accountants of the Company and the Sponsor also concur with the Directors' view as set out above.

Other expenses

Other expenses mainly comprise foreign exchange loss, impairment and written-off of trade and other receivables, impairment of items of property, plant and equipment and the listing expenses.

To determine the impairment of receivables, the Directors would review all the receivables due from customers at the end of each year to estimate the amount of impairment to be made in the respective year under review. The basis would depend on the customers' credit history and whether the customers are in the process of litigation or are financially distressed. The Group will also keep updated information on the credit of the customers from various industry news and journals. The impairment of trade receivables made for each of the three years ended 31 December 2006 and the nine months ended 30 September 2007 was approximately RMB0.04 million, RMB1.4 million, RMB1.6 million and nil, while the impairment of other receivables amounted to approximately nil, RMB0.4 million, nil and RMB0.4 million for the same period. Such amount was the provision made for the trade receivables and other receivables which, based on the estimation of the management of the Group, were doubtful debts which may not be recovered by the Group. In particular, the impairment of trade receivables of approximately RMB1.4 million and RMB1.6 million made in 2005 and 2006 were mainly the trade receivables due from a MLCC customer of the Group who were unable to settle the relevant amount because it was in the process of winding-up.

FINANCIAL INFORMATION

Approximately RMB0.5 million of trade receivables was written off in 2005 which was an amount due from a MLCC customer which was overdue over one year and was considered by the management of the Group as a bad debt which cannot be recovered by the Group.

The Group recorded an impairment of approximately RMB0.2 million for the idle machinery for the year ended 31 December 2006 in accordance with the accounting policy in the relevant part of note 3 to the accountants' report, text of which are set out in the Appendix I to this prospectus. To determine the impairment of machinery, the Directors would consider whether the carrying value net of depreciation and amortization is lower than the net book value. The Group normally values the machinery at the end of each year to determine whether it is necessary to provide impairment of machinery in the respective year under review.

The machinery of the Group subject to impairment is mainly for MLCC production facilities. As the MLCC products of the Group continued to improve in terms of size and capacitance, the old MLCC machinery might not be suitable for production of new models of MLCC, hence some of them were left idle.

As the Group reviews the value of the inventories annually on mark-to-market basis, and reviews the recoverability of receivables and keep updated of the news of credit information of customers from time to time, the Directors consider that provision for inventories, trade and other receivables are sufficient.

The Group recorded expenses of approximately RMB5.1 million relating to the listing application of the Group for the nine months ended 30 September 2007.

Review of historical results

Comparison of the results for the year ended 31 December 2005 to that for the year ended 31 December 2004

Revenue

The Group's revenue was approximately RMB455.4 million for the year ended 31 December 2005, representing a decrease of approximately 30.9% from approximately RMB658.6 million for the year ended 31 December 2004. The decrease was mainly attributable to the decrease of the revenue generated from the sales from the mobile phone components from approximately RMB491.2 million in 2004 to approximately RMB67.8 million in 2005, representing a decrease of approximately 86.2 %.

It has always been the Group's intention to directly engage in the business of manufacturing of mobile phones. Accordingly, after the Group accumulated relevant production experience and understanding in the market supply and demand conditions regarding the mobile phone components and mobile phones since 2003 and 2004, the business focus of the Group's mobile phone related business has been shifted from the mobile phone component segment to the mobile phone segment and more efforts have been allocated by the Group to the manufacture and sale of the mobile phones since 2005. As such, the sales to the external customers derived from the mobile phone components segment experienced a significant decrease as mentioned above, whereas the sales of the mobile phones experienced a significant increase from approximately RMB51.9 million in 2004 to approximately

FINANCIAL INFORMATION

RMB235.8 million in 2005, representing an increase of approximately 354.3%; whereas the sales volume of mobile phones increased from approximately 69,000 sets in 2004 to approximately 0.4 million sets in 2005, representing an increase of approximately 479.7%.

Notwithstanding the decrease of the revenue generated from the sale of the mobile phone components to the external customer, a significant portion of the mobile phone components manufactured or sourced by the Group was provided to the Group's mobile phone segment for manufacturing of mobile phones. As such, the sales of mobile phone components within the Group increased from approximately RMB124.3 million in 2004 to approximately RMB241.7 million in 2005, representing an increase of approximately 94.4%.

In addition, the revenue derived from the MLCC business increased from approximately RMB115.5 million in 2004 to approximately RMB151.7 million in 2005, representing an increase of approximately 31.3%. Such increase was mainly because more MLCC products were produced and sold by the Group after it continued to increase its MLCC production capacity in 2005 to meet the increasing demand for the Group's MLCC products from the customers.

Cost of sales

The Group's total cost of sales was approximately RMB385.7 million for the year ended 31 December 2005, represented a decrease of approximately 35.9% from approximately RMB601.6 million in 2004. The decrease was principally attributable to the decrease in the cost of sales of the sale of mobile phone components as a result of the decrease in the revenue generated from the sale of mobile phone components for the year ended 31 December 2005 as compared with that in 2004. The reason for such decrease is set out in the paragraph headed "Revenue" in this section above.

Gross profit and gross profit margin

Despite the total revenue of the Group decreased in 2005, the Group's gross profit was approximately RMB69.7 million for the year ended 31 December 2005, representing an increase of approximately 22.3% from approximately RMB57.0 million for the year ended 31 December 2004.

For the year ended 31 December 2005, the gross profit/(loss) generated from the sale of the MLCC products, mobile phone and mobile phone components was approximately RMB33.3 million (2004: RMB34.0 million), approximately RMB32.3 million (2004: (RMB4.1 million)) and approximately RMB4.1 million (2004: RMB27.0 million) respectively. For the same period, the gross profit margin for each of the sale of the MLCC products, mobile phone and mobile phone components was approximately 22.0% (2004: 29.5%), 13.7% (2004: the sale of mobiles phone recorded a segment loss in 2004) and 6.0% (2004: 5.5%) respectively.

The increase in the total gross profit of the Group in 2005 as compared with that of 2004 was mainly due to the increase in the sale of mobile phones. As the Group only commenced its mobile phones business in March 2004 during which the Group incurred relatively larger initial cost to manufacture mobile phones and had not reached economies of scale, the Group recorded a segment loss of approximately RMB9.6 million for its mobile phone segment. Such segment loss was in line with the gross loss recorded for its mobile phone segment in 2004.

FINANCIAL INFORMATION

However, as a result of shift of the business focus of the Group's mobile phone related business from the mobile phone components segment to the mobile phone segment and more efforts has been allocated by the Group into the sale of the mobile phones in 2005, the sales derived from the mobile phone segment increased from approximately RMB51.9 million in 2004 to approximately RMB235.8 million in 2005, representing an increase of approximately 354.3%, and the gross profit recorded from the sale of mobile phones in 2005 also increased accordingly. As such, the Group also recorded gross profit margin for the sale of mobile phones of approximately 13.7% (2004: the sale of mobile phone recorded a segment loss in 2004) as well.

Although the sales amount of MLCC products in 2005 of the Group recorded an increase as compared with that of 2004, the gross profit margin generated from the sale of MLCC products decreased to approximately 22% (2004: 29.5%) in 2005. Such decrease in the gross profit margin of MLCC was mainly due to (i) the decline in the price of one of the MLCC products, namely 0603 MLCC, during 2005, resulting from saturation in supply, which in turn reduced the Group's MLCC business' profit margin; and (ii) the increase in the depreciation of the production facilities given the fact that more production facilities for the MLCC production were purchased and used in 2005.

The gross profit from the sale of mobile phone components decreased correspondingly as a result of the decrease in the sales volume of mobile phone components in 2005. Reasons of decrease in the revenue generated from the sale of mobile phone components in 2005 are set out in the paragraph headed "Revenue" above. The gross profit margin for the sale mobile phone components remained relatively stable in 2005 as compared with that of 2004.

In addition, the Group recorded a segment loss of approximately RMB3 million (2004: RMB0.8 million) for the year ended 31 December 2005 in other business segment, which represents the business of provision of mobile phone software solutions carried out by a then non-wholly owned subsidiary, Lingying, which was established in October 2004. As Lingying commenced its operation in January 2005, there was no income recorded in other business segment of the Group during 2004 and initial set-up expenses were incurred in 2004, which resulted in a segment loss recorded in 2004. For commencing operation, Lingying purchased software which amounted to approximately RMB4.3 million. As the revenue of Lingying in 2005 was not significant (approximately RMB5 million), it made segment losses after deducting other expenses, such as salary and rental costs.

Due to the reasons as set out above, the gross profit margin increased from approximately 8.7% for the year ended 31 December 2004 to approximately 15.3% for the year ended 31 December 2005.

Other income and gains

Other income and gains increased from approximately RMB2.2 million in 2004 from approximately RMB4.5 million for the year ended 2005. Such increase was mainly attributable to a gain recorded from the disposal of equity interest in Lingying, a then non-wholly owned subsidiary, of approximately RMB3.1 million in 2005 for the purpose of concentrating the Group's efforts in the development of the mobile phone segment under its mobile phone related business around the time when the Group obtained the approval from NDRC to allow the Group to manufacture mobile phones with its own brand in 2005.

FINANCIAL INFORMATION

Selling and distribution costs

Selling and distribution costs of the Group increased to approximately RMB17.0 million for the year ended 31 December 2005 from approximately RMB9.8 million for the year ended 31 December 2004. Selling and distribution costs mainly comprise the salaries and benefits for the sales staff, promotional and advertising expenses and transportation expenses. The increase in the selling and distribution costs in 2005 was mainly due to the Group's expansion for its sales and distribution forces principally for the development of its mobile phone business in 2005. As such, salaries and benefits, promotional and advertising expenses and transportation expenses increased from approximately RMB4.1 million, RMB2.7 million and RMB1.3 million in 2004 to approximately RMB8.1 million, RMB4.0 million and RMB2.6 million in 2005 respectively.

Administrative expenses

Administrative expenses increased to approximately RMB13.4 million for the year ended 31 December 2005 from approximately RMB11.5 million in 2004. The increase in the administrative expense in 2005 as compared with that of 2004 was principally because the Group deployed more administrative resources to cope with the increase in the production and sale of mobile phones in 2005 which in turn induced the Group to increase its salary and benefits for administrative staff and office administrative expenses. As such, salary and benefits for administrative staff increased from approximately RMB5.4 million in 2004 to approximately RMB6.8 million in 2005, while the office administrative expenses increased from RMB1.7 million in 2004 to RMB2.6 million in 2005.

Research and development costs

Research and development costs increased to approximately RMB12.4 million for the year ended 31 December 2005 from approximately RMB2.7 million for the year ended 31 December 2004. The research and development costs mainly comprise the salary and benefit for the relevant staff and purchase costs for the related facilities. The significant increase in research and development costs in 2005 was mainly because the Group started to set up the research and development team for the mobile phones after the Group decided to apply for an approval from NDRC to produce the mobile phones for its own brand in earlier 2005. As such, more resources had been used in recruiting staff and purchasing relevant facilities by the Group to set out its mobile phone's research and development team in 2005.

Other expenses

Other expenses increased to approximately RMB6.3 million for the year ended 31 December 2005 from approximately RMB5.0 million in 2004.

Other expenses mainly comprise foreign exchange loss, provision against slow-moving inventories, impairment of trade receivables, written-off of trade receivables, impairment of other receivables and impairment of items of property, plant and equipment.

FINANCIAL INFORMATION

The net increase in the other expenses in 2005 was mainly attributable to the increase in the foreign exchange loss which amounted to approximately RMB1.5 million (2004: RMB0.6 million) as a result of the depreciation of HK\$ to RMB in 2005 which in turn caused the foreign exchange loss arising from the translation of the revenue denominated in HK\$ to RMB in 2005.

Details of the analysis regarding provision against slow-moving inventories, impairment of trade receivables, written-off of trade receivables, impairment of other receivables and impairment of items of property, plant and equipment are set out in the paragraph headed “Other expenses” under the subsection headed “Major income statements items” above.

Finance costs

Finance costs increased to approximately RMB2.7 million for the year ended 31 December 2005 from approximately RMB1.3 million in 2004. Finance costs are interest on bank loans borrowed by the Group. The increase in the financial costs in 2005 was mainly due to the increase in the net interest expenses in 2005 as compared with that of 2004, in which the Group received a government subsidy on the interest payments of approximately RMB0.8 million which set off part of its gross interest payments of approximately RMB2.0 million during the year.

Profit for the year

As a result of the reasons as stated above, profit for the year under review decreased by approximately 32.9% to approximately RMB19.1 million. Net profit margin changed from approximately 4.3% in 2004 to approximately 4.2% in 2005.

Debtors' turnover days, creditors' turnover days and inventory turnover days

Debtors' turnover days (being the trade and bills receivables balance divided by revenue and times 365 days) were approximately 54 days (2004: 29 days) in 2005. The increase in the debtors' turnover days was principally due to (i) the significant decrease in the total revenue of the Group in 2005 as compared with that of 2004. Details on reasons regarding the decrease in the revenue in 2005 are set out in the paragraph headed “Revenue” above; and (ii) the increase in the trade and bill receivables balance as at 31 December 2005 as compared with that of 2004. Such increase was due to the fact that Chinese New Year is a peak season for the sale of many consumer electronic products (including mobile phones) and the Chinese New Year at that time was in January 2006, accordingly, more purchase orders were placed by the Group's customers in respect of the MLCC products, which are the basic components for many consumer electronic products, and mobile phones in late 2005 to meet the upcoming peak season in January 2006. As such, more trade and bill receivables were recorded as at 31 December 2005. Further explanation for the fluctuations in the trade and bill receivables as at 31 December 2004, 2005 and 2006 are set out in the paragraph headed “Trade and bill receivables” under the subsection headed “Major balance sheet items” below.

Creditors' turnover days (being the trade and bills payables divided by cost of sales and times 365 days) were approximately 99 days (2004: 48 days) in 2005. Such increase was principally due to the Group took advantage of the flexibility of the credit terms extended by the creditors. It was because (i) longer credit period is generally granted to customers engaged in the manufacturing business than those in trading business. Given the fact that the Group was engaged in the manufacture of mobile phones in 2005 to a larger extent as compared with that in 2004, the Group was therefore granted longer credit

FINANCIAL INFORMATION

period to repay the purchase costs for the raw materials for the manufacture of mobile phones in 2005; and (ii) a larger amount of raw materials were purchased from the suppliers in late 2005 to meet the demand for the production of MLCC products and mobile phones which was resulted the larger demand for the MLCC products and mobile phones from the customers in the Chinese New Year in January 2006. Relevant suppliers normally granted longer credit period to the Group due to the bulk purchase at that time.

Since a larger amount of raw materials were purchased from the suppliers in late 2005 to meet the demand for the production of MLCC products and mobile phones to meet the larger demand for the MLCC products and mobile phones from the customers in the 2006 Chinese New Year which was in January 2006 while the 2005 Chinese New Year was in February 2005, the inventory balance as at 31 December 2005 increased accordingly and for the same reason, the balance of trade and bill payables as at 31 December 2005 increased as compared with that of 2004 as stated above, and inventory turnover days (being the inventories balance divided by cost of sales and times 365 days) increased to approximately 84 days (2004: 41 days) in 2005.

Gearing ratio

As at 31 December 2005, the Group's gearing ratio (being total interest-bearing bank loans balance divided by total assets) decreased to approximately 8.0% from approximately 11.5% as at 31 December 2004. Such decrease was principally due to increase in the total assets, particularly due to the increase in property, plant and equipment, inventories and trade and bill receivables, reason of the increase in those balance sheet items is set out in the paragraph headed "Major balance sheet items" below.

Comparison of the results for the year ended 31 December 2006 to that for the year ended December 2005

Revenue

The Group's turnover was approximately RMB681.6 million for the year ended 31 December 2006, representing an increase of approximately 49.7% from approximately RMB455.4 million for the year ended 31 December 2005. The increase was mainly attributable to (i) increase in revenue generated from sales from MLCC from approximately RMB151.7 million in 2005 to RMB182.4 million in 2006, representing an increase of approximately 20.2%, and (ii) increase in revenue generated from sales from mobile phones from approximately RMB235.8 million in 2005 to RMB484.4 million in 2006, representing an increase of approximately 105.4%.

Revenue generated from the sale of mobile phones in 2006 increased because after the Group obtained the approval from NDRC to manufacture the mobile phones for its own brand in December 2005, the Group focused on enlarging the market shares for its own brand and more marketing and promotional efforts were spent on its own brand as well in 2006. Accordingly, the sales volume of mobile phones increased from approximately 0.4 million sets in 2005 to approximately 1.2 million sets in 2006, representing an increase of approximately 200%.

FINANCIAL INFORMATION

In addition, the revenue generated from the sale of MLCC products also increased in 2006 which was principally attributable to a continuing demand for the MLCC products of the Group in 2006 as the demand for various consumer electronic products continued to increase due to the growth of global economy.

On the other hand, as the mobile phone related business of the Group continued to focus on the manufacture of mobile phones, the revenue generated from the sale of mobile phone components to the external customers continued to decline from approximately RMB67.8 million in 2005 to RMB14.8 million in 2006, while approximately RMB184.3 million of mobile phone components produced or sourced by the Group was provided for the Group's own manufacturing of mobile phones in 2006.

Cost of sales

The Group's cost of sales was approximately RMB575.5 million for the year ended 31 December 2006, represented an increase of approximately 49.2% from approximately RMB385.7 million for the year ended 31 December 2005. The increase was principally attributable to the increase the cost of sales of the sale of mobile phones as a result of the increase in revenue for the sale of mobile phones for the year ended 31 December 2006 as compared with that of 2005. The reason for the increase in the revenue for the sale of mobile phones of the Group in 2006 is set out in the paragraph headed "Revenue" above.

Gross profit and gross profit margin

For the year ended 31 December 2006, the gross profit generated from the sale of the MLCC products, mobile phones and mobile phone components was approximately RMB53.3 million (2005: RMB33.3 million), approximately RMB51.9 million (2005: RMB32.3 million) and approximately RMB1.0 million (2005: RMB4.1 million) respectively. For the same period, the gross profit margin for each of the sale of the MLCC products, mobile phones and mobile phone components was approximately 29.2% (2005: 22.0%), 10.7% (2005: 13.7%) and 6.7% (2005: 6.0%) respectively.

The increase in the total gross profit of the Group in 2006 as compared with that of 2005 was mainly due to (i) the increase in gross profit from the sale of MLCC products; and (ii) the increase in gross profit from sale of mobile phones. Such increase in gross profit from the sale of MLCC products and mobile phones in 2006 was principally due to the increase in the revenue generated from these two segments and the relevant reasons were set out in the paragraph headed "Revenue" above.

On the other hand, the overall gross profit margin of the Group of approximately 15.6% (2005: 15.3%) in 2006 remained stable as compared with that of 2005. Nevertheless, it was noted that the gross profit margin for the sale of MLCC products increased to approximately 29.2% (2005: 22.0%) which was mainly due to the increase in the sale of 0402 MLCC products in 2006, which have higher profit margin than other two MLCC products because of its relatively low unit cost as a result of its relatively smaller size. On the other hand, the gross profit margin for the sale of mobile phones decreased to approximately 10.7% (2005: 13.7%) which was principally because of the increasing competition in mobile phone market in 2006 in the PRC. The gross profit margin of the sale of mobile phone components remained relatively stable in 2006.

Close to the time when the Group was granted a license by the relevant PRC authority to engage in the manufacture of mobile phone under its own "EY" brand on 16 December 2005, the Group decided to concentrate and consolidate the Group's resources on the development of its own-branded mobile

FINANCIAL INFORMATION

phones, particularly on the brand building and development of distribution network. Accordingly, the Group disposed all of its interests in Lingying on 15 December 2005, and Lingying was no longer a subsidiary of the Group since 15 December 2005. Therefore, the Group did not record other business segment for the year ended 31 December 2006 as it did in 2005.

Other income and gains

Other income and gains of the Group recorded approximately RMB4.0 million (2005: RMB4.5 million) for the year ended 31 December 2006 which was comparable to that of 2005.

Selling and distribution costs

Selling and distribution costs increased to approximately RMB22.6 million for the year ended 31 December 2006 from approximately RMB17.0 million in 2005. The increase was principally due to the fact that, since the Group obtained the approval from NDRC to manufacture the mobile phones for its own brand in December 2005, the Group focused more resources and efforts of the Group to enlarge the market shares for its own brand and more marketing and promotional efforts were spent on its own brand as well in 2006. As such, the relevant promotional and advertising expenses and related transportation expenses increased to approximately RMB6.3 million (2005: RMB4 million) and RMB5.2 million (2005: RMB2.6 million) respectively.

Administrative expenses

Administrative expenses were approximately RMB17.6 million for the year ended 31 December 2006, representing an increase of approximately 31.3% from approximately RMB13.4 million in 2005. The increase in the administrative expense in 2006 was principally because the Group further deployed more administrative resources to cope with the increase in the production and sale of mobile phones for its own brand in 2005 which in turn induced the Group to increase its salary and benefits for administrative staff and office administrative expenses. As such, salary and benefits for administrative staff increased to approximately RMB10.0 million (2005: RMB6.8 million) in 2006, while the office administrative expenses increased to RMB3.6 million (2005: RMB2.6 million) in 2006.

Other expenses

Other expenses of the Group remained relatively stable of approximately RMB6.7 million in 2006 as compared with approximately RMB6.3 million in 2005.

Research and development costs

Research and development costs reduced to approximately RMB9.7 million for the year ended 31 December 2006, from approximately RMB12.4 million in 2005. The decrease in research and development costs was mainly because (i) the research and development team for mobile phones of the Group was completed 2005, and therefore, the Group was not required to incur large expense in recruitment in research staff as it did in 2005; and (ii) a government grant of RMB0.3 million received in respect of development of MLCC products offset part of the research and development costs.

FINANCIAL INFORMATION

Finance costs

Finance costs decreased to approximately RMB1.8 million for the year ended 31 December 2006, from approximately RMB2.7 million in 2005. The decrease in the finance costs in 2006 was principally due to the decrease in the borrowings of the Group during the year, in which the outstanding bank borrowings as at the year ended 31 December 2006 was approximately RMB35.1 million as compared with approximately RMB36.5 million in 2005.

Profit for the year

As a result of the abovementioned, profit for the year under review increased by approximately 151.8% to approximately RMB48.1 million. Net profit margin changed from 4.2% in 2005 to 7.1% in 2006.

Debtors' turnover days, creditors' turnover days and inventory turnover days

Debtors' turnover days (being the trade and bills receivables balance divided by revenue and times 365 days) were approximately 28 days (2005: 54 days) in 2006. The decrease in the debtors' turnover days in 2006 was principally due to the fact that less trade and bill receivables balance was recorded as at 31 December 2006 as compared with that of 2005. It was mainly because relatively lesser sale of MLCC products and mobile phones were made in late 2006 as compared with that in late 2005 given that the upcoming Chinese New Year was in February 2007. As such, the relatively fewer purchase orders made in late 2006 by the Group's customers to meet the Chinese New Year in February 2007.

Due to the same reason, relatively lesser raw materials were required by the Group in late 2006 which in turn reduced the purchase from suppliers in late 2006 and hence the Group did not enjoy the extension of credit period as it did in late 2005. As such, creditors' turnover days (being the trade and bills payables divided by cost of sales and times 365 days) decreased to approximately 73 days (2005: 99 days) in 2006.

As a result of the general increase in the sales of MLCC products and mobile phones during the 2006 as compared with that of 2005, inventory turnover days (being the inventories balance divided by cost of sales and times 365 days) decreased to approximately 58 days (2005: 84 days) in 2006.

Gearing ratio

As at 31 December 2006, the Group's gearing ratio (being total interest-bearing bank loans balance divided by total assets) was approximate 8.0% which remained stable as that of approximately 8.0% in 2005.

Comparison of the results for the nine months ended 30 September 2007 to that for the nine months ended 30 September 2006

Revenue

The Group's turnover was approximately RMB568.9 million for the nine months ended 30 September 2007, representing an increase of approximately 12.2% from approximately RMB507.1 million for the nine months ended 30 September 2006.

FINANCIAL INFORMATION

The increase was mainly attributable to (i) the increase in revenue generated from sale of MLCC products to RMB164.3 million for the nine months ended 30 September 2007, representing an increase of approximately 20.7% as compared with that for the nine months ended 30 September 2006; and (ii) the increase in revenue generated from sale of mobile phones to RMB401.3 million for the nine months ended 30 September 2007, representing an increase of approximately 11.9% as compared with that for the nine months ended 30 September 2006.

The increase in the revenue generated from the sale of mobile phones for the nine months ended 30 September 2007 was principally because several new models such as the mobile phones with PDA functions launched since May 2007 have been received by the customers in the market, which has stimulated the sale of mobile phones of the Group in the second half of 2007.

In addition, the revenue generated from the sale of MLCC products also increased for the nine months ended 30 September 2007 which was principally attributable to the fact that more MLCC products were produced and sold by the Group after it continued to increase its MLCC production capacity in 2007 to meet the increasing demand for the Group's MLCC products from the customers.

On the other hand, as the mobile phone related business of the Group continued to focus on the manufacture of mobile phones, the revenue generated from sale of mobile phone components to external customers continued to decline from approximately RMB12.4 million for the nine months ended 30 September 2006 to approximately RMB3.3 million for the nine months ended 30 September 2007.

Cost of sales

The Group's cost of sales was approximately RMB483.3 million for the nine months ended 30 September 2007, representing an increase of approximately 11.5% as compared with approximately RMB433.3 million for the nine months ended 30 September 2006. The increase was principally because more MLCC products and mobile phone products were sold by the Group during the nine months ended 3 September 2007 as compared with the same period of 2006, which in turn increased the cost of sales during the period under review.

Gross profit and gross profit margin

The Group's gross profit was approximately RMB85.6 million for the nine months ended 30 September 2007, representing an increase of approximately 16.0% from approximately RMB73.8 million for the nine months ended 30 September 2006. During the same period, the Group's gross profit margin was approximately 15.0% (September 2006: 14.6%).

For the nine months ended 30 September 2007, the gross profit generated from the sale of the MLCC products, mobile phones and mobile phone components was approximately RMB44.7 million (September 2006: RMB37.1 million), RMB40.5 million (September 2006: RMB35.3 million) and RMB0.4 million (September 2006: RMB1.3 million) respectively. For the same period, the gross profit margin for each of sale of the MLCC products, mobile phones and mobile phone components was approximately 27.2% (September 2006: 27.3%), 10.1% (September 2006: 9.9%) and 12.0% (September 2006: 10.9%) respectively.

FINANCIAL INFORMATION

The increase in the total gross profit of the Group for the nine months ended 30 September 2007 as compared with that for the nine months ended 30 September 2006 was mainly due to the increase in gross profit from the sale of MLCC and mobile phones. Such increase in gross profit from the sale of MLCC and mobile phones for the nine months ended 30 September 2007 was principally due to the increase in revenue generated from mobile phone segment and MLCC segment and the relevant reasons are set out in the paragraph headed “Revenue” above.

The gross profit margin for the sale of MLCC products for the nine months ended 30 September 2007 was approximately 27.2% which was comparable to approximately 27.3% for the corresponding period in 2006. The gross profit margin for the sale of mobile phones for the nine months ended 30 September 2007 was approximately 10.1% which was comparable to approximately 9.9% for the corresponding period in 2006. The gross profit margin for the sale of mobile phone components for the nine months ended 30 September 2007 increased to approximately 12.0% as compared with approximately 10.9% for the corresponding period in 2006. Such increase was because as the market supply of the Group’s remaining mobile phone component inventories on hand was relatively in short in supply during the nine months ended 30 September 2007, the Group could sell out these inventories at relatively higher prices than that in 2006, which increased its gross margin.

Other income and gains

Other income and gains of the Group was approximately RMB2.9 million for the nine months ended 30 September 2007, which is comparable to approximately RMB2.4 million for the nine months ended 30 September 2006.

Selling and distribution costs

Selling and distribution costs decreased to approximately RMB13.9 million for the nine months ended 30 September 2007 as compared with approximately RMB15.5 million for the nine months ended 30 September 2006. The decrease was principally due to the decrease in salaries and benefits for sales personnel to approximately RMB5.1 million for the nine months ended 30 September 2007 as compared with approximately RMB6.7 million. Such decrease was principally due to sales personnel turnover in 2007 and newly-recruited sales staff generally has relatively lesser remuneration package as less initial sales and marketing development costs were required for the sales personnel of the Group after the Group’s three years of development in the mobile phone market.

Administrative expenses

Administrative expenses were approximately RMB12.9 million for the nine months ended 30 September 2007 which was comparable to approximately RMB12.1 million for the nine months ended 30 September 2006.

FINANCIAL INFORMATION

Other expenses and write back of provision against slow-moving inventories

Other expenses of the Group increased to approximately RMB9.5 million for the nine months ended 30 September 2007 from approximately RMB6.4 million for the nine months ended 30 September 2006. Such increase was mainly attributable to expenses of approximately RMB5.1 million relating to listing application were recorded for the nine months ended 30 September 2007.

In addition, the Group recorded write-back of provision against slow-moving inventories of approximately RMB3.8 million which was related to old MLCC inventories, which was provided before 2007, have been sold at discount during the nine months ended 30 September 2007.

Research and development costs

Research and development costs increased to approximately RMB7.3 million for the nine months ended 30 September 2007 from approximately RMB4.9 million for the nine months ended 30 September 2006. The increase in research and development costs was mainly because more resources had been allocated by the Group to the development of new mobile phone models during the period under review for the purpose of expanding its market share in the mobile phone market in the PRC.

Finance costs

Finance costs increased to approximately RMB2.4 million for the nine months ended 30 September 2007, as compared with approximately RMB1.1 million for the nine months ended 30 September 2006. The increase was principally due to the increase in the borrowings of the Group for the nine months ended 30 September 2007, during which the Group borrowed RMB50 million from banks to mainly finance the construction cost of the new headquarters in Shenzhen Hi-tech Industrial Park, the PRC, and the working capital requirements.

Profit for the year

As a result of the abovementioned, profit for the period under review increased by approximately 24.2% to approximately RMB42.1 million (September 2006: RMB33.9 million). Net profit margin changed from approximately 6.7% for the nine months ended 30 September 2006 to approximately 7.4% for the same period in 2007.

Debtors' turnover days, creditors' turnover days and inventory turnover days

Debtors' turnover days (for the nine months ended 30 September 2007, being the trade and bills receivables balance divided by revenue and times 273 days) increased from approximately 28 days for the year ended 31 December 2006 to approximately 73 days for the nine months ended 30 September 2007. Such increase was mainly due to the increase in the balance of trade receivables as at 30 September 2007 as a result of higher sales volume of MLCC and mobile phone products during the peak season around National Day, i.e. 1 October. Particularly, more sales of mobile phones were made by the Group on credit before the National Day holidays and more purchase of mobile phones were settled by

FINANCIAL INFORMATION

way of banker's acceptance (承兌匯票), which in effect increased the balance of trade and bills receivables as at 30 September 2007 as compared with that as at 31 December 2006. Detailed explanation is set out below:

The Group normally requires its mobile phone distributors to settle the purchase amount either by cash or banker's acceptance (承兌匯票) before product delivery. However, to facilitate the sales operation of the Group during the peak season around National Day, more sale of mobile phone products were made by the Group by granting credit periods of no more than 60 days to the relevant mobile phone distributors. Among the trade and bills receivables of RMB152.0 million as at 30 September 2007, RMB83.4 million was attributable to the sale of mobile phones. In particular, among the said RMB83.4 million, approximately RMB49.8 million was the sale of mobile phones made by the Group by granting credit periods to the relevant mobile phone distributors, and the balance of approximately RMB33.6 million, which was accounted as bills receivable, was paid by the relevant mobile phone distributors by way of banker's acceptance (承兌匯票). Banker's acceptance (承兌匯票) is a payment made by the relevant payees and guaranteed by relevant accepting banks and is easily discounted to cash if required. As such, assuming that all the said RMB33.6 million of bills receivable was excluded from the balance of trade and bills receivables of approximately RMB152.0 million as at 30 September 2007 for calculation of debtors' turnover day, the debtors' turnover days of the Group for the nine months ended 30 September 2007 would be approximately 57 days, which was comparable to debtors' turnover days of approximately 54 days for the year ended 30 December 2005 when there was also a peak season, i.e. Chinese New Year holidays, in the coming month, i.e. January 2006. As at the Latest Practicable Date, all of the said RMB83.4 million was settled.

Among the trade and bills receivables of RMB152.0 million as at 30 September 2007, RMB68.6 million was attributable to the sale of MLCC products. As at the Latest Practicable Date, approximately RMB27.4 million out of the said RMB68.6 million was settled.

Creditors' turnover days (for the nine months ended 30 September 2007, being the trade and bills payables divided by cost of sales and times 273 days) increased from approximately 73 days for the year ended 31 December 2006 to approximately 86 days for the nine months ended 30 September 2007. Such increase is mainly resulted from the Group sourced more raw materials for its production in order to catch the sales opportunities of peak season in National Day holiday.

The inventory turnover days (for the nine months ended 30 September 2007, being the inventories balance divided by cost of sales and times 273 days) remained stable from approximately 58 days for the year ended 31 December 2006 to 56 days nine months ended 30 September 2007.

Gearing ratio

The gearing ratio (for the nine months ended 30 September 2007, being total interest-bearing bank loans balance divided by total assets) increased from approximately 8% for the year ended 31 December 2006 to 9.5% for the nine months ended 30 September 2007. Such increase is mainly attributable to the increase in the borrowings of the Group in 2007. Further explanation of the increase in bank borrowing is set out in the paragraph headed "Finance costs" above.

Major balance sheet items***Property, plant and equipment***

The property, plant and equipment of the Group mainly comprised of buildings, plant and machinery, office and other equipment, motor vehicles and construction in progress during the Track Record Period. As at the 31 December 2004, 2005 and 2006 and 30 September 2007, the Group's property, plant and equipment were approximately RMB117.6 million, RMB128.2 million, RMB142.4 million and RMB157.6 million respectively. The increase in the property, plant and equipment of the Group during the Track Record Period was mainly due to the increase in the purchase of relevant machinery and production facilities for the development and expansion of its production capacity for its MLCC and mobile phone products as well as the construction of the headquarters in Shenzhen Hi-Tech Industrial Park.

Inventories

The inventories of the Group mainly comprised of raw materials for the production of the MLCC, mobile phone components and mobile phones, work in progress of the Group's products and the relevant finished products during the Track Record Period. As at the 31 December 2004, 2005 and 2006 and 30 September 2007, the Group recorded net book value of inventories of approximately RMB67.9 million, RMB88.6 million, RMB90.9 million and RMB98.6 million respectively. The increase in the inventory balance of the Group for the three years ended 31 December 2006 was mainly due to the general increase in the production output of the MLCC and mobile phones during the periods for coping with the continuing increase in the increasing demand from the Group's customers for these two products. The inventory balance of the Group as at 30 September 2007 increased to approximately RMB98.6 million compared to that of 31 December 2006 was due to the fact that Group sourced more raw materials for its production to catch the sales opportunities of peak season in National Day holiday.

Trade and bills receivables

The trade and bills receivables of the Group were mainly due from the Group's customers of the Group's MLCC and mobile phone products during the Track Record Period. As at the 31 December 2004, 2005 and 2006 and 30 September 2007, the Group recorded a net book value of trade and bills receivables of approximately RMB53.1 million, RMB67.7 million, RMB52.6 million and RMB152.0 million respectively. The change in the balance of trade and bills receivables as at 31 December 2004, 2005 and 2006 was mainly due to the reason that Chinese New Year holiday is a peak season for the sale of many consumer electronic products (including mobile phones). As such, most customers of the Group's MLCC products, who are consumer electronic product manufacturers, and the customers of the Group's mobile phones, who are mobile phone distributors, will generally purchase the MLCC products and mobile phones generally one month or more earlier before Chinese New Year holiday in order to pile up sufficient stocks for meeting the sale in the coming Chinese New Year holiday. Given that the Chinese New Year holiday in 2005 was February 2005 (while the Chinese New Year holiday of 2006 was in January 2006), more sale of the MLCC products and mobile phones were made in late 2005 as compared with that of late 2004 and hence more trade and bills receivables were recorded as at 31 December 2005. Accordingly, the decrease in the balance of trade and bills receivables recorded as at 31 December 2006 as compared with that of 2005 was because relatively lesser sale were made in late 2006 as the Chinese New Year holiday in 2007 was in February 2007.

FINANCIAL INFORMATION

The trade and bills receivables increased from approximately RMB52.6 million as at 31 December 2006 to approximately RMB152.0 million as at 30 September 2007. Such increase was principally because more sales of MLCC and mobile phone products were made by the Group to meet the increasing demand of mobile phones in the peak season of National Day holiday, i.e. 1 October. Particularly, more sales of mobile phones were made by the Group on credit before the National Day holidays and more purchase of mobile phones were settled by way of banker's acceptance (承兌匯票), which in effect increased the balance of trade and bills receivables as at 30 September 2007 as compared with that as at 31 December 2006. Detailed explanation is set out below:

The Group normally requires its mobile phone distributors to settle the purchase amount either by cash or banker's acceptance (承兌匯票) before product delivery. However, to facilitate the sales operation of the Group during the peak season of National Day holiday, more sales of mobile phone products were made by the Group by granting credit periods of no more than 60 days to the relevant mobile phone distributors. Among the trade and bills receivables of RMB152.0 million as at 30 September 2007, RMB83.4 million was attributable to the sales of mobile phones. In particular, out of the said RMB83.4 million, approximately RMB49.8 million was the sales of mobile phones made by the Group by granting credit periods to the relevant mobile phone distributors, the remaining approximately RMB33.6 million, which was accounted as bills receivable, was payment made by the relevant mobile phone distributors by way of banker's acceptance (承兌匯票). Banker's acceptance (承兌匯票) is a payment made by the relevant payees and guaranteed by relevant accepting banks and is easily discounted to cash if required. As at the Latest Practicable Date, all of the said RMB83.4 million was settled.

Among the trade and bills receivables of RMB152.0 million as at 30 September 2007, RMB68.6 million was attributable to the sales of MLCC products. As at the Latest Practicable Date, approximately RMB27.4 million out of the said RMB68.6 million was settled.

Prepayment, deposits and other receivables

Prepayment

The prepayment includes the prepayment made by the Group to relevant suppliers to source raw materials for its production. As at 31 December 2004, 2005, 2006 and 30 September 2007, the Group recorded a prepayment of approximately RMB3.4 million, RMB7.5 million, RMB4.8 million and RMB9.9 million respectively. The increase in the prepayment from approximately RMB3.4 million as at 31 December 2004 to RMB7.5 million as at 31 December 2005 was mainly because 2006 Chinese New Year holiday was in January 2006 and more prepayment was made in order to secure the supplies of raw materials for production to meet the peak season in upcoming Chinese New Year holiday at the year end of 2005.

The decrease in the prepayment to RMB4.8 million as at the 21 December 2006 was mainly because the Group made less prepayment to secure for supplies in the end of 2006 for 2007 Chinese New Year Holiday, which was in February 2007.

The prepayment increased to approximately RMB9.9 million as at 30 September 2007 was mainly because more prepayment was made to the Group's suppliers to purchase the raw materials for the increase in its production during the period under review.

FINANCIAL INFORMATION

Deposits and other receivables

Deposit and other receivables refer to (i) deposits made by the Group to suppliers for obtaining their services and supply of raw materials and other expenses due from third parties; (ii) the amount due from employees which were generally the balance of the amount provided by the Group to relevant staff for its traveling costs that should be returned to the Group; and (iii) deferred expenses such as design fees and mould fees for the Group's products. The Group recorded an amount of deposits and other receivables of approximately RMB3.7 million, RMB8.6 million, RMB3.4 million and RMB17.0 million respectively as at 31 December 2004, 2005 and 2006 and 30 September 2007.

The increase in deposits and other receivables from approximately RMB3.7 million as at 31 December 2004 to approximately RMB8.6 million as at 31 December 2005 was mainly due to an amount of approximately RMB2.8 million due from Lingying, which was a non-wholly subsidiary of the Group before the Group disposed of all interest in Lingying on 15 December 2005. The receivables amounted RMB2.8 million represented the payment made to suppliers by the Group during the period when Lingying was a non-wholly subsidiary of the Group as the Group disposed of all the interest in Lingying on 15 December 2005 and Lingying had not settled the approximately RMB2.8 million as at 31 December 2005. Such receivables were subsequently fully settled in January 2006. As a result, deposit and other receivables decreased to approximately RMB3.4 million as at 31 December 2006.

The increase in deposit and other receivables to approximately RMB17.0 million as at 30 September 2007 was mainly attributable to a prepayment of listing application expenses of approximately RMB5.3 million during the period under review.

Trade and bills payables

The trade and bills payables of the Group were mainly due to the suppliers of the Group during the Track Record Period. As at the 31 December 2004, 2005 and 2006 and 30 September 2007, the Group recorded a net book value of trade and bills payables of approximately RMB79.0 million, RMB104.7 million, RMB114.6 million and RMB152.5 million respectively. The increase in the trade and bills payables of the Group for the three years ended 31 December 2006 was mainly because the Group had purchased more raw materials for its MLCC and mobile phone production to satisfy the expansion of production capacity during the Track Record Period in order to cope with the increasing demand for the MLCC and mobile phone products produced by the Group. The increase in the trade and bills payables balance of the Group as at 30 September 2007 compared to that of 31 December 2006 was because the Group sourced more raw materials from its suppliers for its production during the period under review to meet the sale in the peak season of National Day holiday.

Deferred income, accruals and other payables

Deferred income

Deferred income refers to the current portion of financial aids received by the Group from various government authorities. As at 31 December 2004, 2005 and 2006 and 30 September 2007, the Group recorded a deferred income of approximately RMB0.5 million, RMB0.8 million, RMB1.0 million and RMB1.2 million respectively. The increase in deferred income from 2004 and 2005 was mainly due to increase in government grants specifically for the purchase of qualified plant and equipment in respect of production of MLCC in recognition of the Group's MLCC business as a hi-tech business in the PRC.

FINANCIAL INFORMATION

During the Track Record Period, the Group obtained approximately RMB1.0 million, RMB2.5 million, RMB3.0 million and RMB1.5 million respectively. The deferred income as at 30 September 2007 was comparable to that as at 31 December 2006.

Accruals

Accruals mainly comprise accrued expenses relating to (i) subcontracting expenses, (ii) leasing fees; (iii) inspection fees; and (iv) transportation fees. As at 31 December 2004, 2005 and 2006 and 30 September 2007, the Group recorded an accruals of approximately RMB1.5 million, RMB3.3 million, RMB3.6 million and RMB5.7 million respectively. The increase in accruals during the Track Record Period was mainly due to increase in subcontracting expenses and audit fees. During the Track Record Period, the accrued subcontracting expenses were approximately RMB0.1 million, RMB1.2 million, RMB1.7 million and RMB2.1 million respectively, whereas the accrued audit fees were approximately RMB0.4 million, RMB0.3 million, RMB0.1 million and RMB2.4 million respectively.

Other payables

Other payables mainly comprise (i) salary and welfare payable to staff; (ii) deposits paid by mobile phone customers to purchase mobile phones; and (iii) payables for the settlement of the purchase of fixed assets. As at 31 December 2004, 2005 and 2006 and 30 September 2007, the Group recorded other payables of approximately RMB32.3 million, RMB43.9 million, RMB32.9 million and RMB38.9 million respectively. The increase in the other payables in 2005 as compared with that of 2004 was principally due to the increase in the balance of other payables as a result of more deposits were paid by the customers of the Group to purchase mobile phones in late 2005 to meet the upcoming peak season of Chinese New Year in January 2006. The balance of other payables in 2006 was less than that of 2005 because the upcoming Chinese New Year was in February 2007 and accordingly relatively lesser deposit was placed by the Group to purchase mobile phones in late 2006 as compared with that of late 2005. The increase in other payables as at 30 September 2007 compared to that as at 31 December 2006 was mainly because the Group acquired more MLCC production facilities for the expansion of the its production capacity to meet the increasing demand for the Group's MLCC products.

Provisions

The provisions of the Group were the provisions made for the one-year warranties on the mobile phones sold to the Group's customers, under which defective mobile phone products were repaired or replaced during the Track Record Period. The amount of such provisions were estimated based on the following factors:

- sales volume of the each type of mobile phone models;
- the expected level of repair and replacement of each type of mobile phone models with reference to management's past experience on similar mobile phone models; and
- the estimated cost of repair.

As at the 31 December 2004, 2005 and 2006 and 30 September 2007, the Group record a gross provision of approximately RMB1.4 million, RMB8.2 million, RMB19.2 million and RMB19.7 million respectively. Of the said gross provision made during the Track Record Period, the additional provision

FINANCIAL INFORMATION

made in the corresponding period was approximately RMB1.4 million, RMB6.8 million, RMB16.7 million and RMB10.6 million respectively, representing 2.6%, 2.9%, 3.4% and 2.6% of total turnover generated from the Group's mobile phone segment during the Track Record Period respectively. As at 31 December 2004, 2005 and 2006 and 30 September 2007, approximately nil, RMB5.6 million, RMB10.1 million, and RMB11.3 million of provisions were utilised which mainly represented expenses incurred for repair and maintenance services provided for the mobile phones produced by the Group. The increase in the balance of provisions the Group during the Track Record Period was mainly due to the fact that the sales volume of the mobile phone produced by the Group increased during the corresponding period and hence more provisions were made accordingly.

Warranty provisions are tax deductible which gives rise to the deferred tax assets as a result of temporary timing difference between the time when the relevant provision is made and the time when actual expense may incur.

Warranty provisions were made by Eycom for the quality warranty given to the mobile phone sold by the Group. As Eycom only became taxable in 2006, a deferred tax assets of approximately RMB 682,000 was arisen. No deferred tax assets relating to warranty provisions were arisen from its operation in 2004 and 2005.

TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Track Record Period.

Eyang Shenzhen and Eycom are located in the Shenzhen Special Economic Zone and are therefore subject to an income tax rate of 15%. In accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises, Eyang Shenzhen and Eycom were exempted from corporate income tax ("CIT") for two years commencing from their respective first year with assessable profits after deducting the tax losses brought forward, and were entitled to a 50% tax exemption for the next three years.

The year ended 31 December 2003 was Eyang Shenzhen's first profit-making year and was the first year of its tax holiday. Accordingly, Eyang Shenzhen was exempted from CIT for the year ended 31 December 2004 and it was subject to CIT at a rate of 7.5% for the two years ended 31 December 2005, 2006 and the year ending 31 December 2007.

The year ended 31 December 2006 was Eycom's first profit-making year and was the first year of its tax holiday. Accordingly, Eycom was exempted from CIT for the year ended 31 December 2006 and the year ending 31 December 2007.

The branch of Eyang Shenzhen is located in Dongguan and is subject to CIT at a rate of 33% on its assessable profits for the Track Record Period.

In accordance with the applicable corporate income tax law of the PRC, Eyang Dongguan is subject to CIT at a rate of 33%.

Effective Tax Rate

The effective tax rates of the Group during the Track Record Period were approximately 2%, 15%, 7% and 9% respectively. The effective tax rate of the Group in the PRC during the Track Record Period was lower than the statutory tax rates of 33% in the PRC was principally because (i) two out of three major subsidiaries of the Company, namely Eyang Shenzhen and Eycom, which are responsible for the principal businesses of the Group, i.e. MLCC business and mobile phone related business respectively, were established in the Shenzhen Special Economic Zone and therefore subject to an income tax rate of 15%; (ii) as mentioned above, in accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises, Eyang Shenzhen and Eycom were exempted from corporate income tax (“CIT”) for two years commencing from its first year with assessable profits after deducting the tax losses brought forward, and was entitled to a 50% tax exemption for the next three years.

As such, the relatively lower effective tax rate of 2% for the year ended 31 December 2004 was principally due to the fact that the year ended 31 December 2003 was Eyang Shenzhen first profit-making year and was the first year of its tax holiday, while Eycom were only established in Shenzhen in March 2004, no profit was made in 2004 which was subject to CIT. The effective tax rate of the Group recorded approximately 15% in 2005 was mainly because Eyang Shenzhen continued to make profit during the year and was not entitled to full exemption from CIT but only entitled to a 50% tax exemption. In addition, Eycom has begun to make profit in 2005 which was eliminated with the unexpired tax loss sustained by Eycom in 2004. The effective tax rate of the Group recorded approximately 7% in 2006 was mainly because Eycom, the another major subsidiary which is primary responsible for the operations of the mobile phone related business which contributed significant profit to the Group’s total profit for the year ended 31 December 2006 as a result of the continuing growth in mobile phone segment of the Group, as such, Eycom, according to the relevant income tax laws and regulations of the PRC for manufacturing enterprises, was exempted from CIT for the year ended 31 December 2006. As a result, the overall tax expense of the Group was reduced and the overall effective tax rate of the Group decreased accordingly. The increase in the effective tax rate of the Group to approximately 9% for the nine months ended 30 September 2007 was mainly because the profit contribution from Eyang Shenzhen, which is the major subsidiary of the Group responsible for the MLCC business, was relatively higher than that from Eycom (the profit contributed from which will still be exempted in 2007 as it is the second profitable financial year) as a result of the relatively strong performance of the sale of MLCC products as compared with that of mobile phone segment of the Group during the nine months ended 30 September 2007.

FINANCIAL INFORMATION

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate of the PRC to the income tax expense at the Group's effective tax rate for the Track Record Period is as follows:

	Year ended 31 December						Nine months ended 30 September					
	2004		2005		2006		2006		2007			
	RMB '000	%	RMB '000	%	RMB '000	%	RMB '000	%	RMB '000	%		
Profit before tax	<u>28,998</u>		<u>22,533</u>		<u>51,684</u>		<u>36,192</u>		<u>46,252</u>			
Tax at the statutory tax rate	9,569	33	7,436	33	17,056	33	11,944	33	15,263	33		
Tax effect of:												
Lower tax rates for specific districts	(6,550)	(22)	(4,547)	(20)	(10,389)	(20)	(9,064)	(25)	(8,417)	(18)		
Tax incentives	(6,287)	(22)	(1,847)	(8)	(6,980)	(13)	(5,632)	(16)	(5,177)	(11)		
Income not subject to tax ⁽¹⁾	(203)	(1)	(78)	—	(123)	—	(78)	—	(123)	—		
Expenses not deductible for tax ⁽²⁾	836	3	1,743	7	737	1	131	—	1,496	3		
Adjustments in respect of current tax ⁽³⁾	3,040	10	1,129	5	3,801	7	3,751	10	—	—		
Tax losses utilised from previous periods ⁽⁴⁾	—	—	(927)	(4)	(6)	—	(6)	—	—	—		
Tax losses not recognised ⁽⁵⁾	530	2	586	2	—	—	—	—	—	—		
Others	<u>(431)</u>	<u>(1)</u>	<u>(83)</u>	<u>—</u>	<u>(551)</u>	<u>(1)</u>	<u>1,273</u>	<u>4</u>	<u>1,104</u>	<u>2</u>		
Income tax expense reported in the combined income statements at the Group's effective tax rate	<u>504</u>	<u>2</u>	<u>3,412</u>	<u>15</u>	<u>3,545</u>	<u>7</u>	<u>2,319</u>	<u>6</u>	<u>4,146</u>	<u>9</u>		

Notes:

- (1) Represented government grants which are not taxable.
- (2) Mainly included welfare expenses and entertainment expenses which exceed the allowable limit and write-off of assets without prior-approval from the local tax bureau.
- (3) Being adjustment for current tax provision made by Eyang Dongguan.
- (4) Being unexpired tax losses sustained by Eycom in 2004 and was utilised in subsequent years of 2005 and 2006. As Eycom was established in March 2004, large initial set up costs for mobile phone production facilities were incurred and minimal revenue was earned during the year of 2004 which in turn, resulting in the loss-making of Eycom in 2004.
- (5) Mainly represented tax losses sustained by Eyang HK and Lingying.

Further details of the tax reconciliation of the Group for the Track Record Period is set out in note 10 to accountants' report, text of which is set forth in the Appendix I to this prospectus.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in section 33 of the accountants' report in Appendix I to this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms that were no less favourable to the Group than terms available from Independent Third Parties which are fair and reasonable and in the interest of the Shareholders as a whole.

FINANCIAL INFORMATION

PROPERTY VALUATION

Savills Valuation and Professional Services Limited, an independent property valuer, has valued the property interests of the Group as at 31 October 2007. The text of the letter, summary of valuation and the valuation certificates are set out in Appendix IV to this prospectus.

A reconciliation of the net book value of the Group's property interests from audited combined financial information as at 30 September 2007 to their fair value as stated in Appendix IV to this prospectus is as follows:

	<i>RMB'000</i>
Net book value of the following properties as at 30 September 2007:	
— Buildings	33,238
— Investment properties	625
— Land lease prepayment	10,869
— Construction in progress	18,859
Depreciation/amortization for the one month ended 31 October 2007	<u>93</u>
Net book value as at 31 October 2007	63,498
Valuation surplus	<u>17,702</u>
Valuation amount as at 31 October 2007	<u><u>81,200</u></u>

DISTRIBUTABLE RESERVE

The Company was incorporated in the Cayman Islands on 6 March 2007 and remained inactive. As at 30 September 2007, there was no reserve available for distribution to the Shareholders

PROFIT FORECAST

The Directors forecast that, in the absence of any unforeseen circumstances and on the bases and assumptions set forth in Appendix III to this prospectus, the consolidated profit after taxation of the Group for the year ending 31 December 2007 will not be less than RMB68 million. The Directors are not aware of any extraordinary items which have risen or are likely to arise during the year ending 31 December 2007.

On the basis of the above profit forecast and on the basis of 400,000,000 Shares to be in issue immediately after completion of the Share Offer and the Capitalisation Issue, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme and any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates referred to in Appendix VI to this prospectus, the forecast earnings per Share on a fully diluted basis will be approximately not less than HK\$0.175.

FINANCIAL INFORMATION

The texts of letters from Ernst & Young, the reporting accountants, and from the Sponsor in respect of the profit forecast are set forth in Appendix III to this prospectus.

DIVIDEND POLICY

The Company has not declared or paid any dividends since its incorporation. However, dividend in the amount of RMB70,160,000 was declared and paid by Eyang Shenzhen in July 2006 and dividend in the amount of RMB4,500,000 was declared by Eyang Shenzhen for the nine months ended 30 September 2007 and paid in November 2007.

In the future, the declaration of dividends is subject to the discretion of the Directors and any final dividend for the year is subject to Shareholders' approval. The amounts of dividends actually paid to holders of Shares will depend upon a number of factors, including the Company's earnings, the future capital requirements of the Group, the required distributable reserve for payment of such dividends, its general financial condition, the provisions of relevant laws and other factors considered relevant by the Directors. There can be no assurance that dividend distributions will be made by the Company or other members of the Group in the future. The past dividend distribution record of members of the Group should not be used as a reference or basis to determine or predict the amount of any dividends which may be payable in the future.

In the future, in the absence of any special circumstances or unforeseen events and subject to the aforesaid factors, it is the Company's intention to pay not less than 30% of the Group's consolidated profit attributable to its Shareholders as dividends.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net tangible assets of the Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Share Offer as if it had taken place on 30 September 2007. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of the Group.

	Audited combined net tangible assets attributable to equity holders of the Company as at 30 September 2007	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per Share
	<i>RMB'000 (Note 1)</i>	<i>RMB'000 (Note 2)</i>	<i>RMB'000</i>	<i>RMB (Note 3)</i>	<i>(HK\$ equivalent) (Note 4)</i>
Based on an Offer Price of HK\$1.30 per Share	260,079	97,127	357,206	0.89	0.92

Notes:

1. The combined net tangible assets attributable to equity holders of the Company as at 30 September 2007 is extracted from the Accountants' Report set out in Appendix I to the Prospectus.
2. The estimated net proceeds from the Share Offer are based on the Offer Shares and the Offer Price of HK\$1.30, after deduction of the underwriting fees and related expenses payable by the Company and takes no account of any Share which may be issued upon exercise of the Over-allotment Option. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.00 to RMB0.97, the prevailing rate quoted by the People's Bank of China (the "PBOC") on 30 September 2007.
3. The unaudited pro forma adjusted net tangible assets per Share is calculated based on 400,000,000 Shares in issue immediately following the completion of the Share Offer without taking into account any Shares which may be issued upon exercise of the Over-allotment Option.
4. The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.97, the prevailing rate quoted by the PBOC on 30 September 2007.
5. As at 31 October 2007, the Group's land use rights and buildings were revalued by Savills Valuation and Professional Services Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV — Property Valuation. The net revaluation surplus, representing the excess of market value of the land use rights and buildings over their book value, is approximately RMB17.7 million. Such revaluation surplus has not been included in the Group's combined financial information as at 30 September 2007 and will not be included in the Group's accounts for the year ending 31 December 2007. The above adjustment does not take into account the above revaluation surplus. Had the land use rights and buildings been stated at such valuation, and additional depreciation of approximately RMB391,000 per annum would be charged against the combined income statement for the year ending 31 December 2007.

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30 September 2007 (being the date to which the latest audited financial statements of the Group were made up), there has been no material adverse change in the financial or trading position of the Group.

UNDERWRITING

UNDERWRITERS

Placing Underwriters

CAF Securities Company Limited
CIMB-GK Securities (HK) Ltd.
CSC Securities (HK) Limited
Taiwan Securities (Hong Kong) Company Limited
VC Brokerage Limited

Public Offer Underwriters

CAF Securities Company Limited
CIMB-GK Securities (HK) Ltd.
CSC Securities (HK) Limited
Taiwan Securities (Hong Kong) Company Limited
VC Brokerage Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Public Offer Shares under the Public Offer at the Offer Price for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms relating thereto. The Company is also offering the Placing Shares under the Placing at the Offer Price for subscription by professional, institutional and/or other investors on and subject to the terms and conditions of this prospectus.

Subject to, *inter alia*, the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on or before Friday, 21 December 2007, or such later date as the Company and the Lead Manager (for itself and on behalf of the Underwriters) may agree, (i) the Placing Underwriters have severally agreed to subscribe for or procure places to subscribe for, subject to the terms and conditions of the Underwriting Agreement, the Placing Shares under the Placing and (ii) the Public Offer Underwriters have severally agreed to subscribe for or procure applicants to subscribe for, on the terms and conditions of this prospectus and the Application Forms, their respective applicable proportions of the Public Offer Shares which are not taken up under the Public Offer.

UNDERWRITING

Grounds for termination

The obligations of the Underwriters to subscribe for, or procure subscribers to subscribe for, the Offer Shares are subject to termination and the Lead Manager (for itself and on behalf of the Underwriters) has the absolute right by giving notice in writing to the Company to terminate the Underwriting Agreement with immediate effect if the following events shall occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
 - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction or any other similar event; or
 - (ii) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation acts of Government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) which in the sole opinion of the Lead Manager (after consultation with the Company) have or likely to have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or
 - (iii) any material change (whether or not permanent) in, or any event or series of events resulting in any material change (whether or not permanent) in local, national, international, financial, military, industrial, economic, currency, stock market or political conditions or prospects in Hong Kong, the Cayman Islands, the PRC or any other relevant jurisdiction; or
 - (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange (whether due to exceptional financial circumstances or otherwise); or
 - (v) any change or development occurs involving a prospective change in taxation or exchange control (or implementation of any exchange control) in Hong Kong, the Cayman Islands, the PRC or any other jurisdiction relevant to the Group or affecting an investment in the Shares or the transfer or dividend payment in respect thereof; or
 - (vi) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or
 - (vii) any change (whether or not permanent) in the conditions of local, national, international equity securities or other financial markets; or
 - (viii) any material adverse change or prospective material adverse change to the business or in the financial or trading position or prospects of the Group taken as a whole,

UNDERWRITING

which, in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriters):

- (i) materially and adversely affects or will, or is likely to, materially and adversely affect the business, financial or other conditions or prospects of the Group taken as a whole; or
 - (ii) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the level of Shares being applied for or accepted or the distribution of Shares; or
 - (iii) makes it inadvisable or inexpedient to proceed with the Share Offer; or
- (b) there comes to the knowledge of any of the Underwriters any material breach of any of the warranties contained in the Underwriting Agreement (the “Warranties”) or of any other provisions thereof, or of any matter which would constitute a material breach of such Warranties if they were repeated or which gives rise to a liability on the part of the persons giving such Warranties or any of the Underwriters has cause to believe that any such material breach or matter has occurred; or
 - (c) there comes to the notice of any of the Lead Manager or the Underwriters any matter or event showing any of the Warranties to be untrue or inaccurate in any material respect; or
 - (d) there comes to the notice of any of the Lead Manager or the Underwriters that any of the parties to the Underwriting Agreement (other than the Lead Manager and the Underwriters) commits any material breach of, or omits to observe in any material respect, any of the material obligations or material undertakings expressed to be assumed by them or it under the Underwriting Agreement.

UNDERTAKINGS

Each of Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date, namely, Mr. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen (the “Covenantors”), has undertaken to the Company, the Stock Exchange and CAF Securities (for itself and on behalf of the Underwriters) that:

- (1) he/she shall not, and shall procure that his/her associates or companies controlled by him/her or any nominee or trustee holding in trust for him/her shall not, sell, transfer or otherwise dispose of (including without limitation the entering into agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of but save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan) any of the Shares or securities of the Company owned by him/her or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by him/her which is directly or indirectly the beneficial owner of any of the Shares or securities of the Company) immediately following completion of the Share Offer and the Capitalisation Issue (the “Relevant Securities”) within the period commencing on the Latest Practicable Date and ending six months from the Listing Date (the “First Six-Month Period”);

UNDERWRITING

- (2) he/she shall not, and shall procure that his/her associates or companies controlled by him/her or any nominee or trustee holding in trust for him/her shall not, within the period of a further six months immediately after the expiry of the First Six-Month Period, sell, transfer or otherwise dispose of (including without limitation, the entering into agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of but save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance) for a bona fide commercial loan) any of the Relevant Securities, if immediately following such sale, transfer or disposal, he/she would cease to be a controlling shareholder (within the meaning in the Listing Rules) of the Company or hold directly or indirectly a controlling interest (being an interest of over 30% or such other amount as may from time to time be specified in the Codes on Takeovers and Mergers as being the level for triggering a mandatory general offer) in the Company; and
- (3) in the event of any such sale, transfer or disposal of Shares or any such interest referred to in (1) and (2) above, all reasonable steps shall be taken to ensure that such sale, transfer or disposal shall be effected in such a manner so as not to create a disorderly or false market for the Shares.

Each of the Covenantors has also undertaken to the Company, the Stock Exchange and CAF Securities (for itself and on behalf the Underwriters) that, within the 12 months from the Listing Date, he will:

- (i) when he/she or the registered owner pledges or charges any securities or interests in the securities of the Company beneficially owned by him/her, whether directly or indirectly, in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules immediately inform the Company in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (ii) when he/she receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be sold, transferred or disposed of, immediately inform the Company in writing of such indications.

The Company will inform the Stock Exchange as soon as practicable after it has been informed of the matters referred to in (i) or (ii) above by each of the Covenantors and disclose such matters by way of a press announcement to be published in the newspapers as soon as possible.

The Company has also undertaken with CAF Securities (for itself and on behalf of the Underwriters) that no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for:

- (1) the issue of Shares, the listing of which has been approved by the Stock Exchange, pursuant to the Share Option Scheme; and
- (2) any capitalisation issue, capital reduction or consolidation or sub-division of Shares.

UNDERWRITING

COMMISSIONS AND EXPENSES

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Offer Shares, out of which they will pay any sub-underwriting commissions. The Sponsor will also receive a financial advisory and documentation fee. Based on the Offer Price of HK\$1.30 per Offer Share, such fee and the underwriting commission, together with the Stock Exchange listing fee, Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Share Offer, which are estimated to be approximately HK\$30 million in aggregate, are payable by the Company (assuming that the Over-allotment Option is not exercised).

UNDERWRITERS' AND SPONSOR'S INTEREST IN THE COMPANY

Save (i) as disclosed in this prospectus and (ii) for their obligations under the Underwriting Agreement, none of the Underwriters and the Sponsor has any shareholding in any member of the Group nor any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for or purchase securities in any member of the Group.

OVER-ALLOTMENT OPTION

The Company has granted to the Placing Underwriters, exercisable by the Lead Manager, the Over-allotment Option to require the Company to allot and issue up to 15,000,000 Over-allotment Shares, representing 15% of the Shares initially available under the Share Offer, at the Offer Price to cover over-allocations in the Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement.

Details of the Over-allotment Option are set out in the section headed “Structure of the Share Offer” in this prospectus.

STRUCTURE OF THE SHARE OFFER

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price payable by the applicants per Offer Share is HK\$1.30 plus 1% brokerage fee, 0.004% SFC transaction levy, and 0.005% Stock Exchange trading fee, amounting to a total of HK\$2,626.23 for each board lot of 2,000 Shares.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Share Offer will be conditional upon:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus (including Shares which may fall to be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme) and such listing and permission not subsequently revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and
- (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by CAF Securities (for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms of that agreement, in each case on or before Friday, 21 December 2007.

If such conditions are not fulfilled or waived at or prior to the times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. In such event, all application monies will be returned, without interest, on the terms set out in the section “How to apply for the Public Offer Shares” below. In the meantime, such monies will be held in a separate bank account with the receiving banker or other licensed bank(s) in Hong Kong.

OFFER MECHANISM — BASIS OF ALLOCATION OF SHARES

The Share Offer

The Share Offer consists of the Placing and the Public Offer. The 100,000,000 Offer Shares initially offered will comprise 90,000,000 Placing Shares being offered under the Placing and 10,000,000 Public Offer Shares being offered under the Public Offer, without taking into account the exercise of the Over-allotment Option. The 100,000,000 Offer Shares being offered under the Share Offer will represent approximately 25% of the Company’s enlarged share capital immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account the exercise of the Over-allotment Option). Subject to possible reallocation on the basis set forth below, 10,000,000 Public Offer Shares, representing 10% of the total number of Shares initially being offered with the Share Offer, will be offered to the public in Hong Kong under the Public Offer. The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. Out of the total 100,000,000 Offer Shares offered pursuant to the Share Offer (without taking into account the exercise of Over-allotment Option), 90,000,000 Placing Shares, representing 90% of the total number of Shares initially being offered with the Share Offer, will be placed with professional, institutional and/or other investors in Hong Kong and elsewhere, under the Placing.

STRUCTURE OF THE SHARE OFFER

The Placing

The Company is initially offering 90,000,000 Placing Shares for subscription, representing 90% of the total number of the Offer Shares initially being offered under the Share Offer, for subscription by way of the Placing. The Placing is fully underwritten by the Placing Underwriters, subject to the terms and conditions of the Underwriting Agreement.

The Placing Underwriters are soliciting prospective professional, institutional and/or other investors who indicate interest in acquiring Placing Shares in the Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as “book building”. In Hong Kong, retail investors should apply for Shares in the Public Offer, as retail investors applying for Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any Placing Shares.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the listing of the Shares on the Stock Exchange. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

If the Placing Shares are not fully subscribed, the Lead Manager may reallocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer.

The Placing Underwriters or selling agents nominated by the Placing Underwriters shall, on behalf of the Company, conditionally place the Placing Shares with professional, institutional and/or other investors in Hong Kong and elsewhere outside the United States.

The Placing is conditional on the same conditions as set out in the section “Conditions of the Share Offer” above. The total number of Placing Shares to be allotted and issued pursuant to the Placing may change as a result of the clawback arrangement referred to in the section “The Public Offer” below, exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Public Offer.

The Public Offer

The Company is initially offering 10,000,000 Public Offer Shares, representing 10% of the total number of Offer Shares initially being offered in the Share Offer, for subscription by way of a public offer in Hong Kong. The Public Offer Shares are being offered at the Offer Price. The Public Offer is fully underwritten by the Public Offer Underwriters.

The total number of Shares available under the Public Offer (after taking into account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Shares in pool A will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage fee, the SFC

STRUCTURE OF THE SHARE OFFER

transaction levy and the Stock Exchange trading fee payable) or less. The Shares in pool B will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Shares in one (but not both) of the pools are undersubscribed, the surplus Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly.

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool are liable to be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of the Shares between the Placing and the Public Offer is subject to adjustment. If the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from the Placing, so that the total number of Shares available under the Public Offer will be 30,000,000 Shares, representing 30% of the Shares initially available under the Share Offer. If the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then the number of Shares to be reallocated to the Public Offer from the Placing will be increased so that the total number of Shares available under the Public Offer will be 40,000,000 Shares, representing 40% of the Shares initially available under the Share Offer. If the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, then the number of Shares to be reallocated to the Public Offer from the Placing will be increased, so that the total number of Shares available under the Public Offer will be 50,000,000 Shares, representing 50% of the Shares initially available under the Share Offer. In each such case, the additional Shares reallocated to the Public Offer will be allocated equally between pool A and pool B and the number of Shares allocated to the Placing will be correspondingly reduced.

In addition, if the Public Offer Shares are not fully subscribed, CAF Securities as the Lead Manager in its discretion may reallocate all or any unsubscribed Public Offer Shares originally included in the Public Offer to the Placing.

CAF Securities is the Lead Manager of the Public Offer which is underwritten at the Offer Price by the Public Offer Underwriters, on and subject to the terms and conditions of the Underwriting Agreement.

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants but, subject to that, will be made strictly on a pro-rata basis, although this could, where appropriate, consist of balloting. Balloting would

STRUCTURE OF THE SHARE OFFER

mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

OVER-ALLOTMENT OPTION AND STABILISATION

Over-allotment Option

In connection with the Share Offer, the Company has granted to the Placing Underwriters the Over-allotment Option exercisable by CAF Securities (for itself and on behalf of the Placing Underwriters) at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging applications under the Public Offer, i.e., Sunday, 13 January 2008, to require the Company to issue up to an aggregate of additional 15,000,000 Over-allotment Shares, representing 15% of the 100,000,000 Offer Shares initially available under the Share Offer for the sole purpose of covering over-allocations in the Placing. CAF Securities as the Lead Manager may also cover such over-allocations in the Placing by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and exercise of the Over-allotment Option, in part or in full. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, on completion of the Share Offer, the Shares held by the public will represent approximately 27.71% of the Company's enlarged issued share capital.

Stabilisation

In connection with the Share Offer, CAF Securities as the Lead Manager (for itself and on behalf of the Underwriters) may exercise the Over-allotment Option (and require the Company to issue up to an aggregate of 15,000,000 additional Shares) and over-allocate up to 15,000,000 additional Shares, representing 15% of the 100,000,000 Offer Shares initially available under the Share Offer. Such over-allocations may be satisfied by CAF Securities as the Lead Manager by exercising the Over-allotment Option in full or in part or by purchasing Shares in the secondary market, at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging applications under the Public Offer, i.e., Sunday, 13 January 2008.

In particular, for the purpose of covering such over-allocations, CAF Securities as the Lead Manager may borrow up to 15,000,000 Shares from EY Ocean, equivalent to the maximum number of Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The terms and conditions of the Stock Borrowing Agreement are in compliance with Rule 10.07(3) of the Listing Rules which include:

- the stock borrowing arrangement with EY Ocean will only be effected by the Lead Manager on behalf of the Placing Underwriters for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in the Placing;
- the maximum number of Shares borrowed from EY Ocean by the Lead Manager on behalf of the Placing Underwriters must not exceed the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;

STRUCTURE OF THE SHARE OFFER

- the same number of Shares borrowed shall be returned to EY Ocean no later than three business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised; or (b) the day on which the Over-allotment Option is exercised in full;
- the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payment or benefit will be made to EY Ocean by the Lead Manager under the stock borrowing arrangement.

In addition, CAF Securities as the Lead Manager may (for itself and on behalf of the Underwriters) effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Offer Price. Any such over-allocations, purchase and stabilisation transactions will be made in compliance with all applicable laws and regulatory requirements. The stabilisation period is currently expected to expire on Sunday, 13 January 2008. After that date, when no further stabilising action may be taken, demand for the Shares, and therefore their price, could fall.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to avoid a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Offer Shares, they will be done at the absolute discretion of the Lead Manager. The stabilisation price to cover the over-allocations will not be higher than the Offer Price. Relevant provisions of the SFO prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

METHODS TO APPLY FOR PUBLIC OFFER SHARES

You may apply for Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** Application Form; or
- applying online through the designated website of the White Form eIPO Service Provider, referred to as the “White Form eIPO service”; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Public Offer Shares on your behalf.

1. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for Public Offer Shares if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a US person (as defined in Regulation S under the US Securities Act 1933, as amended).

If you wish to apply for Public Offer Shares online through the designated website of the eIPO Service Provider, referred to herein as the “White Form eIPO service”, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the White Form eIPO service if you are an individual applicant. Corporations or joint applicants may not apply by means of White form eIPO.

If the applicant is a firm, the application must be in the names of the individual members, not the firm’s name. If the applicant is a body corporate, the Application Form must be stamped with the company chop (bearing the company name) signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Company, CAF Securities (for itself and on behalf of the Underwriters), or their respective agents or nominees may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

The Company and CAF Securities, in its capacity as the Company’s agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The Public Offer Shares are not available to existing beneficial owners of shares in the Company, its directors or chief executive or their respective associates or any other Connected Persons of the Company or persons who will become its Connected Persons immediately upon completion of the Share Offer.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) **WHITE Application Form**

Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.

(b) **YELLOW Application Form**

Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) **White Form eIPO service**

Apply online through the designated website at www.eipo.com.hk if you want the Public Offer Shares to be registered in your own name.

(d) **Instruct HKSCC to make an electronic application on your behalf**

Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

You may not apply on a **WHITE** or **YELLOW** Application Form, give **electronic application instructions** to HKSCC and apply online through **White Form eIPO** service at the same time.

3. WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 11 December 2007 until 12:00 noon on Friday, 14 December 2007 from:

CAF Securities Company Limited

13th Floor, Fairmont House
8 Cotton Tree Drive
Central, Hong Kong

CIMB-GK Securities (HK) Ltd.

19th Floor, Central Tower
28 Queen's Road Central
Central, Hong Kong

CSC Securities (HK) Limited

32nd Floor, Cosco Tower
183 Queen's Road Central
Central, Hong Kong

Taiwan Securities (Hong Kong) Company Limited

Room 2803, Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

VC Brokerage Limited

28th Floor, The Centrium
60 Wyndham Street
Central, Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

or any of the following branches of Hang Seng Bank Limited:

	Branches	Address
Hong Kong Island	Head Office	83 Des Voeux Road Central
	Wanchai Branch	200 Hennessy Road
Kowloon	Kowloon Main Branch	618 Nathan Road
	Kwun Tong Branch	70 Yue Man Square
New Territories	Shatin Branch	Shop 18 Lucky Plaza, Wang Pok Street, Shatin

or any of the following branches of Industrial and Commercial Bank of China (Asia) Limited:

	Branches	Address
Hong Kong Island	Central Branch	1/F., 9 Queen's Road Central
	Hennessy Road Branch	Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay
Kowloon	Tsimshatsui East Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui
	Mei Foo Branch	Shop N95A, 1/F, Mount Sterling Mall, Mei Foo Sun Chuen
New Territories	Kwai Fong Branch	C63A–C66, 2/F, Kwai Chung Plaza, Kwai Fong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9.00 a.m. on Tuesday, 11 December 2007 until 12:00 noon on Friday, 14 December 2007 from:
- (1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
 - (2) your broker who may have such Application Forms and this prospectus available.

4. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with cheque or banker's cashier order attached, must be lodged by 12:00 noon on Friday, 14 December 2007, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in the section headed "Where to collect the application forms" at the following times:

Tuesday, 11 December 2007	—	9:00 a.m. to 4:00 p.m.
Wednesday, 12 December 2007	—	9:00 a.m. to 4:00 p.m.
Thursday, 13 December 2007	—	9:00 a.m. to 4:00 p.m.
Friday, 14 December 2007	—	9:00 a.m. to 12:00 noon

(b) Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants should input **electronic application instructions** via CCASS at the following times:

Tuesday, 11 December 2007	—	9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 12 December 2007	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 13 December 2007	—	8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 14 December 2007	—	8:00 a.m.⁽¹⁾ to 12:00 noon

⁽¹⁾ These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 11 December 2007 until 12:00 noon on Friday, 14 December 2007 (24 hours daily, except the last application date).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Friday, 14 December 2007 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

(c) White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Tuesday, 11 December 2007 until 11:30 a.m. on Friday, 14 December 2007 or such later time as described under the paragraph headed “Effects of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 14 December 2007, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effects of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(d) Application lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Friday, 14 December 2007, except as provided in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below. No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) Effect of bad weather conditions on the opening of the application lists

The application lists will be open between 11:45 a.m. and 12:00 noon on Friday, 14 December 2007, subject to weather conditions. The application lists will not be open in relation to the Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 14 December 2007, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong. Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

5. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain a **WHITE** or **YELLOW** Application Form.
- (b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your application form.
- (c) Decide how many Public Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the Offer Price of HK\$1.30 per Public Offer Share, plus brokerage fee of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%.

You may apply for a maximum number of 5,000,000 Public Offer Shares, being the maximum number of Public Offer Shares originally allocated to each pool A and B.

- (d) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, the Company and CAF Securities (for itself and on behalf of the Underwriters) (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.
- (e) Each Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the application form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to "Hang Seng (Nominee) Limited — EYANG Public Offer"; and
- be crossed "Account payee only".

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;
- be made payable to "Hang Seng (Nominee) Limited — EYANG Public Offer"; and
- be crossed "Account payee only".

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements.

- (f) Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraphs 4(a) and 3(a) above.
- (g) Multiple or suspected multiple applications are liable to be rejected.
- (h) In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the Application Form as indicated below and sign on the first page of the Application Form.

- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- If you are applying as an individual CCASS Investor Participant:
 - you must fill in your full name and your Hong Kong identity card number; and
 - you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
 - you must insert all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all joint CCASS Investor Participants; and
 - you must insert your CCASS Participant I.D. in the appropriate box.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- If you are applying as a corporate CCASS Investor Participant:
 - you must insert your company name and your company’s Hong Kong Business Registration Certificate number; and
 - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company’s name) in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

- (i) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked “For nominees” an account number or an identification code for each beneficial owner.

6. HOW TO APPLY THROUGH WHITE FORM eIPO

- (a) If you are an individual and meet the criteria set out above in paragraph 1 of this section headed “Who can apply for the Public Offer Shares”, you may apply for the Public Offer Shares through White Form eIPO by submitting an application to the eIPO Service Provider through the designated website of the eIPO Service Provider at www.eipo.com.hk. If you apply through White Form eIPO, the Shares will be issued in your own name.
- (b) Detailed instructions for application through the White Form eIPO service are set out on the designated website www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the eIPO Service Provider and may not be submitted to our company.
- (c) In addition to the terms and conditions set out in this prospectus, the eIPO Service Provider may impose additional terms and conditions upon you for use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the eIPO Service Provider to transfer the details of your application to the Company and its branch share registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 2,000 Public Offer Shares. Each electronic application instruction in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website www.eipo.com.hk.
- (f) You should give electronic application instructions through **White Form eIPO** at the times set out in the paragraph (b) of paragraph 4 of this section headed “When to apply for the Public Offer Shares”.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (g) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website www.eipo.com.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, 14 December 2007, or such later time as described under the sub-paragraph headed “Effects of bad weather conditions on the opening of the application lists” in the paragraph headed “When to apply for the Public Offer Shares”, the eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website www.eipo.com.hk.

Warning: The application for Public Offer Shares through the White Form eIPO service is only a facility provided by the eIPO Service Provider to public investors. The Company, its directors, CAF Securities and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to the Company or that you will be allotted any Public Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Public Offer to submit your electronic application instructions. In the event that you have problems in connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted electronic application instructions and completed payment in full by using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form.

7. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected.

Appropriate refund payments (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to unsuccessful or partially successful applications, without interest. Details of the procedure for refund are set out below in the paragraph headed “Refund of your money — additional information” in the section headed “Terms and conditions of the Public Offer” in this prospectus.

8. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

Customer Service Centre of HKSCC
2/F Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Public Offer Shares on your behalf.
- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to the Company and the Company’s Hong Kong branch share registrar.
- (e) You may give **electronic application instructions** in respect of a minimum of 2,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Public Offer Shares must be in one of the multiples set out in the table in the Application Form.
- (f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:
- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and
 - (ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in sub-paragraph (c) in the paragraph headed “Effect of making any application” in the section headed “Terms and conditions of the Public Offer” to this prospectus.
- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (h) For the purpose of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The paragraph headed “Personal data” in the section headed “Terms and conditions of the Public Offer” applies to any personal data held by the Company, CAF Securities and the Hong Kong branch share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

Application for Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. The Company, CAF Securities and any parties involved in the Public Offer take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) submit the **WHITE or YELLOW Application Form (as appropriate); or**
- (b) go to **HKSCC’s Customer Service Centre to complete an application instruction input request form before 12:00 noon on Friday, 14 December 2007 or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” above.**

9. RESULTS OF ALLOCATIONS

Results of allocations in the Public Offer, the level of applications in the Public Offer, the level of indications of interest in the Placing, the basis of allotment of Public Offer Shares, the Hong Kong Identity Card numbers, passport numbers or Hong Kong Business Registration Certificate numbers of successful applicants (where supplied) and the number of Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving electronic application instructions to HKSCC via CCASS or the designated White Form eIPO Service Provider through the designated eIPO website, will be made available at the times and dates and in the manner specified below:

- Results of allocations of the Public Offer can be found in the Company’s announcement to be posted on the Company’s website at www.szeyang.com from 8:00 a.m. on Thursday, 20 December 2007;
- Results of allocations for the Public Offer will be available from the Stock Exchange’s website at www.hkex.com.hk and the Company’s results of allocation website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Thursday, 20 December 2007 to 12:00 midnight on Wednesday, 26 December 2007. The user will be required to key

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

in the Hong Kong Identity Card/passport/Hong Kong Business Registration Certificate number provided in his/her/its Application Form to search for his/her/its own allocation result;

- Results of allocation will be available from the Company's Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offer Shares allocated to them, if any, by calling **2862 8669** between 9:00 a.m. and 10:00 p.m. from Thursday, 20 December 2007 to, Sunday, 23 December 2007;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, 20 December 2007 to Saturday, 22 December 2007 at all the receiving banks branches and sub-branches at the addresses set out in the section headed “— Where to Collect the Application Forms”; and
- Announcement of the level of applications in the Public Offer, the level of indications of interest in the Placing and the basis of allotment of the Public Offer Shares will be published in *The Standard* (in English) and *Sing Tao Daily* (in Chinese) on Thursday, 20 December 2007.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

1. GENERAL

- (a) If you apply for the Public Offer Shares in the Public Offer, you will be agreeing with the Company and CAF Securities (for itself and on behalf of the Public Offer Underwriters) as set out below.
- (b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) If you give electronic application instructions to the eIPO Service Provider through the designated website at www.eipo.com.hk, you will have authorised the eIPO Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.
- (d) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Public Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (e) Applicants should read this prospectus carefully, including other terms and conditions of the Public Offer, the paragraph headed “The Public Offer” in the section headed “Structure of the Share Offer”, and in the section headed “How to apply for Public Offer Shares” and the terms and conditions set out in the relevant Application Form or imposed by HKSCC (as the case may be) prior to making an application.

2. OFFER TO PURCHASE THE PUBLIC OFFER SHARES

- (a) You offer to purchase from the Company at the Offer Price the number of the Public Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Public Offer Shares applied for but not allocated to you (including brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form. Details of the procedure for refunds relating to each of the Public Offer are contained below in the paragraphs headed “If your application for Public Offer Shares is successful (in whole or in part)” and “Refund of your money — additional information” in this section.
- (c) Any application may be rejected in whole or in part.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (d) Applicants under the Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

- (a) The Public Offer Shares will be allocated after the application lists close. The Company expects to announce the final number of Public Offer Shares, the level of applications under the Public Offer and the basis of allocations of the Public Offer Shares in *The Standard* (in English) and *Sing Tao Daily* (in Chinese) on or before Thursday, 20 December 2007.
- (b) The results of allocations of the Public Offer Shares under the Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong Business Registration Certificate numbers (where applicable) of successful applicants and the number of Public Offer Shares successfully applied for, will be made available on Thursday, 20 December 2007 in the manner described in the paragraph headed “Results of allocations” in the section headed “How to apply for Public Offer Shares”.
- (c) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offer Shares in respect of which your offer has been accepted.
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Public Offer Shares only if:
- You are a nominee, in which case you may make an application as a nominee by: (i) giving electronic application instructions to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one application in your own name on behalf of different beneficial owners. In the box on the application form marked “For nominees” you must include:
 - an account number; or
 - another identification number for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit. Otherwise, multiple applications are liable to be rejected.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

(b) All of your applications under the Public Offer are liable to be rejected as multiple applications if you, or you and other joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the eIPO Service Provider through the **White Form eIPO** service;
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC or to the eIPO Service Provider through the **White Form eIPO** service to apply for more than 50% of the Offer Shares initially available for subscription under the Public Offer (that is, to apply for more than 5,000,000 Shares).

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions to the eIPO Service Provider through the designated website and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

(c) **All** of your applications are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and: (i) the only business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. **Unlisted company** means a company with no equity securities listed on the Stock Exchange. **Statutory control** in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

5. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- **instruct** and **authorise** the Company, CAF Securities and the Underwriters (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares allocated to you, and as required by the Articles of Association;
 - **represent** and **warrant** that you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act, that you are outside the United States (as defined in Regulation S of U.S. Securities Act 1933) when completing the Application Form and that you are not, and none of the other person(s) for whose benefit you are applying is, a U.S. person described under the U.S. Securities Act 1933;
 - **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, CAF Securities and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Public Offer will have any liability for any such other information or representations;
 - **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
 - (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the eIPO Service Provider via the **White Form eIPO** service;
 - (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the eIPO Service Provider via the **White Form eIPO** service, and that you are duly authorised to sign the application form or to give electronic application instruction as that other person's agent;
- **agree** that once your application is accepted, your application will be evidenced by the results of the Public Offer made available by the Company;
- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Placing Shares in the Placing, nor otherwise participate in the Placing;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to the Company, CAF Securities, its registrars, receiving bankers, the Underwriters or their respective advisers and agents any information about you or the person(s) for whose benefit you have made the application which they require;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- **authorise** the Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except that if you have applied for 1,000,000 Public Offer Shares or more and have indicated in your Application Form that you wish to collect your share certificate(s) and/or refund cheque(s) (where applicable) in person, you can collect your share certificate(s) and/or refund cheque(s) (where applicable) in person between 9:00 a.m. and 1:00 p.m. on Thursday, 20 December 2007 (Hong Kong time) or any other date notified by the Company by way of a newspaper announcement as the date of despatch of share certificates and/or refund cheques from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited);
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and neither the Company, CAF Securities and the Underwriters nor any of their respective officers or

TERMS AND CONDITIONS OF THE PUBLIC OFFER

advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;

- **agree** with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of the Company) to observe and comply with the Companies Law, Companies Ordinance and the Articles of Association;
 - **agree** with the Company and each shareholder of the Company that the Shares are freely transferable by the holders thereof;
 - **authorise** the Company to enter into a contract on behalf of you with each director and officer of the Company whereby such directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association;
 - **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and the Application Forms and agree to be bound by them;
 - **confirm** that you are aware of the restrictions on offering of the Public Offer Shares described in this prospectus; and
 - **understand** that these declarations and representations will be relied upon by the Company and CAF Securities in deciding whether or not to allocate any Public Offer Shares in response to your application.
- (b) If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you **agree** that:
- any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
 - each of HKSCC and HKSCC Nominees reserves the right in its absolute discretion (1) **not to accept** any or part of such allotted Public Offer Shares issued to you in the name of HKSCC Nominees or **not to accept** such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Public Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the share certificates for such allotted Public Offer Shares at your own risk to the address on your Application Form by ordinary post **or to make available the same for your collection**;
 - each of HKSCC and HKSCC Nominees may adjust the number of allotted Public Offer Shares issued in the name of HKSCC Nominees;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Forms;
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:
- **instruct** and **authorise** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;
 - **instruct** and **authorise** HKSCC to arrange payment of the Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications, refund the appropriate portion of the application money by crediting your designated bank account;
 - **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form;
 - (in addition to the confirmations and agreements set out in paragraph (a) above) instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf the following:
 - **agree** that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;
 - **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given electronic application instructions or any lesser number;
 - (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) **declare** that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- **understand** that the above declaration will be relied upon by the Company and CAF Securities in deciding whether or not to make any allocation of the Public Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
- **authorise** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allocated in respect of your **electronic application instructions** and to send share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- **confirm** that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your CCASS Clearing Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf;
- **agree** that the Company, CAF Securities and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Public Offer are liable only for the information and representations contained in this prospectus;
- **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** to disclose your personal data to CAF Securities, the Underwriters, the Company, the Hong Kong branch share registrar, the receiving bankers, their respective agents and advisers together with any information about you which they require;
- **agree** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable until after the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before Thursday, 10 January 2008, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Thursday, 10 January 2008 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Public Offer made available by the Company; and
- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Public Offer Shares.

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

You should note the following situations in which Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) **If your application is revoked:**

By completing and submitting an Application Form or to the eIPO Service Provider through the **White Form eIPO** service or submitting **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf or by the eIPO Service Provider through the **White Form eIPO** service cannot be revoked until after the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC or to the eIPO Service Provider through the White Form eIPO service. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before Thursday, 10 January 2008 except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot (as the case may be).

TERMS AND CONDITIONS OF THE PUBLIC OFFER

(b) If the allocation of Public Offer Shares is void:

The allocation of Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **Yellow** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Public Offer:

By filling in any of the Application Forms or giving application instructions to HKSCC electronically or to the eIPO Service Provider under the **White Form eIPO** service, you agree not to apply for Placing Shares in the Placing. Reasonable steps will be taken to identify and reject applications under the Public Offer from investors who have received Placing Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have received Public Offer Shares in the Public Offer.

(d) If the Company, CAF Securities or the eIPO Service Provider (where applicable) or their respective agents exercise their discretion:

The Company, CAF Securities or the eIPO Service Provider (where applicable) or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) Your application will be rejected or not be accepted if:

- your application is a multiple or a suspected multiple application;
- your application form is not completed correctly;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk.
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive the Placing Shares under the Placing;
- if you apply for more than 50% of the Public Offer Shares initially being offered to the public for subscription; or
- the Underwriting Agreement does not become unconditional or is terminated in accordance with the terms thereof.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

(f) **If HKSCC Nominee's application is not accepted:**

HKSCC Nominee's application will not be accepted if:

- the Underwriting Agreement does not become unconditional; or
- the Underwriting Agreement is terminated in accordance with its terms.

7. IF YOUR APPLICATION FOR PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

(a) **If you are applying using a WHITE Application Form and you elect to receive any share certificate(s) in your name:**

- Applicants will receive one share certificate for all of the Public Offer Shares issued to you under the Public Offer.
- Refund cheques for these applicants who apply for less than 1,000,000 Public Offer Shares are expected to be despatched on or before Thursday, 20 December 2007 to the same address as that for share certificate(s).
- Applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer and have indicated in their application forms that they wish to collect their share certificates and refund cheques (where applicable) in person from the Company's Hong Kong branch share registrar may collect their share certificates and refund cheques (where applicable) in person from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 20 December 2007.
- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Company's Hong Kong branch share registrar.
- Uncollected share certificates and refund cheques (where applicable) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms.

If you have applied for 1,000,000 Public Offer Shares or more and have not indicated on your application form that you will collect your share certificate(s) and/or refund cheque, if any, in person, or if you have applied for less than 1,000,000 Public Offer Shares, or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Public Offer described under the paragraph headed "Conditions of the Share Offer" in the

TERMS AND CONDITIONS OF THE PUBLIC OFFER

section headed “Structure of the Share Offer” in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto has become void, then your share certificate(s) and/or refund cheque, if any, in respect of the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, if any, without interest, will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your Application Form on the date of despatch by ordinary post and at your own risk.

- (b) **If: (i) you are applying on a YELLOW Application Form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:**

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the application form or electronically, as the case may be), at the close of business on Thursday, 20 December 2007 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW Application Form:**

For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant on a YELLOW Application Form:**

The Company is expected to make available the results of the Public Offer, including the results of CCASS Investor Participants’ applications, in the manner described in the paragraph headed “Results of allocations” in the section headed “How to apply for Public Offer Shares”, on Thursday, 20 December 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 20 December 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- **If you have given electronic application instructions to HKSCC:**

The Company is expected to make available the application results of the Public Offer, including the results of CCASS Participants' applications (and in the case of CCASS Clearing Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner, if supplied), your Hong Kong Identity Card/passport/Hong Kong business registration number or other identification code (as appropriate) and the basis of allotment of the public offer in the manner described in the paragraph headed "Results of allocations" in the section headed "How to apply for Public Offer Shares", on Thursday, 20 December 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 20 December 2007 or any other date HKSCC or HKSCC Nominees chooses.

- **If you are instructing your CCASS Clearing Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:**

You can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Clearing Participant or CCASS Custodian Participant.

- **If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:**

You can also check the number of the Public Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 20 December 2007. Immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account and the credit of the refund monies to your bank account. HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

(c) If you apply through White Form eIPO:

If you apply for 1,000,000 Public Offer Shares or more through the White Form eIPO service by submitting an electronic application to the eIPO Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your share certificate(s) and/or refund cheque(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 20 December 2007, or such other date as notified by our company in the newspapers as the date of despatch/collection of share certificates/refund cheques.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

If you do not collect your share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the eIPO Service Provider by ordinary post at your own risk thereafter.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the eIPO Service Provider on Thursday, 20 December 2007 by ordinary post at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the eIPO Service Provider set out below in the paragraph headed “Additional information for applicants applying through white form eIPO.”

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

8. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of the Company) if:
- your application is not successful, in which case the Company will refund your application money together with brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;
 - your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and
- (b) If you apply on **YELLOW** Application Form for 1,000,000 Public Offer Shares or more under the Public Offer, you may collect your refund cheque (if any) in person from the Company’s Hong Kong branch share registrar on Thursday, 20 December 2007. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants set out in sub-paragraph (a) of the paragraph headed “If your application for the Public Offer Shares is successful (in whole or in part)” in this section.

If you have applied for less than 1,000,000 Public Offer Shares, or if you have applied for 1,000,000 Public Offer Shares or more and have not indicated on your application form that you will collect your refund cheque, or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Public Offer described under the paragraph headed “Conditions of the Share Offer” in the section headed “Structure and conditions of the Share Offer” in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto have become void, then your refund cheque (without interest), if any, will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your Application Form on the date of despatch, which is expected to be on Thursday, 20 December 2007 by ordinary post and at your own risk.

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- (c) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Clearing/Custodian Participant) on Thursday, 20 December 2007.
- (d) All refunds by cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form.
- (e) Refund cheques are expected to be despatched on Thursday, 20 December 2007. The Company intends to make special efforts to avoid undue delays in refunding money.
- (f) Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data will be used for checking the validity of Application Forms and such data would also be transferred to a third party for such purpose and refund purpose. Your banker may require verification of your Hong Kong Identity Card number/ passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

9. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING THROUGH WHITE FORM EIPO

For the purposes of allocating Public Offer Shares, each applicant giving electronic application instructions through the White Form eIPO service to the eIPO Service Provider through the designated website will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the eIPO Service Provider, the eIPO Service Provider may adopt alternative arrangements for the refund monies to you. Please refer to the additional information provided by the eIPO Service Provider on the designated website www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in “— 8. Refund of your money — additional information” shall be made pursuant to the arrangements described above in “— 7. If your application for Public Offer Shares is successful (in whole or in part) — (c) If you apply through White Form eIPO.”

10. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on 20 December 1996. This Personal Information Collection Statement informs the applicant for and holder of the Public Offer Shares of the policies and practices of the Company and the Hong Kong branch share registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company or its agents and the Hong Kong branch share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong branch share registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Company or its Hong Kong branch share registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or the despatch of or encashment of refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Hong Kong branch share registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable and verification of compliance with the terms and application procedures set out in the application forms and this prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Company and its subsidiaries;

TERMS AND CONDITIONS OF THE PUBLIC OFFER

- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing identities of successful applicants by way of press announcement or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong branch share registrar to discharge their obligations to holders of securities and/or regulators and/or any other purpose to which the holders of securities may from time to time agree.

(c) **Transfer of personal data**

Personal data held by the Company and the Hong Kong branch share registrar relating to the applicants and the holders of securities will be kept confidential but the Company and the Hong Kong branch share registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisers and receiving banker;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/ or the Hong Kong branch share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an application form or by giving **electronic application instructions** to HKSCC, you agree to all of the above.

(d) **Access and correction of personal data**

The Companies Ordinance provides the applicants and the holders of securities with rights to ascertain whether the Company and/or the Hong Kong branch share registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Companies Ordinance, the Company and the Hong Kong branch share registrar have the right to

TERMS AND CONDITIONS OF THE PUBLIC OFFER

charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Hong Kong branch share registrar for the attention of the Privacy Compliance Officer (for the purposes of the Companies Ordinance).

11. MISCELLANEOUS

(a) Commencement of dealings in the Shares

- Dealings in the Shares on the Stock Exchange are expected to commence at 9:30 a.m. on Friday, 21 December 2007.
- The Shares will be traded in board lots of 2,000 Shares.

(b) The Shares will be eligible for admission into CCASS

- If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

11 December 2007

The Board of Directors
EYANG Holdings (Group) Co., Limited
CAF Securities Company limited

Dear Sirs,

We set out below our report on the financial information of EYANG Holdings (Group) Co., Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2004, 2005, 2006 and the nine months ended 30 September 2007 (the “Relevant Periods”) and the nine months ended 30 September 2006 (the “30 September 2006 Financial Information”), prepared on the basis set out in Section 2 below for inclusion in the prospectus of the Company dated 11 December 2007 (the “Prospectus”) in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands on 6 March 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, for the purpose of acting as a holding company of the subsidiaries now comprising the Group set out below pursuant to a group reorganisation (the “Reorganisation”) as further described in the paragraph headed “Corporate Reorganisation” in Appendix VI “Statutory and General Information” to the Prospectus.

The Group is principally engaged in the manufacture and sale of multi-layer ceramic chips (“MLCC”), mobile phones and mobile phone components. The Company and its subsidiaries have adopted 31 December as their financial year end date.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which have characteristics substantially similar to a private company incorporated in Hong Kong, the particulars of which are set out below:

Company name	Notes	Place and date of incorporation/ registration and operation	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct %	Indirect %	
Eyang Management Co., Ltd. ("Eyang Management")	(1)	British Virgin Islands 10 August 2006	US\$10,000	100	—	Investment holding
Hong Kong Eyang Holdings (Group) Co., Ltd. ("HK Eyang Holdings") (香港宇陽控股(集團)有限公司)	(2)	Hong Kong 13 August 2006	HK\$10,000	—	100	Investment holding
Shenzhen Eyang Technology Development Co., Ltd. ("SZ Eyang") (深圳市宇陽科技發展有限公司)*	(3)	People's Republic of China ("PRC") 22 February 2001	RMB200,010,000	—	100	Manufacture and sale of MLCC and mobile phone components
Dongguan Eyang Technology Development Co., Ltd. ("DG Eyang") (東莞市宇陽科技發展有限公司)**	(4)	PRC 22 March 2001	RMB20,000,000	—	100	Sub-contracting of MLCC, mobile phones and mobile phone components
Hong Kong Eyang Technology Co., Ltd. ("HK Eyang") (香港宇陽科技有限公司)	(5)	Hong Kong/PRC 12 October 2001	HK\$500,000	—	100	Trading of MLCC and mobile phone components
Shenzhen Eycom Technology Co., Ltd. ("SZ Eycom") (深圳市億通科技有限公司)**	(6)	PRC 24 March 2004	RMB10,000,000	—	100	Manufacture and sale of mobile phones

* SZ Eyang was initially established in the PRC as a limited liability domestic enterprise on 22 February 2001 and was re-registered as a wholly foreign-owned enterprise on 22 August 2006.

** DG Eyang and SZ Eycom were established in the PRC as limited liability domestic enterprises.

As at the date of this report, no statutory audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not been involved in any significant business transactions other than the Reorganisation and other events described in the paragraph headed

“Corporate Reorganisation” in Appendix VI “Statutory and General Information” to the Prospectus. We have, however, performed our own independent audit of all relevant transactions of the Company since the date of its incorporation.

Notes:

- (1) No statutory audited financial statements have been issued since the date of incorporation of Eyang Management as it either has not carried on any business, other than the Reorganisation and other events described in the paragraph headed “Corporate Reorganisation” in Appendix VI “Statutory and General Information” to the Prospectus, or was incorporated in the British Virgin Islands where there is no statutory audit requirement.
- (2) No statutory audited financial statements have been issued since the date of incorporation of HK Eyang Holdings as it has not carried on any business, other than the Reorganisation and other events described in the paragraph headed “Corporate Reorganisation” in Appendix VI “Statutory and General Information” to the Prospectus.
- (3) The statutory audited financial statements for the three years ended 31 December 2004, 2005 and 2006 were audited by Shenzhen Zhigong Certified Public Accountants (深圳致公會計師事務所), certified public accountants registered in the PRC.
- (4) The statutory audited financial statements for the three years ended 31 December 2004, 2005 and 2006 were audited by Ernst & Young Hua Ming, certified public accountants registered in the PRC.
- (5) The statutory audited financial statements for the year ended 31 December 2004 were audited by Ernst & Young, certified public accountants registered in Hong Kong.

The statutory audited financial statements for the two years ended 31 December 2005 and 2006 were audited by Allan Ho & Co., certified public accountants registered in Hong Kong.

- (6) The statutory audited financial statements for the three years ended 31 December 2004, 2005 and 2006 were audited by Shenzhen Zhigong Certified Public Accountants (深圳致公會計師事務所), certified public accountants registered in the PRC.

The combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods and the combined balance sheets of the Group as at 31 December 2004, 2005, 2006 and 30 September 2007 and the balance sheet of the Company as at 30 September 2007 together with the notes thereto (the “Financial Information”) have been prepared based on the audited financial statements, or where appropriate, the unaudited management accounts of the companies comprising the Group, after making such adjustments as are appropriate to comply with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”), and have been prepared on the basis set out in Section 2 below.

The directors of the Company (the “Directors”) are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs. The directors of the respective companies of the Group are responsible for the preparation and true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. It is our responsibility to form an independent opinion on such information in respect of the Relevant Periods and to report our opinion to you.

Procedures performed in respect of the Relevant Periods

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures performed in respect of the 30 September 2006 Financial Information

For the purpose of this report, we have also performed a review of the 30 September 2006 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 September 2006 Financial Information.

Opinion in respect of the Financial Information of the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the basis of presentation set out in Section 2 below gives, for the purpose of this report, a true and fair view of the combined results and combined cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Group as at 31 December 2004, 2005, 2006 and 30 September 2007, and of the state of affairs of the Company as at 30 September 2007.

Review conclusion in respect of the 30 September 2006 Financial Information

On the basis of our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 September 2006 Financial Information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

1. FINANCIAL INFORMATION

Combined income statements

	Sections	Year ended 31 December			Nine months ended 30 September	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (Unaudited)	2007 RMB'000
REVENUE	5	658,612	455,410	681,617	507,121	568,891
Cost of sales		<u>(601,615)</u>	<u>(385,663)</u>	<u>(575,459)</u>	<u>(433,327)</u>	<u>(483,261)</u>
Gross profit		56,997	69,747	106,158	73,794	85,630
Other income and gains	5	2,183	4,461	4,048	2,354	2,869
Selling and distribution costs		(9,769)	(16,970)	(22,624)	(15,452)	(13,936)
Administrative expenses		(11,510)	(13,356)	(17,629)	(12,069)	(12,920)
Research and development costs	7	(2,668)	(12,403)	(9,745)	(4,865)	(7,319)
Write-back of provision against slow-moving inventories	7	—	—	—	—	3,825
Other expenses		(4,963)	(6,280)	(6,745)	(6,432)	(9,505)
Finance costs	6	<u>(1,272)</u>	<u>(2,666)</u>	<u>(1,779)</u>	<u>(1,138)</u>	<u>(2,392)</u>
PROFIT BEFORE TAX	7	28,998	22,533	51,684	36,192	46,252
Tax	10	<u>(504)</u>	<u>(3,412)</u>	<u>(3,545)</u>	<u>(2,319)</u>	<u>(4,146)</u>
PROFIT FOR THE YEAR/PERIOD		<u>28,494</u>	<u>19,121</u>	<u>48,139</u>	<u>33,873</u>	<u>42,106</u>
Attributable to:						
Equity holders of the Company		29,877	19,826	48,176	33,977	42,106
Minority interests		<u>(1,383)</u>	<u>(705)</u>	<u>(37)</u>	<u>(104)</u>	<u>—</u>
		<u>28,494</u>	<u>19,121</u>	<u>48,139</u>	<u>33,873</u>	<u>42,106</u>
DIVIDENDS	11	<u>—</u>	<u>—</u>	<u>70,160</u>	<u>—</u>	<u>4,500</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY						
Basic	12	<u>RMB0.100</u>	<u>RMB0.066</u>	<u>RMB0.161</u>	<u>RMB0.113</u>	<u>RMB0.140</u>

Combined balance sheets

	<i>Sections</i>	31 December		30 September	
		2004	2005	2006	2007
		<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
NON-CURRENT ASSETS					
Property, plant and equipment	13	117,636	128,159	142,421	157,593
Investment properties	14	2,062	2,508	482	625
Land lease prepayments	15	10,505	11,208	10,958	10,623
Intangible assets	16	191	82	—	—
Available-for-sale investments	17	1,870	1,870	—	—
Deferred tax assets	18	480	603	1,672	1,368
Total non-current assets		<u>132,744</u>	<u>144,430</u>	<u>155,533</u>	<u>170,209</u>
CURRENT ASSETS					
Inventories	19	67,891	88,622	90,895	98,578
Trade and bills receivables	20	53,136	67,683	52,643	152,015
Prepayments, deposits and other receivables	21	7,082	16,089	8,195	26,919
Due from a shareholder	33	—	70,159	2,784	—
Due from a minority shareholder of a subsidiary	33	—	—	767	—
Due from related parties	33	1,340	2,077	379	—
Cash and bank balances	22	31,413	50,825	97,875	37,483
Restricted bank deposits	22	11,233	18,146	29,165	17,004
Pledged bank deposits	22	—	—	—	36,000
Total current assets		<u>172,095</u>	<u>313,601</u>	<u>282,703</u>	<u>367,999</u>

	<i>Sections</i>	31 December		30 September	
		2004	2005	2006	2007
		<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
CURRENT LIABILITIES					
Trade and bills payables	23	79,049	104,690	114,588	152,479
Deferred income, accruals and other payables	24	34,345	47,882	37,608	45,865
Tax payable		1,903	5,438	7,150	6,234
Provisions	25	1,350	2,584	9,087	8,398
Bank loans	27	10,000	34,504	34,586	50,974
Dividends payable		—	—	—	4,450
Due to a minority shareholder of a subsidiary	33	4,788	3,722	—	—
Due to related parties	33	—	4,387	1,833	1,465
Total current liabilities		<u>131,435</u>	<u>203,207</u>	<u>204,852</u>	<u>269,865</u>
NET CURRENT ASSETS					
		<u>40,660</u>	<u>110,394</u>	<u>77,851</u>	<u>98,134</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>173,404</u>	<u>254,824</u>	<u>233,384</u>	<u>268,343</u>
NON-CURRENT LIABILITIES					
Deferred income	26	4,150	5,896	7,746	8,264
Bank loans	27	25,000	2,037	514	—
Total non-current liabilities		<u>29,150</u>	<u>7,933</u>	<u>8,260</u>	<u>8,264</u>
Net assets		<u><u>144,254</u></u>	<u><u>246,891</u></u>	<u><u>225,124</u></u>	<u><u>260,079</u></u>

	<i>Sections</i>	31 December		30 September	
		2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
EQUITY					
Equity attributable to equity holders of the Company					
Paid-in capital/issued share capital	28	116,530	200,010	200,088	200,138
Reserves		<u>26,805</u>	<u>46,667</u>	<u>24,859</u>	<u>59,941</u>
		143,335	246,677	224,947	260,079
Minority interests		<u>919</u>	<u>214</u>	<u>177</u>	<u>—</u>
Total equity		<u>144,254</u>	<u>246,891</u>	<u>225,124</u>	<u>260,079</u>

Balance sheet of the Company

	<i>Sections</i>	30 September 2007 <i>RMB'000</i>
ASSETS		
Current assets		
Cash and bank balances	22	<u>50</u>
Net assets		<u>50</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		
Issued share capital	28	<u>50</u>
Total equity		<u>50</u>

Combined statements of changes in equity

	Attributable to equity holders of the Company										
	Paid-in capital/issued share capital RMB '000	Capital reserve RMB '000 Note (a)	Statutory reserve fund RMB '000 Note (b)	Statutory welfare fund RMB '000 Note (c)	Discretionary reserve RMB '000 Note (d)	Other reserves RMB '000 Note (e)	Exchange fluctuation reserve RMB '000	Retained profits RMB '000	Total RMB '000	Minority interests RMB '000	Total equity RMB '000
At 1 January 2004	116,530	3,496	—	—	—	—	9	(6,576)	113,459	1,702	115,161
Profit for the year	—	—	—	—	—	—	—	29,877	29,877	(1,383)	28,494
Profit appropriations to reserves	—	—	2,471	1,854	2,471	—	—	(6,796)	—	—	—
Establishment of a subsidiary	—	—	—	—	—	—	—	—	—	—	—
Exchange realignment	—	—	—	—	—	—	(1)	—	(1)	600	600
At 31 December 2004 and 1 January 2005	116,530	3,496*	2,471*	1,854*	2,471*	—	8*	16,505*	143,335	919	144,254
Profit for the year	—	—	—	—	—	—	—	19,826	19,826	(705)	19,121
Capital contributions	83,480	—	—	—	—	—	—	—	83,480	—	83,480
Profit appropriations to reserves	—	—	2,373	1,186	—	—	—	(3,559)	—	—	—
Exchange realignment	—	—	—	—	—	—	36	—	36	—	36
At 31 December 2005 and 1 January 2006	200,010	3,496*	4,844*	3,040*	2,471*	—	44*	32,772*	246,677	214	246,891
Profit for the year	—	—	—	—	—	—	—	48,176	48,176	(37)	48,139
Issue of shares	78	—	—	—	—	—	—	—	78	—	78
Dividends	—	—	—	—	—	—	—	(70,160)	(70,160)	—	(70,160)
Profit appropriations to reserves	—	—	6,262	—	—	—	—	(6,262)	—	—	—
Transfer	—	—	3,040	(3,040)	—	—	—	—	—	—	—
Exchange realignment	—	—	—	—	—	—	176	—	176	—	176
At 31 December 2006 and 1 January 2007	200,088	3,496*	14,146*	—	2,471*	—	220*	4,526*	224,947	177	225,124
Profit for the period	—	—	—	—	—	—	—	42,106	42,106	—	42,106
Issue of shares	50	—	—	—	—	—	—	—	50	—	50
Dividends	—	—	—	—	—	—	—	(4,500)	(4,500)	—	(4,500)
Acquisition of minority interests	—	—	—	—	—	(2,823)	—	—	(2,823)	(177)	(3,000)
Exchange realignment	—	—	—	—	—	—	299	—	299	—	299
At 30 September 2007	200,138	3,496*	14,146*	—	2,471*	(2,823)*	519*	42,132*	260,079	—	260,079

Attributable to equity holders of the Company

	Paid-in capital/issued share capital RMB '000	Capital reserve RMB '000 Note (a)	Statutory reserve fund RMB '000 Note (b)	Statutory welfare fund RMB '000 Note (c)	Discretionary reserve RMB '000 Note (d)	Other reserves RMB '000 Note (e)	Exchange fluctuation reserve RMB '000	Retained profits RMB '000	Total RMB '000	Minority interests RMB '000	Total equity RMB '000
(Unaudited)											
At 1 January 2006	200,010	3,496	4,844	3,040	2,471	—	44	32,772	246,677	214	246,891
Profit for the period	—	—	—	—	—	—	—	33,977	33,977	(104)	33,873
Issue of shares	78	—	—	—	—	—	—	—	78	—	78
Exchange realignment	—	—	—	—	—	—	137	—	137	—	137
At 30 September 2006	200,088	3,496	4,844	3,040	2,471	—	181	66,749	280,869	110	280,979

* These reserve accounts comprise the combined reserves of RMB26,805,000, RMB46,667,000, RMB24,859,000 and RMB59,941,000 in the combined balance sheets as at 31 December 2004, 2005, 2006 and 30 September 2007, respectively.

Notes:

- (a) Capital surplus reserve represents the excess capital paid over SZ Eyang's paid-in capital by Legend Investment Limited.
- (b) In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior year's losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 25% of the registered capital after such usages.
- (c) In accordance with the Company Law of the PRC prior to 1 January 2006, the Company's subsidiaries registered in the PRC are required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior year's losses) to the statutory welfare fund. The statutory welfare fund may only be used for the collective welfare of the employees. According to the revised Company Law of the PRC effective 1 January 2006, the subsidiaries were no longer required to make appropriation to the statutory welfare fund for the year ended 31 December 2006. The balance of the statutory welfare fund was then transferred to the statutory reserve fund.
- (d) In accordance with the articles of SZ Eyang, it is required to set aside a certain percentage of its annual statutory net profit after tax (after offsetting any prior year's losses) at the discretion of the board of directors, to the discretionary reserve. SZ Eyang appropriated 10% of its net profit after tax (after offsetting any prior year's losses), as determined with the PRC GAAP applicable to SZ Eyang, for the year ended 31 December 2004 amounted to RMB2,471,000. This appropriation to discretionary reserve was decided by the board of directors in accordance with the articles of SZ Eyang on 25 April 2005 and no subsequent appropriation was decided by the board of directors of SZ Eyang for the two years ended 31 December 2005, 2006 and the nine months ended 30 September 2007. The discretionary reserve can be utilised to offset prior years' losses or to increase the registered capital.
- (e) The other reserves arise on acquisition of minority interests which is accounted for as an equity transaction using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised directly in equity.

Combined cash flow statements

Sections	Year ended 31 December			Nine months ended 30 September	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
				(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	28,998	22,533	51,684	36,192	46,252
Adjustments for:					
Finance costs	6	1,272	2,666	1,779	1,138
Bank interest income	5	(442)	(162)	(730)	(424)
Gain on disposal of a subsidiary	5	—	(3,118)	—	—
Loss on disposal of items of property, plant and equipment	7	—	—	11	11
Loss on disposal of investment properties	7	—	—	43	43
Loss/(gain) on disposal of available-for-sale investments	7	92	—	(185)	(185)
Depreciation	7	8,198	11,114	12,575	9,362
Amortisation of land lease prepayments	7	234	237	250	187
Amortisation of intangible assets	7	27	2,267	82	82
Impairment of items of property, plant and equipment	7	—	—	242	242
Impairment of trade receivables	7	44	1,385	1,579	1,579
Write-off of trade receivables	7	—	479	—	—
Impairment of other receivables	7	—	390	—	—
Provision against slow-moving inventories	7	3,872	2,261	3,181	3,181
Write-back of provision against slow-moving inventories	7	—	—	—	(3,825)
	42,295	40,052	70,511	51,408	58,939
Decrease/(increase) in inventories	23,028	(22,992)	(5,454)	10,382	(6,621)
Decrease/(increase) in trade and bills receivables	(25,672)	(22,072)	13,461	(29,187)	(99,372)
Decrease/(increase) in prepayments, deposits and other receivables	(4,009)	(8,884)	7,162	(3,445)	(10,398)
Decrease/(increase) in an amount due from a minority shareholder of a subsidiary	—	—	(767)	(67)	767
Decrease/(increase) in amounts due from related parties	(346)	(737)	1,698	229	379
Increase/(decrease) in trade and bills payables	24,507	25,641	9,898	(15,899)	37,891
Increase/(decrease) in deferred income, accruals and other payables	(47,362)	24,486	(13,294)	127	9,143
Increase/(decrease) in provisions	1,350	1,234	6,503	6,944	(689)
Increase/(decrease) in an amount due to a minority shareholder of a subsidiary	4,788	(1,066)	(3,722)	(3,722)	—
Increase/(decrease) in amounts due to related parties	(880)	4,387	(2,554)	3,590	(368)
Increase in deferred income	150	1,746	1,850	1,591	518
Cash generated from/(used in) operations	17,849	41,795	85,292	21,951	(9,811)
Interest received	442	162	730	424	376
PRC tax paid	—	—	(2,902)	(1,808)	(4,758)
Net cash inflow/(outflow) from operating activities	18,291	41,957	83,120	20,567	(14,193)

Sections	Year ended 31 December			Nine months ended 30 September	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (Unaudited)	2007 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(30,101)	(21,890)	(23,996)	(13,584)	(27,200)
Additions to land lease prepayments	—	(1,460)	—	—	—
Additions to intangible assets	(218)	(4,307)	—	—	—
Acquisition of minority interests	—	—	—	—	(3,000)
Disposal of a subsidiary	29	(207)	900	—	—
Proceeds from disposal of available-for-sale investments	750	—	2,055	2,055	—
Proceeds from disposal of investment properties	—	—	1,819	1,819	—
Decrease/(increase) in restricted bank deposits with original maturity of over three months when acquired	17,665	(1,592)	(172)	(6,573)	(6,573)
Net cash outflow from investing activities	(11,904)	(29,456)	(19,394)	(16,283)	(36,773)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from capital contributions	—	83,480	—	—	—
Establishment of a subsidiary	600	—	—	—	—
New bank loans	43,900	28,113	8,000	8,000	50,000
Repayment of bank loans	(43,900)	(26,572)	(9,441)	(9,062)	(34,126)
Repayment of other borrowings	(54,630)	—	—	—	—
Advance of loan to a shareholder	—	(83,480)	(2,784)	—	—
Prepaid listing expenses	—	—	—	—	(8,725)
Repayment of loan from a shareholder	—	13,321	70,159	—	2,784
Interest paid	(1,272)	(2,666)	(1,779)	(1,138)	(2,392)
Dividends paid	—	—	(70,160)	—	—
Increase in pledged bank deposits	—	—	—	—	(36,000)
Net cash inflow/(outflow) from financing activities	(55,302)	12,196	(6,005)	(2,200)	(28,459)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Exchange realignment	(1)	36	176	137	299
Cash and cash equivalents at beginning of year/period	91,416	42,500	67,233	67,233	125,130
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	42,500	67,233	125,130	69,454	46,004
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	22	31,413	50,825	97,875	60,946
Restricted bank deposits with original maturity of less than three months when acquired	22	11,087	16,408	27,255	8,521
		42,500	67,233	125,130	69,454
		46,004	46,004	46,004	46,004

2. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company is a limited company incorporated in the Cayman Islands. The Company's registered office is located at the offices of Codon Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. It became the holding company of the Group as a result of the Reorganisation as described in the paragraph headed "Corporate Reorganisation" in Appendix VI "Statutory and General Information" to the Prospectus.

Although Mr. Chen Weirong ("Mr. Chen") held less than 50% of equity interests in SZ Eyang during the Relevant Periods, Mr. Chen obtained the controlling power in SZ Eyang throughout the Relevant Periods by virtue of his direct or indirect equity interest in SZ Eyang together with the voting rights acting in favour of him by Mr. Cheng Wusheng, Mr. Luo Chaoen, Shanghai Pudong Meiling Plastic Factory, Shenzhen Chuangce Investment Development Co., Ltd., Ms. Shuang Mei, Mr. Zhang Zhilin and Mr. Zhou Penghong pursuant to the concert party arrangements entered into between them as detailed in the section headed "History and Development — Corporate Development" to the Prospectus.

Mr. Chen and the relevant Concert Parties as aforementioned together had collective power to govern the financial and operating policies of the Company, Eyang Management, HK Eyang Holdings and SZ Eyang throughout the Relevant Periods and the power was not transitory. A business combination involving entities under common control is outside the scope of IFRS 3 "Business Combinations". Accordingly, the principles of merger accounting have been applied. SZ Eyang was treated as a subsidiary of the Company during the Relevant Periods and its results are then combined in the Financial Information for the Relevant Periods.

For the purpose of this report, the Financial Information has been prepared to reflect the Reorganisation under common control, in which Mr. Chen and the relevant Concert Parties together had collective power to govern the financial and operating policies of the Company, Eyang Management, HK Eyang Holdings and SZ Eyang throughout the Relevant Periods. The Financial Information as set out in this report has been prepared on a combined basis by applying the principles of merger accounting.

Accordingly, the combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods, have been prepared on a combined basis and include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/registration, whichever is the shorter period.

The combined balance sheets of the Group as at 31 December 2004, 2005, 2006 and 30 September 2007 have been prepared to present the assets and liabilities of the Group as at those dates as if the current group structure had been in existence at those dates or since their respective dates of incorporation/registration where they did not exist at those dates or acquisition.

All material intra-group transactions and balances have been eliminated on combination.

3. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB and the International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. The following applicable new and revised standards, which are generally effective for annual periods beginning on or after 1 January 2005, 1 December 2005, 1 January 2006 and 1 January 2007, have been adopted as at the beginning of the Relevant Periods:

IAS 1 (amended)	Presentation of Financial Statements
IAS 2 (revised)	Inventories
IAS 7 (amended)	Cash Flow Statements
IAS 8 (revised)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (amended)	Events after the Balance Sheet Date
IAS 12 (amended)	Income Taxes
IAS 14 (amended)	Segment Reporting
IAS 16 (amended)	Property, Plant and Equipment
IAS 17 (amended)	Leases
IAS 18 (amended)	Revenue
IAS 19 (amended)	Employee Benefits
IAS 20 (amended)	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21 (amended)	The Effects of Changes in Foreign Exchange Rates
IAS 23 (amended)	Borrowing Costs
IAS 24 (revised)	Related Party Disclosures
IAS 27 (amended)	Consolidated and Separate Financial Statements
IAS 32 (amended)	Financial Instruments: Presentation
IAS 33 (amended)	Earnings per Share
IAS 36 (amended)	Impairment of Assets
IAS 37 (amended)	Provisions, Contingent Liabilities and Contingent Assets
IAS 38 (amended)	Intangible Assets
IAS 39 (amended)	Financial Instruments: Recognition and Measurement
IAS 40 (amended)	Investment Property
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease

The Financial Information has been prepared under the historical cost convention. The Financial Information is prepared in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform to IFRSs, are set out below:

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for as an equity transaction using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets is recognised directly in equity.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group or its holding company;
- (c) the party is a close member of the family of any individual referred to in (a) or (b);
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful lives	Residual values
Buildings	40 years	10%
Plant and machinery	10 years	10%
Office and other equipment	5 years	10%
Motor vehicles	5 years	10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs, less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line basis over the estimated useful lives of 40 to 50 years.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets represent the cost incurred to acquire and bring to use the computer software. Amortisation is calculated on the straight-line basis over its estimated useful life of two years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset,

how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

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

Land lease prepayments represent the cost of land use rights paid to the PRC government authorities. Land lease prepayments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investment and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investment held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same and a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Bank loans

Bank loans are initially recognised at the fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the combined cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of combined balance sheets, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (d) from the sale of investments, on the transaction dates when the relevant contract notes are exchanged.

Employee retirement benefits

As stipulated by the rules and regulations of the PRC, the Company's subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The costs of employee retirement benefits are recognised as expenses in the income statement in the period in which they are incurred.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date. The revenue and expenses of these foreign operations are translated to RMB at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences on retranslation are recognised directly in a separate component of equity.

For the purpose of the combined cash flow statements, the cash flows of subsidiaries outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries outside Mainland China which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of assets

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgements regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of the deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow the utilisation of the carryforward of tax losses, that the asset balance will be reduced and charged to the combined income statements.

Provision for product warranties

The Group provides one-year warranties on the mobile phones sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back in the period in which such estimate has been changed.

Impact of issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements:

IAS 1 (revised)	Presentation of Financial Statements
IAS 23 (revised)	Borrowing Costs
IFRS 8	Operating Segments
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IAS 23 (revised) shall be applied for annual periods beginning on or after 1 January 2009. The standard requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualify asset and are part of that asset.

IFRS 8 sets out the requirements for disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This IFRS will supersede IAS 14 Segment Reporting and it shall be applied for annual periods beginning on or after 1 January 2009.

IAS 1 (revised), IFRIC 11, IFRIC 12, IFRIC 13 and IFRIC 14 shall be applied for annual periods beginning on or after 1 January 2009, 31 March 2007, 1 January 2008, 1 July 2008 and 1 January 2008, respectively. The Group is in the process of making an assessment of the impact of these new and revised IFRSs and IFRICs upon initial application. The Group anticipates that these new and revised IFRSs and IFRICs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

- (i) the MLCC segment engages in the manufacture and sale of MLCC and trading of MLCC;
- (ii) the mobile phone segment engages in the manufacture and sale of mobile phones; and

- (iii) the mobile phone components segment engages in the manufacture and sale of mobile phone components and trading of mobile phone components.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Over 90% of the Group's assets are located in Mainland China.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the Relevant Periods.

	MLCC <i>RMB '000</i>	Mobile phones <i>RMB '000</i>	Mobile phone components <i>RMB '000</i>	Others <i>RMB '000</i>	Eliminations <i>RMB '000</i>	Total <i>RMB '000</i>
Year ended 31 December 2004						
Segment revenue:						
Sales to external customers	115,470	51,924	491,218	—	—	658,612
Intersegment sales	46,522	2,110	124,349	—	(172,981)	—
Other income	1,350	—	—	—	—	1,350
Total	<u>163,342</u>	<u>54,034</u>	<u>615,567</u>	<u>—</u>	<u>(172,981)</u>	<u>659,962</u>
Segment results	<u>5,116</u>	<u>(9,596)</u>	<u>32,974</u>	<u>(751)</u>	<u>1,717</u>	29,460
Bank interest income and unallocated other income and gains						833
Corporate and other unallocated expenses						(23)
Finance costs						<u>(1,272)</u>
Profit before tax						28,998
Tax						<u>(504)</u>
Profit for the year						<u>28,494</u>

	MLCC	Mobile phones	Mobile phone components	Others	Eliminations	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
At 31 December 2004						
Segment assets	170,120	12,814	118,218	1,145	—	302,297
Corporate and other unallocated assets						<u>2,542</u>
Total assets						<u><u>304,839</u></u>
Segment liabilities	10,318	11,174	101,795	395	—	123,682
Corporate and other unallocated liabilities						<u>36,903</u>
Total liabilities						<u><u>160,585</u></u>
Other segment information						
Depreciation and amortisation	8,373	63	—	—	—	8,436
Corporate and other unallocated amounts						<u>23</u>
						<u><u>8,459</u></u>
Capital expenditure	36,287	731	—	29	—	37,047
Additional warranty provision	—	1,350	—	—	—	1,350
Provision against slow-moving inventories	2,681	901	290	—	—	3,872
Impairment of trade receivables	37	7	—	—	—	44
	<u><u>37</u></u>	<u><u>7</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>44</u></u>

	MLCC RMB '000	Mobile phones RMB '000	Mobile phone components RMB '000	Others RMB '000	Eliminations RMB '000	Total RMB '000
Year ended 31 December 2005						
Segment revenue:						
Sales to external customers	151,737	235,844	67,829	—	—	455,410
Intersegment sales	80,445	18,470	241,704	5,038	(345,657)	—
Other income	521	—	—	—	—	521
Total	<u>232,703</u>	<u>254,314</u>	<u>309,533</u>	<u>5,038</u>	<u>(345,657)</u>	<u>455,931</u>
Segment results	<u>13,272</u>	<u>5,040</u>	<u>3,697</u>	<u>(2,965)</u>	<u>2,270</u>	<u>21,314</u>
Bank interest income and unallocated other income and gains						3,940
Corporate and other unallocated expenses						(55)
Finance costs						<u>(2,666)</u>
Profit before tax						22,533
Tax						<u>(3,412)</u>
Profit for the year						<u>19,121</u>
At 31 December 2005						
Segment assets	300,763	55,870	98,287	—	—	454,920
Corporate and other unallocated assets						<u>3,111</u>
Total assets						<u>458,031</u>
Segment liabilities	84,625	49,827	34,709	—	—	169,161
Corporate and other unallocated liabilities						<u>41,979</u>
Total liabilities						<u>211,140</u>
Other segment information						
Depreciation and amortisation	10,964	395	—	2,204	—	13,563
Corporate and other unallocated amounts						<u>55</u>
						<u>13,618</u>
Capital expenditure	22,297	727	—	4,700	—	27,724
Additional warranty provision	—	6,831	—	—	—	6,831
Provision against slow-moving inventories	716	1,197	348	—	—	2,261
Impairment of trade receivables	1,385	—	—	—	—	1,385
Write-off of trade receivables	479	—	—	—	—	479
Impairment of other receivables	—	—	390	—	—	390
	<u>—</u>	<u>—</u>	<u>390</u>	<u>—</u>	<u>—</u>	<u>390</u>

	MLCC RMB'000	Mobile phones RMB'000	Mobile phone components RMB'000	Eliminations RMB'000	Total RMB'000
Year ended 31 December 2006					
Segment revenue:					
Sales to external customers	182,402	484,428	14,787	—	681,617
Intersegment sales	158,670	17,803	184,289	(360,762)	—
Other income	820	—	—	—	820
	<u>341,892</u>	<u>502,231</u>	<u>199,076</u>	<u>(360,762)</u>	<u>682,437</u>
Total	341,892	502,231	199,076	(360,762)	682,437
Segment results					
	<u>22,212</u>	<u>24,790</u>	<u>901</u>	<u>2,367</u>	50,270
Bank interest income and unallocated gains					3,228
Corporate and other unallocated expenses					(35)
Finance costs					<u>(1,779)</u>
Profit before tax					51,684
Tax					<u>(3,545)</u>
Profit for the year					<u>48,139</u>
At 31 December 2006					
Segment assets	260,497	116,662	58,923	—	436,082
Corporate and other unallocated assets					<u>2,154</u>
Total assets					<u>438,236</u>
Segment liabilities	85,755	80,556	4,551	—	170,862
Corporate and other unallocated liabilities					<u>42,250</u>
Total liabilities					<u>213,112</u>
Other segment information					
Depreciation and amortisation	12,265	607	—	—	12,872
Corporate and other unallocated amounts					<u>35</u>
					<u>12,907</u>
Capital expenditure	25,966	1,049	—	—	27,015
Additional warranty provision	—	16,650	—	—	16,650
Provision against slow-moving inventories	1,058	401	1,722	—	3,181
Impairment of trade receivables	1,575	4	—	—	1,579
Impairment of items of property, plant and equipment	242	—	—	—	242
	<u>242</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>242</u>

	MLCC <i>RMB'000</i>	Mobile phones <i>RMB'000</i>	Mobile phone components <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Nine months ended 30 September 2006					
(Unaudited)					
Segment revenue:					
Sales to external customers	136,142	358,579	12,400	—	507,121
Intersegment sales	107,656	14,958	163,543	(286,157)	—
Other income	522	—	—	—	522
	<u>244,320</u>	<u>373,537</u>	<u>175,943</u>	<u>(286,157)</u>	<u>507,643</u>
Total					
Segment results	<u>19,267</u>	<u>15,700</u>	<u>799</u>	<u>(246)</u>	35,520
Bank interest income and unallocated gains					1,832
Corporate and other unallocated expenses					(22)
Finance costs					<u>(1,138)</u>
Profit before tax					36,192
Tax					<u>(2,319)</u>
Profit for the period					<u>33,873</u>
Other segment information					
Depreciation and amortisation	9,090	519	—	—	9,609
Corporate and other unallocated amounts					<u>22</u>
					<u>9,631</u>
Capital expenditure	10,106	629	—	—	10,735
Additional warranty provision	—	11,590	—	—	11,590
Provision against slow-moving inventories	1,058	401	1,722	—	3,181
Impairment of trade receivables	1,575	4	—	—	1,579
Impairment of items of property, plant and equipment	242	—	—	—	<u>242</u>

	MLCC RMB '000	Mobile phones RMB '000	Mobile phone components* RMB '000	Eliminations RMB '000	Total RMB '000
Nine months ended 30 September 2007					
Segment revenue:					
Sales to external customers	164,346	401,256	3,289	—	568,891
Intersegment sales	155,372	9,150	23,060	(187,582)	—
Other income	818	—	—	—	818
	<u>320,536</u>	<u>410,406</u>	<u>26,349</u>	<u>(187,582)</u>	<u>569,709</u>
Total	320,536	410,406	26,349	(187,582)	569,709
Segment results	34,030	17,044	30	(434)	50,670
Bank interest income and unallocated gains					2,051
Corporate and other unallocated expenses					(4,077)
Finance costs					<u>(2,392)</u>
Profit before tax					46,252
Tax					<u>(4,146)</u>
Profit for the period					<u>42,106</u>
At 30 September 2007					
Segment assets	293,800	236,024	—	—	529,824
Corporate and other unallocated assets					<u>8,384</u>
Total assets					538,208
Segment liabilities	83,211	141,601	—	—	224,812
Corporate and other unallocated liabilities					<u>53,317</u>
Total liabilities					278,129
Other segment information					
Depreciation and amortisation	10,600	724	—	—	11,324
Corporate and other unallocated amounts					<u>10</u>
					<u>11,334</u>
Capital expenditure	17,423	8,887	—	—	26,310
Additional warranty provision	—	10,601	—	—	10,601
Provision against slow-moving inventories	339	2,424	—	—	2,763
Write-back of provision against slow-moving inventories	(3,825)	—	—	—	(3,825)
Impairment of other receivables	399	—	—	—	399
	<u>399</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>399</u>

* During the nine months ended 30 September 2007, the business segment of mobile phone components has been integrated with that of mobile phones for reasons as described in the paragraph headed "Mobile phone related business" in the section headed "Business" to the Prospectus. Accordingly, the Group's mobile phone components segment had no segment assets and liabilities as at 30 September 2007.

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments for the Relevant Periods:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Sales to external customers:					
Mainland China	538,058	349,639	536,453	411,366	419,269
Hong Kong and Macau	115,155	86,869	125,629	79,763	135,166
America and Europe	2,616	6,787	6,727	5,596	4,872
Taiwan	2,770	12,102	10,960	9,844	6,008
Japan	13	13	365	10	—
India	—	—	1,483	542	3,576
	<u>658,612</u>	<u>455,410</u>	<u>681,617</u>	<u>507,121</u>	<u>568,891</u>

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Revenue					
MLCC	115,470	151,737	182,402	136,142	164,346
Mobile phones	51,924	235,844	484,428	358,579	401,256
Mobile phone components	<u>491,218</u>	<u>67,829</u>	<u>14,787</u>	<u>12,400</u>	<u>3,289</u>
	<u>658,612</u>	<u>455,410</u>	<u>681,617</u>	<u>507,121</u>	<u>568,891</u>
Other income					
Bank interest income	442	162	730	424	376
Sale of materials	2	270	912	668	1,167
Government grants	1,000	—	—	—	—
Amortisation of deferred income <i>(Section 26)</i>	350	521	820	521	818
Rental income	389	375	504	461	426
Others	<u>—</u>	<u>15</u>	<u>837</u>	<u>95</u>	<u>82</u>
	<u>2,183</u>	<u>1,343</u>	<u>3,803</u>	<u>2,169</u>	<u>2,869</u>

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Gains					
Gain on disposal of a subsidiary <i>(Section 29)</i>	—	3,118	—	—	—
Gain on disposal of available-for- sale investments	—	—	185	185	—
Others	—	—	60	—	—
	<u>—</u>	<u>3,118</u>	<u>245</u>	<u>185</u>	<u>—</u>
	<u>2,183</u>	<u>4,461</u>	<u>4,048</u>	<u>2,354</u>	<u>2,869</u>

6. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Interest on bank loans	2,032	2,666	1,779	1,138	2,392
Less: Government grants	<u>(760)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,272</u>	<u>2,666</u>	<u>1,779</u>	<u>1,138</u>	<u>2,392</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Sections	Year ended 31 December			Nine months ended 30 September	
		2004 RMB '000	2005 RMB '000	2006 RMB '000	2006 RMB '000	2007 RMB '000
					(Unaudited)	
Cost of inventories sold		600,265	378,832	558,809	421,737	472,660
Depreciation	13/14	8,198	11,114	12,575	9,362	11,148
Amortisation of land lease prepayments	15	234	237	250	187	186
Amortisation of intangible assets	16	27	2,267	82	82	—
Research and development costs:						
Current year expenditure		2,668	12,403	10,045	4,865	8,319
Less: Government grants		—	—	(300)	—	(1,000)
		<u>2,668</u>	<u>12,403</u>	<u>9,745</u>	<u>4,865</u>	<u>7,319</u>
Minimum lease payments under operating lease in respect of buildings		386	576	601	449	496
Auditors' remuneration		585	90	100	90	4,320
Employee benefits expense (including directors' remuneration (Section 8)):						
Wages and salaries		13,900	23,982	32,231	24,585	34,017
Retirement benefits contributions		494	1,130	1,394	1,075	1,510
Foreign exchange differences, net		646	1,533	1,243	954	2,009
Provision against slow-moving inventories**		3,872	2,261	3,181	3,181	2,763
Write-back of provision against slow-moving inventories*		—	—	—	—	(3,825)
Impairment of trade receivables**		44	1,385	1,579	1,579	—
Write-off of trade receivables**		—	479	—	—	—
Impairment of other receivables**		—	390	—	—	399
Impairment of items of property, plant and equipment**	13	—	—	242	242	—
Loss on disposal of items of property, plant and equipment		—	—	11	11	—
Loss on disposal of investment properties		—	—	43	43	—
Product warranty provision: Additional provision	25	1,350	6,831	16,650	11,590	10,601
Loss/(gain) on disposal of available-for-sale investments		92	—	(185)	(185)	—
Rental income		(389)	(375)	(504)	(461)	(426)
Bank interest income		(442)	(162)	(730)	(424)	(376)
Gain on disposal of a subsidiary	29	—	(3,118)	—	—	—

* The write-back of provision against slow-moving inventories was due to the sales of slow-moving inventories during the nine months ended 30 September 2007.

** The provision against slow-moving inventories, impairment of trade receivables, write-off of trade receivables, impairment of other receivables and impairment of items of property, plant and equipment are included in "Other expenses" on the face of the combined income statements.

8. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	860	963	972	647	738
Retirement benefits contributions	24	24	27	24	24
	884	987	999	671	762
	884	987	999	671	762

(a) Independent non-executive directors

Mr. Liu Huanbin, Mr. Pan Wei and Mr. Peleus Chu were appointed as the independent non-executive directors of the Company on 7 March 2007.

There were no fees or other emoluments payable to independent non-executive directors during the Relevant Periods.

(b) Executive and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Retirement benefits contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2004				
Executive directors:				
Mr. Chen Weirong	—	462	8	470
Mr. Liao Jie	—	194	8	202
Ms. Shuang Mei	—	204	8	212
		860	24	884
Non-executive directors:				
Mr. Cheng Wusheng	—	—	—	—
Mr. Zhang Zhilin	—	—	—	—
Mr. Chen Hao	—	—	—	—
Mr. Li Heqiu	—	—	—	—
	—	—	—	—

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Retirement benefits contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Year ended 31 December 2005				
Executive directors:				
Mr. Chen Weirong	—	463	8	471
Mr. Liao Jie	—	194	8	202
Ms. Shuang Mei	—	306	8	314
	<u>—</u>	<u>963</u>	<u>24</u>	<u>987</u>
Non-executive directors:				
Mr. Cheng Wusheng	—	—	—	—
Mr. Zhang Zhilin	—	—	—	—
Mr. Chen Hao	—	—	—	—
Mr. Li Heqiu	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended 31 December 2006				
Executive directors:				
Mr. Chen Weirong	—	464	9	473
Mr. Liao Jie	—	205	9	214
Ms. Shuang Mei	—	303	9	312
	<u>—</u>	<u>972</u>	<u>27</u>	<u>999</u>
Non-executive directors:				
Mr. Cheng Wusheng	—	—	—	—
Mr. Zhang Zhilin	—	—	—	—
Mr. Chen Hao	—	—	—	—
Mr. Li Heqiu	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Retirement benefits contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Nine months ended				
30 September 2006 (Unaudited)				
Executive directors:				
Mr. Chen Weirong	—	309	8	317
Mr. Liao Jie	—	136	8	144
Ms. Shuang Mei	—	202	8	210
	<u>—</u>	<u>647</u>	<u>24</u>	<u>671</u>
Non-executive directors:				
Mr. Cheng Wusheng	—	—	—	—
Mr. Zhang Zhilin	—	—	—	—
Mr. Chen Hao	—	—	—	—
Mr. Li Heqiu	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Nine months ended 30 September 2007				
Executive directors:				
Mr. Chen Weirong	—	347	8	355
Mr. Liao Jie	—	164	8	172
Ms. Shuang Mei	—	227	8	235
	<u>—</u>	<u>738</u>	<u>24</u>	<u>762</u>
Non-executive directors:				
Mr. Cheng Wusheng	—	—	—	—
Mr. Zhang Zhilin	—	—	—	—
Mr. Chen Hao	—	—	—	—
Mr. Li Heqiu	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Relevant Periods are analysed as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
				<i>(Unaudited)</i>	
Directors	3	3	3	3	3
Non-director, highest paid employees	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

Details of the remuneration of the above non-director, highest paid employees during the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Salaries, allowances and benefits in kind	405	428	430	285	324
Retirement benefits contributions	<u>16</u>	<u>17</u>	<u>19</u>	<u>16</u>	<u>16</u>
	<u>421</u>	<u>445</u>	<u>449</u>	<u>301</u>	<u>340</u>

The number of these non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
				<i>(Unaudited)</i>	
Nil to RMB1,000,000	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

During the Relevant Periods, no remuneration was paid by the Group to the Directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons, who were Directors, waived or agreed to waive any emoluments during the Relevant Periods.

10. TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

SZ Eyang and SZ Eycom are located in the Shenzhen Special Economic Zone and are therefore subject to an income tax rate of 15%. In accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises, SZ Eyang and SZ Eycom were exempted from corporate income tax ("CIT") for two years commencing from its first year with assessable profits after deducting the tax losses brought forward, and was entitled to a 50% tax exemption for the next three years.

The year ended 31 December 2003 was SZ Eyang's first profit-making year and was the first year of its tax holiday. Accordingly, SZ Eyang was exempted from CIT for the year ended 31 December 2004 and it was subject to CIT at a rate of 7.5% for the two years ended 31 December 2005, 2006 and the year ending 31 December 2007.

The year ended 31 December 2006 was SZ Eycom's first profit-making year and was the first year of its tax holiday. Accordingly, SZ Eycom was exempted from CIT for the year ended 31 December 2006 and the year ending 31 December 2007.

The branch of SZ Eyang is located in Dongguan and is subject to CIT at a rate of 33% on its assessable profits for the Relevant Periods.

In accordance with the applicable corporate income tax law of the PRC, DG Eyang is subject to CIT at a rate of 33%.

The major components of the income tax expense for the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group:					
Current — PRC Charge for the year	859	3,535	4,614	3,179	3,842
Deferred (<i>Section 18</i>)	<u>(355)</u>	<u>(123)</u>	<u>(1,069)</u>	<u>(860)</u>	<u>304</u>
Total tax charge for the year/period	<u>504</u>	<u>3,412</u>	<u>3,545</u>	<u>2,319</u>	<u>4,146</u>

(Unaudited)

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate of the PRC to the income tax expense at the Group's effective tax rate for each of the Relevant Periods is as follows:

	Year ended 31 December						Nine months ended 30 September					
	2004		2005		2006		2006		2007			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%		
Profit before tax	<u>28,998</u>		<u>22,533</u>		<u>51,684</u>		<u>36,192</u>		<u>46,252</u>			
Tax at the statutory tax rate	9,569	33	7,436	33	17,056	33	11,944	33	15,263	33		
Tax effect of:												
Lower tax rates for specific districts	(6,550)	(22)	(4,547)	(20)	(10,389)	(20)	(9,064)	(25)	(8,417)	(18)		
Tax incentives	(6,287)	(22)	(1,847)	(8)	(6,980)	(13)	(5,632)	(16)	(5,177)	(11)		
Income not subject to tax	(203)	(1)	(78)	—	(123)	—	(78)	—	(123)	—		
Expenses not deductible for tax	836	3	1,743	7	737	1	131	—	1,496	3		
Adjustments in respect of current tax	3,040	10	1,129	5	3,801	7	3,751	10	—	—		
Tax losses utilised from previous periods	—	—	(927)	(4)	(6)	—	(6)	—	—	—		
Tax losses not recognised	530	2	586	2	—	—	—	—	—	—		
Others	<u>(431)</u>	<u>(1)</u>	<u>(83)</u>	<u>—</u>	<u>(551)</u>	<u>(1)</u>	<u>1,273</u>	<u>4</u>	<u>1,104</u>	<u>2</u>		
Income tax expense reported in the combined income statements at the Group's effective tax rate	<u>504</u>	<u>2</u>	<u>3,412</u>	<u>15</u>	<u>3,545</u>	<u>7</u>	<u>2,319</u>	<u>6</u>	<u>4,146</u>	<u>9</u>		

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

11. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends paid or declared by SZ Eyang to its then equity holders during the Relevant Periods were as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
SZ Eyang	—	—	70,160	—	4,500

The dividends for the year ended 31 December 2006 and the nine months ended 30 September 2007 were approved and declared by the equity holders of SZ Eyang on 16 July 2006 and 30 April 2007, respectively and were settled in July 2006 and November 2007, respectively.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the Relevant Periods is based on the profit attributable to equity holders of the Company for the Relevant Periods and on the assumption that 300,000,000 shares of HK\$0.01 each issued as a result of the Reorganisation had been in issue throughout the Relevant Periods. Further details of the Reorganisation are described in the paragraph headed "Corporate Reorganisation" in Appendix VI "Statutory and General Information" to the Prospectus.

There were no potential dilutive ordinary shares in existence during the Relevant Periods and, therefore, no diluted earnings per share amounts have been presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2004						
At 1 January 2004:						
Cost	27,432	55,953	1,503	483	14,694	100,065
Accumulated depreciation	<u>(1,198)</u>	<u>(7,383)</u>	<u>(352)</u>	<u>(65)</u>	<u>—</u>	<u>(8,998)</u>
Net carrying amount	<u>26,234</u>	<u>48,570</u>	<u>1,151</u>	<u>418</u>	<u>14,694</u>	<u>91,067</u>
At 1 January 2004, net of accumulated depreciation						
Cost	26,234	48,570	1,151	418	14,694	91,067
Additions	1,635	11,874	2,275	—	21,045	36,829
Depreciation provided during the year	(594)	(7,038)	(454)	(89)	—	(8,175)
Transfer to investment properties (<i>Section 14</i>)	(2,085)	—	—	—	—	(2,085)
Transfers	<u>2,294</u>	<u>25,392</u>	<u>1,011</u>	<u>—</u>	<u>(28,697)</u>	<u>—</u>
At 31 December 2004, net of accumulated depreciation						
	<u>27,484</u>	<u>78,798</u>	<u>3,983</u>	<u>329</u>	<u>7,042</u>	<u>117,636</u>
At 31 December 2004:						
Cost	29,194	93,219	4,789	483	7,042	134,727
Accumulated depreciation	<u>(1,710)</u>	<u>(14,421)</u>	<u>(806)</u>	<u>(154)</u>	<u>—</u>	<u>(17,091)</u>
Net carrying amount	<u>27,484</u>	<u>78,798</u>	<u>3,983</u>	<u>329</u>	<u>7,042</u>	<u>117,636</u>
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost	29,194	93,219	4,789	483	7,042	134,727
Accumulated depreciation	<u>(1,710)</u>	<u>(14,421)</u>	<u>(806)</u>	<u>(154)</u>	<u>—</u>	<u>(17,091)</u>
Net carrying amount	<u>27,484</u>	<u>78,798</u>	<u>3,983</u>	<u>329</u>	<u>7,042</u>	<u>117,636</u>

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2005, net of accumulated depreciation	27,484	78,798	3,983	329	7,042	117,636
Additions	921	8,813	2,876	678	8,669	21,957
Disposal of a subsidiary (Section 29)	—	—	(375)	—	—	(375)
Depreciation provided during the year	(660)	(9,324)	(984)	(91)	—	(11,059)
Transfers	5,679	9,227	167	100	(15,173)	—
	<u>33,424</u>	<u>87,514</u>	<u>5,667</u>	<u>1,016</u>	<u>538</u>	<u>128,159</u>
At 31 December 2005, net of accumulated depreciation	<u>33,424</u>	<u>87,514</u>	<u>5,667</u>	<u>1,016</u>	<u>538</u>	<u>128,159</u>
At 31 December 2005:						
Cost	35,794	111,259	7,410	1,261	538	156,262
Accumulated depreciation	(2,370)	(23,745)	(1,743)	(245)	—	(28,103)
	<u>33,424</u>	<u>87,514</u>	<u>5,667</u>	<u>1,016</u>	<u>538</u>	<u>128,159</u>
Net carrying amount	<u>33,424</u>	<u>87,514</u>	<u>5,667</u>	<u>1,016</u>	<u>538</u>	<u>128,159</u>
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	35,794	111,259	7,410	1,261	538	156,262
Accumulated depreciation	(2,370)	(23,745)	(1,743)	(245)	—	(28,103)
	<u>33,424</u>	<u>87,514</u>	<u>5,667</u>	<u>1,016</u>	<u>538</u>	<u>128,159</u>
Net carrying amount	<u>33,424</u>	<u>87,514</u>	<u>5,667</u>	<u>1,016</u>	<u>538</u>	<u>128,159</u>
At 1 January 2006, net of accumulated depreciation	33,424	87,514	5,667	1,016	538	128,159
Additions	997	13,824	4,031	—	8,163	27,015
Disposals	—	(1)	(99)	—	—	(100)
Impairment during the year	—	(242)	—	—	—	(242)
Depreciation provided during the year	(930)	(9,824)	(1,479)	(307)	—	(12,540)
Transfer from investment properties (Section 14)	129	—	—	—	—	129
Transfers	247	118	—	—	(365)	—
	<u>33,867</u>	<u>91,389</u>	<u>8,120</u>	<u>709</u>	<u>8,336</u>	<u>142,421</u>
At 31 December 2006, net of accumulated depreciation and impairment	<u>33,867</u>	<u>91,389</u>	<u>8,120</u>	<u>709</u>	<u>8,336</u>	<u>142,421</u>
At 31 December 2006:						
Cost	37,180	125,200	11,338	1,261	8,336	183,315
Accumulated depreciation and impairment	(3,313)	(33,811)	(3,218)	(552)	—	(40,894)
	<u>33,867</u>	<u>91,389</u>	<u>8,120</u>	<u>709</u>	<u>8,336</u>	<u>142,421</u>
Net carrying amount	<u>33,867</u>	<u>91,389</u>	<u>8,120</u>	<u>709</u>	<u>8,336</u>	<u>142,421</u>

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office and other equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
30 September 2007						
At 31 December 2006 and at 1 January 2007:						
Cost	37,180	125,200	11,338	1,261	8,336	183,315
Accumulated depreciation and impairment	(3,313)	(33,811)	(3,218)	(552)	—	(40,894)
Net carrying amount	<u>33,867</u>	<u>91,389</u>	<u>8,120</u>	<u>709</u>	<u>8,336</u>	<u>142,421</u>
At 1 January 2007, net of accumulated depreciation and impairment	33,867	91,389	8,120	709	8,336	142,421
Additions	—	13,065	2,454	133	10,658	26,310
Depreciation provided during the period	(629)	(8,777)	(1,557)	(175)	—	(11,138)
Transfers	—	—	135	—	(135)	—
At 30 September 2007, net of accumulated depreciation and impairment	<u>33,238</u>	<u>95,677</u>	<u>9,152</u>	<u>667</u>	<u>18,859</u>	<u>157,593</u>
At 30 September 2007:						
Cost	37,180	138,265	13,927	1,394	18,859	209,625
Accumulated depreciation and impairment	(3,942)	(42,588)	(4,775)	(727)	—	(52,032)
Net carrying amount	<u>33,238</u>	<u>95,677</u>	<u>9,152</u>	<u>667</u>	<u>18,859</u>	<u>157,593</u>

The Group's buildings are held under medium term leases in Mainland China.

Details of the Group's property, plant and equipment pledged to secure the Group's bank loans are set out in Section 27.

Certificates of ownership in respect of certain buildings of the Group located in Dongguan with a net carrying amount of approximately RMB4,789,000, RMB11,208,000, RMB10,854,000 and RMB10,659,000 as at 31 December 2004, 2005, 2006 and 30 September 2007, respectively, have not yet been issued by the relevant PRC authorities. The Directors are in process of obtaining these certificates.

14. INVESTMENT PROPERTIES

	31 December		30 September	
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Cost at 1 January, net of accumulated depreciation	—	2,062	2,508	482
Transfer from/(to) property, plant and equipment (<i>Section 13</i>)	2,085	—	(129)	—
Transfer from land lease prepayments (<i>Section 15</i>)	—	501	—	153
Disposals	—	—	(1,862)	—
Depreciation provided during the year/period	(23)	(55)	(35)	(10)
At 31 December/30 September	<u>2,062</u>	<u>2,508</u>	<u>482</u>	<u>625</u>
At 31 December/30 September:				
Cost	2,167	2,698	530	683
Accumulated depreciation	(105)	(190)	(48)	(58)
Net carrying amount	<u>2,062</u>	<u>2,508</u>	<u>482</u>	<u>625</u>

Details of the Group's investment properties pledged to secure the Group's bank loans are set out in Section 27.

The Group's investment properties are held under medium term leases and are situated in Mainland China.

At 30 September 2007, the fair value of the Group's investment properties was approximately RMB1,320,000, which was based on the valuation by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, on an open market, existing use basis.

15. LAND LEASE PREPAYMENTS

	31 December			30 September
	2004	2005	2006	2007
	RMB '000	RMB '000	RMB '000	RMB '000
Carrying amount at 1 January	10,970	10,736	11,458	11,208
Additions	—	1,460	—	—
Transfer to investment properties (Section 14)	—	(501)	—	(153)
Amortisation provided during the year/period	<u>(234)</u>	<u>(237)</u>	<u>(250)</u>	<u>(186)</u>
Carrying amount at 31 December/ 30 September	10,736	11,458	11,208	10,869
Current portion included in prepayments, deposits and other receivables	<u>(231)</u>	<u>(250)</u>	<u>(250)</u>	<u>(246)</u>
Non-current portion	<u>10,505</u>	<u>11,208</u>	<u>10,958</u>	<u>10,623</u>

Details of the Group's land use rights pledged to secure the Group's bank loans are set out in Section 27.

The Group's leasehold land is held under a medium term lease and is situated in Mainland China.

16. INTANGIBLE ASSETS

Computer software

	31 December			30 September
	2004	2005	2006	2007
	RMB '000	RMB '000	RMB '000	RMB '000
Cost at 1 January, net of accumulated amortisation	—	191	82	—
Additions	218	4,307	—	—
Amortisation provided during the year	(27)	(2,267)	(82)	—
Disposal of a subsidiary (Section 29)	<u>—</u>	<u>(2,149)</u>	<u>—</u>	<u>—</u>
At 31 December/30 September	<u>191</u>	<u>82</u>	<u>—</u>	<u>—</u>
At 31 December/30 September:				
Cost	218	218	218	—
Accumulated amortisation	<u>(27)</u>	<u>(136)</u>	<u>(218)</u>	<u>—</u>
Net carrying amount	<u>191</u>	<u>82</u>	<u>—</u>	<u>—</u>

17. AVAILABLE-FOR-SALE INVESTMENTS

	31 December			30 September
	2004	2005	2006	2007
	RMB '000	RMB '000	RMB '000	RMB '000
Unlisted equity investments, at cost	<u>1,870</u>	<u>1,870</u>	<u>—</u>	<u>—</u>

18. DEFERRED TAX ASSETS

The movements in deferred tax assets of the Group during the Relevant Periods are as follows:

	Pre-operating expenses	Amortisation of computer software in excess of tax allowed depreciation	Provision against slow-moving inventories	Impairment of trade and other receivables	Impairment of items of property, plant and equipment	Warranty provision	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
At 1 January 2004	100	25	—	—	—	—	125
Credited/(debited) to the combined income statements (Section 10)	(30)	—	385	—	—	—	355
At 31 December 2004 and 1 January 2005	70	25	385	—	—	—	480
Credited/(debited) to the combined income statements (Section 10)	(47)	(2)	75	97	—	—	123
At 31 December 2005 and 1 January 2006	23	23	460	97	—	—	603
Credited/(debited) to the combined income statements (Section 10)	(23)	(2)	225	118	69	682	1,069
At 31 December 2006 and January 2007	—	21	685	215	69	682	1,672
Credited/(debited) to the combined income statements (Section 10)	—	(1)	(287)	30	—	(46)	(304)
At 30 September 2007	<u>—</u>	<u>20</u>	<u>398</u>	<u>245</u>	<u>69</u>	<u>636</u>	<u>1,368</u>

The Group has tax losses of approximately RMB3,531,000 and RMB3,910,000 for the two years ended 31 December 2004 and 2005, respectively, that are available for offsetting against future taxable profits in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and there is insufficient convincing evidence that sufficient taxable profits will be available to allow the utilisation of the carryforward of tax losses.

19. INVENTORIES

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	25,625	41,411	61,731	78,200
Work in progress	10,436	8,973	9,922	10,725
Finished goods	<u>35,702</u>	<u>44,371</u>	<u>28,556</u>	<u>17,905</u>
	71,763	94,755	100,209	106,830
Less: Provision against slow-moving inventories	<u>(3,872)</u>	<u>(6,133)</u>	<u>(9,314)</u>	<u>(8,252)</u>
	<u>67,891</u>	<u>88,622</u>	<u>90,895</u>	<u>98,578</u>

20. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its MLCC customers are mainly on credit. The credit period is generally for two to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise its credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

At 31 December 2004, 2005, 2006 and 30 September 2007, an aged analysis of the trade receivables, based on the invoice date, is as follows:

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	42,224	45,215	34,985	106,288
91 to 180 days	8,003	10,492	7,059	11,919
181 to 360 days	2	576	1,694	105
1 to 2 years	—	—	1,624	1,776
2 to 3 years	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,442</u>
	50,229	56,283	45,362	121,530
Less: Impairment of trade receivables	<u>(181)</u>	<u>(1,566)</u>	<u>(3,145)</u>	<u>(3,145)</u>
	50,048	54,717	42,217	118,385
Bills receivable	<u>3,088</u>	<u>12,966</u>	<u>10,426</u>	<u>33,630</u>
	<u>53,136</u>	<u>67,683</u>	<u>52,643</u>	<u>152,015</u>

The carrying amounts of the trade and bills receivables approximate to their fair values.

The bills receivable are all mature within 180 days.

Movements in the provision for impairment of trade receivables as at 31 December 2004, 2005, 2006 and 30 September 2007 is as follows:

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	137	181	1,566	3,145
Charge for the year/period	<u>44</u>	<u>1,385</u>	<u>1,579</u>	<u>—</u>
At 31 December/30 September	<u><u>181</u></u>	<u><u>1,566</u></u>	<u><u>3,145</u></u>	<u><u>3,145</u></u>

At 31 December 2004, 2005, 2006 and 30 September 2007, the analysis of trade receivables that were past due but not impaired is as follow:

	Total	Neither past due nor impaired	Past due but not impaired			1 to 2 years
			< 90 days	91 to 180 days	181 to 360 days	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2004	50,048	42,303	—	7,743	2	—
31 December 2005	54,717	43,131	1,741	9,269	576	—
31 December 2006	42,217	28,083	6,898	7,059	119	58
30 September 2007	<u><u>118,385</u></u>	<u><u>103,620</u></u>	<u><u>14,592</u></u>	<u><u>101</u></u>	<u><u>27</u></u>	<u><u>45</u></u>

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers. These customers who trade on credit terms are subject to credit verification procedures.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	3,417	7,535	4,836	9,870
Deposits and other receivables	<u>3,665</u>	<u>8,554</u>	<u>3,359</u>	<u>17,049</u>
	<u><u>7,082</u></u>	<u><u>16,089</u></u>	<u><u>8,195</u></u>	<u><u>26,919</u></u>

22. CASH AND BANK BALANCES, RESTRICTED BANK DEPOSITS AND PLEDGED BANK DEPOSITS

Group

	Notes	31 December			30 September
		2004	2005	2006	2007
		RMB '000	RMB '000	RMB '000	RMB '000
Cash and bank balances		31,413	50,825	97,875	37,483
Restricted bank deposits	(a)	11,233	18,146	29,165	17,004
Pledged bank deposits		—	—	—	36,000
		<u>42,646</u>	<u>68,971</u>	<u>127,040</u>	<u>90,487</u>
Less: Restricted and pledged bank deposits:					
Restricted bank deposits with original maturity of over three months when acquired		(146)	(1,738)	(1,910)	(8,483)
Pledged for bank loans (Section 27(d))		—	—	—	(36,000)
Cash and cash equivalents	(b)	<u>42,500</u>	<u>67,233</u>	<u>125,130</u>	<u>46,004</u>

Company

	30 September 2007 RMB '000
Cash and bank balances	<u>50</u>

Notes:

- (a) The Group's restricted bank deposits were pledged as security for issuing bank acceptance notes and letters of credit to the suppliers.
- (b) At 31 December 2004, 2005, 2006 and 30 September 2007, the Group's cash and cash equivalents denominated in RMB amounted to RMB26,556,000, RMB54,435,000, RMB83,349,000 and RMB30,871,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amount of the cash and cash equivalents approximate to its fair value.

23. TRADE AND BILLS PAYABLES

At 31 December 2004, 2005, 2006 and 30 September 2007, an aged analysis of the trade and bills payables, based on the invoice date, is as follows:

	31 December			30 September
	2004	2005	2006	2007
	RMB '000	RMB '000	RMB '000	RMB '000
Within 90 days	74,583	85,839	93,340	134,092
91 to 180 days	1,997	5,880	4,294	2,679
181 to 360 days	1,008	2,334	2,182	4,892
1 to 2 years	<u>186</u>	<u>688</u>	<u>772</u>	<u>816</u>
	77,774	94,741	100,588	142,479
Bills payable	<u>1,275</u>	<u>9,949</u>	<u>14,000</u>	<u>10,000</u>
	<u><u>79,049</u></u>	<u><u>104,690</u></u>	<u><u>114,588</u></u>	<u><u>152,479</u></u>

The trade payables are non-interest-bearing and are normally settled on 30 to 90-day terms. The carrying amounts of the trade and bills payables approximate to their fair values.

The bills payable are all mature within 180 days.

24. DEFERRED INCOME, ACCRUALS AND OTHER PAYABLES

	31 December			30 September
	2004	2005	2006	2007
	RMB '000	RMB '000	RMB '000	RMB '000
Deferred income (<i>Section 26</i>)	500	752	1,048	1,197
Accruals	1,514	3,263	3,643	5,748
Other payables	<u>32,331</u>	<u>43,867</u>	<u>32,917</u>	<u>38,920</u>
	<u><u>34,345</u></u>	<u><u>47,882</u></u>	<u><u>37,608</u></u>	<u><u>45,865</u></u>

25. PROVISIONS

	31 December			30 September
	2004	2005	2006	2007
	RMB '000	RMB '000	RMB '000	RMB '000
At 1 January	—	1,350	2,584	9,087
Additional provision	1,350	6,831	16,650	10,601
Amounts utilised during the year/period	<u>—</u>	<u>(5,597)</u>	<u>(10,147)</u>	<u>(11,290)</u>
At 31 December/30 September	<u><u>1,350</u></u>	<u><u>2,584</u></u>	<u><u>9,087</u></u>	<u><u>8,398</u></u>

The Group provides one-year warranty on the mobile phones sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

26. DEFERRED INCOME

Government grants

	31 December			30 September
	2004	2005	2006	2007
	RMB '000	RMB '000	RMB '000	RMB '000
Carrying amount at 1 January	4,000	4,650	6,648	8,794
Granted during the year/period	1,000	2,519	2,966	1,485
Amortised as income during the year/period (<i>Section 5</i>)	<u>(350)</u>	<u>(521)</u>	<u>(820)</u>	<u>(818)</u>
Carrying amount at 31 December/ 30 September	4,650	6,648	8,794	9,461
Current portion included in deferred income, accruals and other payables (<i>Section 24</i>)	<u>(500)</u>	<u>(752)</u>	<u>(1,048)</u>	<u>(1,197)</u>
Non-current portion	<u><u>4,150</u></u>	<u><u>5,896</u></u>	<u><u>7,746</u></u>	<u><u>8,264</u></u>

The government grants have been received from various government authorities specifically for the purchases of qualified plant and equipment in respect of the production of MLCC. The fair value of the government grant is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments. Except for the condition that the government grants must be specifically used for the purchases of qualified plant and equipment in respect of the production of MLCC, there are no other conditions relating to these grants.

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The government grants relate to assets and the fair value of the government grants are credited to the deferred income account and are released to the income statement over the expected useful life of the relevant assets by equal annual installments.

27. BANK LOANS

	Effective floating interest rate	Maturity	31 December		30 September		
			2004	2005	2006	2007	
			RMB'000	RMB'000	RMB'000	RMB'000	
Current							
Bank loans — secured	3.5%–6.73%	2005–2008	10,000	8,000	33,000	50,000	
Current portion of long term bank loans — secured	3.5%–5.49%	2006–2008	—	26,504	1,586	974	
			<u>10,000</u>	<u>34,504</u>	<u>34,586</u>	<u>50,974</u>	
Non-current							
Long term bank loans — secured	3.5%–5.49%	2006–2008	25,000	2,037	514	—	
			<u>35,000</u>	<u>36,541</u>	<u>35,100</u>	<u>50,974</u>	
Analysed into:							
Bank loans repayable:							
Within one year			10,000	34,504	34,586	50,974	
In the second year			25,000	1,504	514	—	
In the third year			—	533	—	—	
			<u>35,000</u>	<u>36,541</u>	<u>35,100</u>	<u>50,974</u>	

The Group's bank loans are secured by:

- a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB51,266,000, RMB59,996,000, RMB55,222,000 and RMB51,179,000 as at 31 December 2004, 2005, 2006 and 30 September 2007, respectively;
- a charge over certain investment properties of the Group with a net carrying amount of approximately RMB132,000 and RMB130,000 as at 31 December 2004 and 2005, respectively;
- a charge over certain land use rights of the Group with a net carrying amount of approximately RMB536,000, RMB523,000, RMB511,000 and RMB1,393,000 as at 31 December 2004, 2005, 2006 and 30 September 2007, respectively; and
- the pledge of certain of the Group's bank deposits amounting to RMB36,000,000 as at 30 September 2007.

In addition, Mr. Chen had guaranteed the Group's bank loans up to the limit of RMB95,000,000, RMB100,000,000, RMB80,000,000 and RMB100,000,000 as at 31 December 2004, 2005, 2006 and 30 September 2007, respectively.

The Directors confirm that all the guarantees provided to the Group by Mr. Chen were released in October and November 2007.

The Group has the following undrawn banking facilities:

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Floating rate				
— expiring within one year	<u>60,000</u>	<u>67,000</u>	<u>47,000</u>	<u>50,000</u>

Except for the secured bank loan of approximately nil, RMB3,541,000, RMB2,100,000 and RMB974,000 as at 31 December 2004, 2005, 2006 and 30 September 2007, respectively, which is denominated in Hong Kong dollars, the remaining secured bank loans are denominated in RMB.

The carrying amounts of the Group's bank loans approximate to their fair values.

28. PAID-IN CAPITAL/ISSUED SHARE CAPITAL

Group

The paid-in capital/issued share capital at 31 December 2004 and 2005 represent the amount of the nominal value of the paid-in capital of SZ Eyang, the paid-in capital/issued share capital at 31 December 2006 represents the sum of the paid-in capital of SZ Eyang and the issued capital of Eyang Management; and the paid-in capital/issued share capital at 30 September 2007 represents the sum of the paid-in capital of SZ Eyang and the issued capital of Eyang Management and the Company.

Company

The Company was incorporated in the Cayman Islands on 8 March 2007 with an authorised and issued share capital of HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each.

29. DISPOSAL OF A SUBSIDIARY

Shenzhen Lingying Software Technology Co., Ltd. (“SZ Lingying”) (深圳市凌鷹軟件技術有限公司), a subsidiary of the Group, was disposed to Ms. Li Chunmei, an independent third party, on 15 December 2005 for reasons as described in the section headed “Business” to the Prospectus and in the opinion of the Directors, SZ Lingying does not competes with the business of the Group after disposal.

	<i>Sections</i>	<i>RMB'000</i>
Net liabilities disposed of:		
Property, plant and equipment	13	375
Intangible assets	16	2,149
Cash and bank balances		207
Trade receivables		5,661
Prepayments and other receivables		405
Accruals and other payables		<u>(11,015)</u>
		(2,218)
Gain on disposal of a subsidiary	5,7	<u>3,118</u>
		<u>900</u>
Satisfied by:		
Cash		<u>900</u>
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:		
Cash and bank balances disposed of for the year ended		
31 December 2005		(207)
Cash consideration received for the year ended		
31 December 2006		<u>900</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary		<u>693</u>

30. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (Section 14) under operating lease arrangements, with leases negotiated for terms ranging from two to ten years.

As at 31 December 2004, 2005, 2006 and 30 September 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Within one year	190	198	101	157
In the second to fifth years, inclusive	97	403	403	630
After five years	—	463	362	527
	<u>287</u>	<u>1,064</u>	<u>866</u>	<u>1,314</u>

(b) As lessee

The Group leases certain of its factory and office premises under operating lease arrangements. Leases for properties are negotiated for terms of two years.

At 31 December 2004, 2005, 2006 and 30 September 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Within one year	576	300	662	475
In the second to fifth years, inclusive	<u>230</u>	<u>—</u>	<u>283</u>	<u>—</u>
	<u>806</u>	<u>300</u>	<u>945</u>	<u>475</u>

31. COMMITMENTS

In addition to the operating lease commitments as set out in Section 30(b) above, the Group had the following capital commitments as at 31 December 2004, 2005, 2006 and 30 September 2007:

	31 December			30 September
	2004	2005	2006	2007
	RMB '000	RMB '000	RMB '000	RMB '000
Contracted, but not provided for:				
Buildings	—	272	8,280	1,698
Plant and machinery	—	4,304	6,393	11,542
	<u>—</u>	<u>4,576</u>	<u>14,673</u>	<u>13,240</u>

32. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities as at 31 December 2004, 2005, 2006 and 30 September 2007.

33. RELATED PARTY TRANSACTIONS AND BALANCES

The Group had the following transactions and balances with related parties during the Relevant Periods:

(1) Recurring transactions

Name of parties	Nature of transactions	Year ended 31 December			Nine months ended 30 September	
		2004	2005	2006	2006	2007
		RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
					<i>(Unaudited)</i>	
Dongguan Guangtong Enterprise Co., Ltd. ("DG Guangtong") (東莞市光通實業有限公司) (i)	Purchases of mobile phone components from DG Guangtong (a)	—	—	16,411	4,167	12,546
	Rental income received from DG Guangtong (b)	—	5	65	49	45
		<u>—</u>	<u>5</u>	<u>65</u>	<u>49</u>	<u>45</u>
Dongguan Deyang Industrial Co., Ltd. ("DG Deyang") (東莞市德陽實業有限公司) (ii)	Purchases of mobile phone components from DG Deyang (a)	—	—	57	—	620
	Rental income received from DG Deyang (b)	—	36	36	27	27
		<u>—</u>	<u>36</u>	<u>36</u>	<u>27</u>	<u>27</u>

Notes:

- (i) The shareholders of DG Guangtong are the brother and sisters of Mr. Chen Weirong, a director of the Company.
- (ii) The shareholders of DG Deyang are the brothers of Ms. Luo Zhanli, a shareholder of Shenzhen Yinrun Industrial Development Co., Ltd. ("SZ Yinrun") (深圳市銀潤實業發展有限公司) which was a shareholder of SZ Eyang.
- (a) The purchase prices for mobile phone components were mutually agreed between the Group and the related parties.
- (b) The tenancy agreements entered into between the Group and the related parties were based on mutually agreed terms.

In the opinion of the Directors, the above transactions were carried out in the ordinary course of business of the Group and will continue after the listing of the Company's shares on the Stock Exchange.

(2) Non-recurring transactions

Name of parties	Nature of transactions	Year ended 31 December			Nine months ended 30 September	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000 (Unaudited)	2007 RMB'000
Shenzhen Weike Communication Technology Co., Ltd. ("SZ Weike") (深圳市維科通信科技有限公司) (i)	Sale of mobile phone components to SZ Weike (a)	85,217	1,303	8	—	—
	Purchases of mobile phone components from SZ Weike (a)	19	102	247	241	—
Dongguan Ritong Industrial Co., Ltd. ("DG Ritong") (東莞市日通實業有限公司) (ii)	Sale of mobile phone components to DG Ritong (a)	45,414	7,509	—	—	—
	Purchases of mobile phone components from DG Ritong (a)	—	4,136	—	—	—
	Rental income received from DG Ritong (b)	3	10	10	10	—
Shenzhen Jingwei Technology Co., Ltd. ("SZ Jingwei") (深圳市經緯科技有限公司) (iii)	Sale of mobile phone components to SZ Jingwei (a)	4,187	123	—	—	—
	Purchases of mobile phone components from SZ Jingwei (a)	1,494	513	—	—	—

Name of parties	Nature of transactions	Year ended 31 December			Nine months ended 30 September	
		2004	2005	2006	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Cheng Wusheng (iv)	Sales commission paid to Mr. Cheng Wusheng (c)	410	1,112	622	457	—
Heyuan Yitong Technology Co., Ltd. (“HY Yitong”) (河源市億通科技有限公司) (v)	Sub-contracting fee paid to HY Yitong (d)	—	—	747	—	684

Notes:

- (i) The two shareholders of SZ Weike were SZ Eyang and Mr. Luo Chaoen, a shareholder of SZ Eyang.
- (ii) The beneficial owners of DG Ritong were Mr. Liao Jie and Ms. Shuang Mei, the Company's executive directors.
- (iii) The two shareholders of SZ Jingwei were SZ Eyang and SZ Yinrun.
- (iv) Mr. Cheng Wusheng was a director of SZ Eyang.
- (v) In the opinion of the Directors, HY Yitong was significantly influenced by SZ Eyang through participation in its financial and operating policy decisions.
- (a) The prices for the sales and purchases of mobile phone components were mutually agreed between the Group and the related parties.
- (b) The tenancy agreement was entered into between the Group and the related party based on mutually agreed terms.
- (c) The sales commission was calculated based on 7% on amounts determined by the receipts of trade receivables in respect of the sales of MLCC which was mutually agreed between the Group and the related party.
- (d) The sub-contracting fee charged by the related party was based on mutually agreed terms.

In the opinion of the Directors, the above related party transactions were carried out in the ordinary course of the Group's business and will not continue after the listing of the Company's shares on the Stock Exchange.

(3) Balances with related parties

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from				
DG Ritong	1,258	—	—	—
SZ Jingwei	82	—	—	—
DG Guangtong	—	2,077	—	—
HY Yitong	—	—	379	—
	<u>1,340</u>	<u>2,077</u>	<u>379</u>	<u>—</u>
Amounts due to				
DG Ritong	—	4,387	—	—
DG Guangtong	—	—	1,809	740
DG Deyang	—	—	24	725
	<u>—</u>	<u>4,387</u>	<u>1,833</u>	<u>1,465</u>

The balances with related parties are all trade in nature, unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

The nature of the transactions with related parties is disclosed in Section 33(2) above.

(4) Amount due from a shareholder

The Group had outstanding advances receivable from shareholders as follows:

	31 December		30 September	
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shenzhen Yinrun	—	70,159	—	—
EY OCEAN Management Limited	—	—	2,784	—
	—	70,159	2,784	—

The amount due from the shareholder was non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. The carrying amount of the balance approximated to its fair value.

(5) Balance with a minority shareholder of a subsidiary

	31 December		30 September	
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due from				
Dongguan Fenggang Industrial Co., Ltd. (“DG Fenggang”) (東莞市鳳崗實業總公司)	—	—	767	—
Amount due to				
DG Fenggang	4,788	3,722	—	—

The balance with the minority shareholder of DG Eyang was non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. The carrying amount of the balance approximated to its fair value.

(6) Compensation of key management personnel of the Group

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	860	963	1,080	647	923
Retirement benefits contributions	<u>24</u>	<u>24</u>	<u>32</u>	<u>24</u>	<u>32</u>
Total compensation paid to key management personnel	<u>884</u>	<u>987</u>	<u>1,112</u>	<u>671</u>	<u>955</u>

(Unaudited)

Further details of directors' emoluments are included in Section 8 above.

34. POST BALANCE SHEET EVENTS

Pursuant to a written resolution of all shareholders of the Company passed on 30 November 2007, the Company has adopted a share option scheme, details of which have been set out in the paragraph headed "Share Option Scheme" in Appendix VI "Statutory and General Information" to the Prospectus.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The effective interest rates and terms of repayment of the bank loans of the Group are set out in Section 27 above.

A reasonably possible change of 50 basis points in interest rates would have no material impact on the Group's profit or loss during the Relevant Periods and there is no impact on the Group's equity.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchases and sales contracts. The Group takes rolling forecast on the foreign currency revenue and expenses, matches the currency and the amount incurred, so as to alleviate the impact to business due to exchange rate fluctuations.

A reasonably possible change of 5% in exchange rate between United States dollar and RMB would have no material impact on the Group's profit or loss during the Relevant Periods and there is no impact on the Group's equity.

Credit risk

The carrying amount of the trade receivables represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has a policy in place to ensure that sales are made to customers with an appropriate credit history and to closely monitor the collection of the trade receivables on an ongoing basis. The Group's exposure to bad debts is not significant.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its working capital requirements.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the three years end 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated as the sum of bank loans, trade and bills payables and other payables less cash and cash equivalents. Capital represents equity attributable to the equity holders of the Company. The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at 31 December 2004, 2005, 2006 and 30 September 2007 were as follows:

	31 December			30 September
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans	35,000	36,541	35,100	50,974
Trade and bills payables	79,049	104,690	114,588	152,479
Other payables	32,331	43,867	32,917	38,920
Less: Cash and cash equivalents	<u>(42,500)</u>	<u>(67,233)</u>	<u>(125,130)</u>	<u>(46,004)</u>
Net debt	103,880	117,865	57,475	196,369
Equity	<u>143,335</u>	<u>246,677</u>	<u>224,947</u>	<u>260,079</u>
Equity and net debt	<u><u>247,215</u></u>	<u><u>364,542</u></u>	<u><u>282,422</u></u>	<u><u>456,448</u></u>
Gearing ratio	42%	32%	20%	43%

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 September 2007.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following unaudited pro forma financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is for illustrative purpose only, and is set out herein to provide the prospective investors with further financial information about how the proposed listing might have affected (i) the net tangible assets of the Group after the completion of the Share Offer; and (ii) the forecast earnings per Share of the Group for the year ending 31 December 2007 as if the Share Offer had taken place on 1 January 2007.

The accompanying unaudited pro forma financial information of the Group is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Group does not purport to predict the Group's future financial position.

Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial position.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net tangible assets of the Group has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Share Offer as if it had taken place on 30 September 2007. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of the Group.

	Audited combined net tangible assets attributable to equity holders of the Company as at 30 September 2007	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per Share
	<i>RMB'000 (Note 1)</i>	<i>RMB'000 (Note 2)</i>	<i>RMB'000</i>	<i>RMB (Note 3)</i>	<i>(HK\$ equivalent) (Note 4)</i>
Based on an Offer Price of HK\$1.30 per Share	260,079	97,127	357,206	0.89	0.92

Notes:

1. The combined net tangible assets attributable to equity holders of the Company as at 30 September 2007 is extracted from the Accountants' Report set out in Appendix I to the Prospectus.
2. The estimated net proceeds from the Share Offer are based on the Offer Shares and the Offer Price of HK\$1.30, after deduction of the underwriting fees and related expenses payable by the Company and takes no account of any Share which may be issued upon exercise of the Over-allotment Option. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.00 to RMB0.97, the prevailing rate quoted by the People's Bank of China (the "PBOC") on 30 September 2007.
3. The unaudited pro forma adjusted net tangible assets per Share is calculated based on 400,000,000 Shares in issue immediately following the completion of the Share Offer without taking into account any Shares which may be issued upon exercise of the Over-allotment Option.
4. The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.97, the prevailing rate quoted by the PBOC on 30 September 2007.

- As at 31 October 2007, the Group's buildings, investment properties and land use rights were revalued by Savills Valuation and Professional Services Limited, an independent property valuer and the relevant property valuation report is set out in Appendix IV — Property Valuation to this Prospectus. The net revaluation surplus, representing the excess of market value of the buildings, investment properties and land use rights over their book values, is approximately RMB17.7 million. Such revaluation surplus has not been included in the Group's combined financial information as at 30 September 2007 and will not be included in the Group's combined financial information for the year ending 31 December 2007. The above adjustment does not take into account the above revaluation surplus. Had the building, investment properties and land use rights been stated at such valuation, additional depreciation of approximately RMB391,000 per annum would be charged against the combined income statement for the year ending 31 December 2007.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The unaudited pro forma forecast earnings per Share of the Group for the year ending 31 December 2007 has been prepared, on the basis of the notes set forth below, for the purpose of illustrating the effect of the Share Offer as if it had taken place on 1 January 2007. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial results of the Group.

Forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 (*Note 1*) not less than RMB68 million

Unaudited pro forma forecast earnings per Share (*Note 2*) not less than RMB0.17
(equivalent to HK\$0.175)

Notes:

- The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 is extracted from the paragraph headed "Profit Forecast" in the section headed "Financial Information". The bases and assumptions on which the above Profit Forecast for the year ending 31 December 2007 has been prepared are summarised in Appendix III to this Prospectus.
- The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 and on the assumptions that the Company had been listed since 1 January 2007, a total of 400,000,000 Shares were in issue during the year ending 31 December 2007 and the Over-allotment Option would not be exercised. The unaudited pro forma forecast earnings per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.97, the prevailing rate quoted by the PBOC on 30 September 2007.

C. LETTER FROM THE INDEPENDENT REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for inclusion in this prospectus, in respect of the Group’s unaudited pro forma financial information.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

11 December 2007

The Board of Directors
EYANG Holdings (Group) Co., Limited
CAF Securities Company Limited

Dear Sirs,

We report on the unaudited pro forma adjusted net tangible assets and unaudited pro forma forecast earnings per share (the “Unaudited Pro Forma Financial Information”) of EYANG Holdings (Group) Co., Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Share Offer of 100,000,000 shares of HK\$0.01 each of the Company might have affected the relevant financial information of the Group presented, for inclusion in sections A and B of Appendix II, respectively, to the prospectus dated 11 December 2007 (the “Prospectus”) issued by the Company.

Respective Responsibilities of the Directors of the Company and the Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial

information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 September 2007 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2007 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the bases stated;
- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of the Group's combined profit attributable to the equity holders of the Company for the year ending 31 December 2007 is set out in the paragraph headed "Profit Forecast" in the section headed "Financial Information" in this prospectus.

BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the Group's combined profit attributable to the equity holders of the Company for the year ending 31 December 2007 based on the audited combined results of the Group for the nine months ended 30 September 2007, the unaudited combined results of the Group for the month ended 31 October 2007 and a forecast of the combined results of the Group for the remaining two months ending 31 December 2007. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarised in Appendix I to this prospectus and is based on the following principal assumptions:

- (i) there will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC, Cayman Islands or any other country or territory in which the Group carries on its business or from which it imports or sources its materials;
- (ii) there will be no material changes in legislation, regulations or rules in the PRC, Cayman Islands or any other country or territory where the Group carries on its business or with which it has arrangements or agreements, which may have a material adverse effect on its business;
- (iii) there will be no material changes in the bases or rates of taxation or duties, both direct or indirect, in the PRC or any other country or territory where the Group carries on its business, except as otherwise disclosed in this prospectus;
- (iv) there will be no material changes in interest rates or foreign currency exchange rates from those prevailing as at the last audited balance sheet date; and
- (v) the Group's operations will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Group, including but not limited to the occurrence of natural disasters, epidemics or serious accidents.

(B) LETTERS

The following is the text of a letter, received from the independent reporting accountants of the Company, Ernst & Young, prepared for inclusion in this prospectus in connection with the forecast of the Group's combined profit attributable to equity holders of the Company for the year ending 31 December 2007.

The logo for Ernst & Young, featuring a stylized 'EY' symbol followed by the text 'ERNST & YOUNG' in a bold, sans-serif font.

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

11 December 2007

The Directors
EYANG Holdings (Group) Co., Limited
CAF Securities Company Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the combined profit attributable to the equity holders of EYANG Holdings (Group) Co., Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2007 (the "Profit Forecast"), for which the directors of the Company are solely responsible, as set out in the paragraph headed "Profit Forecast" in the section headed "Financial Information" in the prospectus of the Company dated 11 December 2007 (the "Prospectus").

We conducted our work in accordance with the Auditing Guideline 3.341 on "Accountants' Report on Profit Forecasts" issued by Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the directors of the Company based on the audited combined results of the Group for the nine months ended 30 September 2007, the unaudited combined results of the Group for the month ended 31 October 2007 and a forecast of the combined results of the Group for the remaining two months ending 31 December 2007.

In our opinion, the Profit Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the bases and assumptions adopted by the directors of the Company as set out in Appendix III to this Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants' Report dated 11 December 2007 in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

Letter from the Sponsor

CAF Securities Company Limited
13th Floor, Fairmont House
8 Cotton Tree Drive
Central
Hong Kong

11 December 2007

The Directors
EYANG Holdings (Group) Co., Limited

Dear Sirs,

We refer to the forecast (the “Forecast”) of the combined profit after tax but before extraordinary items of EYANG Holdings (Group) Co., Limited (the “Company”) and its subsidiaries for the year ending 31 December 2007 as set out in the prospectus dated 11 December 2007.

We have discussed with you the bases of preparation upon which the Forecast has been made. We have also considered the letter dated 11 December 2007 addressed to you and us from Ernst & Young relating to the accounting policies and calculations upon which the Forecast has been based. On the basis of the information comprising the Forecast made by you and the accounting policies and calculations reviewed by Ernst & Young, we have formed the opinion that the Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of

CAF Securities Company Limited

Michael Ng

Executive Director and Head of Corporate Finance

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this prospectus received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their opinion of values of the property interests of the Group as at 31 October 2007.



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23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-023750
savills.com

The Directors
EYANG Holdings (Group) Co., Limited
8th Floor, Tien Chu Commercial Building
173–174 Gloucester Road
Wanchai
Hong Kong

11 December 2007

Dear Sirs,

In accordance with your instructions for us to value the properties in which EYANG Holdings (Group) Co., Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 31 October 2007 (the “date of valuation”).

Our valuation of each of the property interests is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In the course of our valuation, we have assumed that transferable land use rights in respect of the properties in the PRC for respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have also assumed that, unless otherwise stated, the grantees of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the terms as granted.

In valuing the property in Group I, which is held and occupied by the Group in the PRC, due to the nature of the buildings and structures were constructed, there are no readily identifiable market comparables, and the buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement costs. We would define “depreciated replacement cost” to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including professional fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on market sales.

In valuing the property in Group II, which is held under development by the Group, we have valued it on the basis that it will be developed and completed in accordance with the Group’s latest development proposal provided to us by depreciated replacement cost approach with regard to their prevailing cost levels and status of construction as at the date of valuation. We have also assumed that all consents, approvals and licences from the relevant government authorities for the development have been granted without any onerous conditions or undue delay.

In valuing the properties in Group III and Group IV, which are leased by the Group, we have assigned no commercial values to these properties, due either to the short-term nature of the leases or the prohibition against assignments or sub-lettings or otherwise due to the lack of substantial profit rents.

We have been provided by the Group with copies of extract of the title documents relating to the properties in the PRC and have caused searches to be made at the Hong Kong Land Registry in respect of the property in Hong Kong. We have not inspected the original documents to ascertain the existence of any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its legal adviser on PRC laws, Commerce & Finance Law Offices, regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, tenancies details, development proposals, total and outstanding construction costs and floor and site areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information provided to us and are therefore approximations. No on-site measurements have been taken. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made, we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. We have not carried out

investigations on site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and no extraordinary expenses or delay will be incurred during the development period.

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

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, all money amounts stated in this report are in Renminbi (RMB).

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,

For and on behalf of

Savills Valuation and Professional Services Limited

Charles C K Chan

MSc FRICS FHKIS MCI Arb RPS(GP)

Managing Director

Note: Charles C K Chan, Chartered Estate Surveyor, MSc, FRICS, FHKIS, MCI Arb, RPS(GP), has about 23 years' experience in the valuation of properties in Hong Kong and 18 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

Group I — Property interest held and occupied by the Group in the PRC

No. Property	Capital value in existing state as at 31 October 2007 RMB
1. An industrial complex located at Shibikeng, Sanlian Village, Fenggang Town, Dongguan, Guangdong Province, the PRC	57,000,000
	<hr/>
Sub-total:	57,000,000

Group II — Property interest held under development by the Group in the PRC

2. A parcel of land located at the northern region, Shenzhen High-tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the PRC	24,200,000
	<hr/>
Sub-total:	24,200,000

Group III — Property interests rented and occupied by the Group in the PRC

No. Property	Capital value in existing state as at 31 October 2007 RMB
3. Units A and B, Southwest Section, Level 3, Block 2, Duoli Industrial Area, Meihua Road, Futian District, Shenzhen, Guangdong Province, the PRC	No commercial value
4. Portion of Level 27, Hubei Building (North Wing), No. 9003 Binhe Road, Futian District, Shenzhen, Guangdong Province, the PRC	No commercial value

	Sub-total: _____ Nil

Group IV — Property interest rented and occupied by the Group in Hong Kong

5. 8th Floor, Tien Chu Commercial Building, Nos. 173–174 Gloucester Road, Wan Chai, Hong Kong	No commercial value

	Sub-total: _____ Nil
	Total: _____ <u>81,200,000</u>

VALUATION CERTIFICATE

Group I — Property interest held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2007
1. An industrial complex located at Shibikeng, Sanlian Village, Fenggang Town, Dongguan, Guangdong Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 83,000.00 sq.m. (893,412 sq.ft.) on which 5 buildings and various ancillary structures /facilities completed in various stages between 2001 and 2005 are erected.</p> <p>The buildings mainly include a 3-storey workshop, three 6-storey dormitories and a 4-storey canteen.</p> <p>The structures mainly comprise a temporary workshop, temporary dormitories, temporary warehouses, and facilities mainly comprise a basketball court, roads and sewage treatment station.</p> <p>The total gross floor area of the buildings is approximately 32,490.88 sq.m. (349,732 sq.ft.)</p> <p>The land use rights of the property were granted for a term expiring on 30 May 2052 for industrial uses.</p>	<p>Except for 5,164.41 sq.m. of the site which are leased to a connected party and an independent third party under the relevant tenancy agreements at a total annual rent of RMB92,680.8 and 7,500.00 sq.m. of the property which is leased to Dongguan Branch under a tenancy agreement at a monthly rent of RMB22,500 all exclusive of utility charges, the property is occupied by the Group for production purposes.</p>	RMB57,000,000 (please see note 3)

Notes:

- Pursuant to a State-owned Land Use Certificate — Dong Guo (2002) Zi Di Te No. 157 issued by State-owned Land Resources Bureau of Dongguan on 29 May 2002, the land use rights of a parcel of land with a site area of approximately 83,000.00 sq.m. were granted to Dongguan Eyang Technology Development Co., Ltd (“Eyang Dongguan”) for a term expiring on 30 May 2052 for industrial uses.
- Pursuant to 4 Real Estate Title Certificates — Yue Fang Di Zheng Zi Nos. C0975638, C5861036, C5861037 and C5871125 all issued by the People’s Government of Dongguan, the building ownership of the buildings with a total gross floor area of approximately 26,509.88 sq.m. is held by Eyang Dongguan.
- Amongst the buildings of the property, Real Estate Title Certificate for only 26,509.88 sq.m. was obtained whilst those of the remaining 2,500.00 sq.m. are yet to be obtained. Our valuation has included the said 2,500.00 sq.m. as Eyang Dongguan has obtained the Construction Land Planning Permit, Construction Work Planning Permit and Construction Work Commencement Permit.
- Pursuant to a Construction Work Planning Permits No. 2001-19-00052 issued by City Construction and Planning Bureau of Dongguan on 18 May 2001, planned construction works of dormitory no. 2 with a gross floor area of approximately 2,500.00 sq.m. have been approved.
- Pursuant to a Tenancy Agreement dated 1 September 2006, portion of the site with an area of approximately 3,017.41 sq.m. is leased to Dongguan Deyang Industrial Co., Ltd. (東莞市德陽實業有限公司) for a term commencing on 1 October 2006 and expiring on 1 January 2015 at a monthly rent of RMB3,000 exclusive of utility charges.

6. Pursuant to a Tenancy Agreement dated 25 April 2007, portion of the site with an area of approximately 2,147.00 sq.m. is leased to Dongguan Guangtong Enterprise Co., Ltd. (東莞市光通實業有限公司), a connected party, for a term commencing on 1 May 2007 and expiring on 31 December 2016 at an annual rent of RMB56,680.8 exclusive of utility charges.
7. Pursuant to a Tenancy Agreement dated 1 June 2006, portion of the property with a gross floor area of 7,500.00 sq.m. is leased to Eyang Shenzhen Dongguan Branch (“Dongguan Branch”) for a term commencing on 1 June 2006 and expiring on 1 June 2011 at a monthly rent of RMB22,500 exclusive of utility charges.
8. In the course of our valuation, we have attributed no commercial value to the 6 temporary buildings and structures with a total gross floor area of approximately 3,481.00 sq.m. as proper legal title documents have not been obtained. However, for reference purposes, we are of the opinion that the total depreciated replacement cost of such buildings and structures as at the date of valuation would be RMB2,710,000.
9. We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal advisers, which contains, *inter alia*, the following information:
 - (i) Eyang Dongguan has the right to freely transfer, lease, mortgage or dispose of the land use rights of the property and building ownership rights of the building with a gross floor area of approximately 18,395.22 sq.m.;
 - (ii) the property is subject to a mortgage in favour of Agricultural Bank of China, Shenzhen Nanshan Branch for a term from 20 October 2006 to 19 October 2007 for a loan amount of RMB25,000,000;
 - (iii) the proposed development of dormitory no. 2 has been applied, however the commencement of construction work has yet to be applied. It may incur a fine about 1%–2% of the total amount of the construction contract price;
 - (iv) the examination for the completed construction work of dormitory no. 2 has yet to be made. It may incur a fine about 2%–4% of the total amount of the construction contract price;
 - (v) the passing result of the examination for the completed construction work of dormitory no. 2 has yet to be registered. It may incur a fine about RMB200,000 – RMB500,000;
 - (vi) according to the PRC laws, temporary buildings and structures are not required to process for any realty certificate, they may, however, subject to demolition upon receipt of government order; and
 - (vii) all the tenancy agreements mentioned above have been registered and are valid, binding and enforceable under the PRC laws.

VALUATION CERTIFICATE

Group II — Property interest held under development by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2007
2. A parcel of land located at the northern region, Shenzhen High-tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 3,584.00 sq.m. (38,578 sq.ft.) on which an 8-storey plus a basement industrial building is being constructed.</p> <p>Upon completion, the total gross floor area of the proposed development will be approximately 11,958.28 sq.m. (128,719 sq.ft.). The proposed development is scheduled to be completed in early 2008.</p> <p>The land use rights of the property were granted for a term of 50 years commencing on 1 August 2005 and expiring on 31 July 2055 for industrial uses.</p>	The property is under construction.	RMB24,200,000

Notes:

- Pursuant to a Contract for Grant of State-owned Land Use Rights — Shen Di He Zi No. (2005) 0075 entered into between the State-owned Land Resources and Real Estate Administration of Shenzhen (the “Grantor”) and Shenzhen Eyang Technology Development Co., Ltd (“Eyang Shenzhen”) dated 1 August 2005, the land use rights of a parcel of land with a site area of approximately 3,584.00 sq.m. were granted to Eyang Shenzhen for a term of 50 years commencing on 1 August 2005 and expiring on 31 July 2055 for industrial uses at a consideration of RMB1,459,310.
- Pursuant to a State-owned Land Use Certificate — Shen Fang Di Zi No. 4000297588 issued by the People’s Government of Shenzhen on 4 December 2006, the land use rights of a parcel of land with a site area of approximately 3,584.00 sq.m. were granted to Eyang Shenzhen for a term of 50 years commencing on 1 August 2005 and expiring on 31 July 2055 for industrial uses.
- Pursuant to a Construction Land Planning Permit — Shen Gui Xu Zi No. 01-2005-0144 issued by the Planning Bureau of Shenzhen on 25 April 2005, the construction of a building with a planned gross floor area of approximately 10,035.00 sq.m. has been approved for construction on the land of the property.
- Pursuant to a Construction Work Planning Permit — Shen Gui Jian Xu Zi 2006 Zong He No. 134 issued by the Planning Bureau of Shenzhen on 7 July 2006, a building with a total planned gross floor area of approximately 10,028.20 sq.m. has been approved for construction.
- Pursuant to a Construction Work Commencement Permit No. 44030520060058001 issued by the Construction Bureau of Nanshan District, Shenzhen on 22 August 2006, a permission was given by the relevant local authority to begin construction on 25 July 2006.
- As advised by the Group, the estimated construction cost for the completion of the proposed development is approximately RMB12,980,000 in which RMB10,411,000 was spent as at the date of valuation. We have taken into account the said amounts in our valuation.
- In our opinion, the market value of the proposed development as if completed as at 31 October 2007 is approximately RMB31,570,000.

8. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:
- (i) the land use rights of the property are legally owned by the Group and the Group is entitled to transfer, let, mortgage or dispose of the property;
 - (ii) all land premium payments and other costs such as land development fee and ancillary utilities services have been paid in full and there is no requirement for payment of further land premium or other onerous payments to the government;
 - (iii) the land use rights is subject to a mortgage in favour of Shenzhen Commercial Bank (Fuhua Branch) for a loan amount of RMB1,459,310; and
 - (iv) all necessary authorisations and permits have been obtained in respect of the construction works. After the construction work has been completed and the completion of construction has been examined and accepted, there will be no legal impediment for the Group to obtain the Building Ownership Certificate of the property.

VALUATION CERTIFICATE

Group III — Property interests rented and occupied by the Group in the PRC

	Property	Description	Particulars of occupancy	Capital value in existing state as at 31 October 2007
3.	Units A and B, Southwest Section, Level 3, Block 2, Duoli Industrial Area, Meihua Road, Futian District, Shenzhen, Guangdong Province, the PRC	The property comprises 2 industrial units on Level 3 of a 6-storey industrial building completed in about 1991. The total gross floor area of the property is approximately 255.00 sq.m. (2,745 sq.ft.).	The property is occupied by the Group for production purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Shenzhen Shi Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司) (the “lessor”) and Eyang Shenzhen (the “lessee”) dated 20 June 2006, Unit B of the property with a gross floor area of approximately 105.00 sq.m. is leased to Eyang Shenzhen for a term of 2 years commencing on 26 June 2006 and expiring on 25 June 2008 at a monthly rent of RMB2,940 exclusive of management fees, water and electricity charges.
2. Pursuant to a Tenancy Agreement entered into between Shenzhen Shi Fuzhongda Investment Holdings Company Ltd. (深圳市福中達投資控股有限公司) (the “lessor”) and Eycom (the “lessee”) dated 20 June 2006, Unit A of the property with a gross floor area of approximately 150.00 sq.m. is leased to Eycom for a term of 2 years commencing on 26 June 2006 and expiring on 25 June 2008 at a monthly rent of RMB4,200 exclusive of management fees, water and electricity charges.
3. Eyang Shenzhen is a wholly-owned subsidiary of the Group.
4. Eycom is a wholly-owned subsidiary of the Group.
5. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Group’s PRC legal adviser, which contains, *inter alia*, the following information:
 - (i) the ownership of the property is under the process of transferring to the “lessor” from an independent third party;
 - (ii) there is no legal impediment for the Group to occupy the property; and
 - (iii) the Tenancy Agreements have been registered.

VALUATION CERTIFICATE

Property	Description	Particulars of occupancy	Capital value in existing state as at 31 October 2007
4. Portion of Level 27, Hubei Building (North Wing), No. 9003 Binhe Road, Futian District, Shenzhen, Guangdong Province, the PRC	The property comprise an office unit on Level 27 of a 29-storey commercial building completed in the 1990's. The gross floor area of the property is approximately 1,000.00 sq.m. (10,764 sq.ft.).	The property is occupied by the Group for office purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Wuhan Yancao (Group) Company Limited (武漢煙草(集團)有限公司) (“Wuhan Yancao”) and Eycom (the “lessee”) dated 20 May 2006, the property is leased to Eycom for a term of 2 years commencing on 25 May 2006 at a monthly rent of RMB42,000 exclusive of management fees, water and electricity charges.
2. Pursuant to a Sublet Agreement entered into between Eycom (the “sub-lessor”) and Eyang Shenzhen (the “sub-lessee”) dated 25 May 2006, a portion of the property with a gross floor area of approximately 150.00 sq.m. is sublet to Eyang Shenzhen for a term of 2 years commencing on 25 May 2006 at a monthly rent of RMB6,300 exclusive of management fees, water and electricity charges.
3. Eycom is a wholly-owned subsidiary of the Group.
4. Eyang Shenzhen is a wholly-owned subsidiary of the Group.
5. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Group’s PRC legal adviser, which contains, *inter alia*, the following information:
 - (i) the Tenancy Agreement between Wuhan Yancao and Eycom has been registered;
 - (ii) the Sublet Agreement between Eycom and Eyang Shenzhen has been registered;
 - (iii) the lessor has issued a statement consenting Eycom to sublet the property;
 - (iv) the registered owner of the property is the Shenzhen Office of the People’s Government of Hubei Province (湖北省人民政府駐深圳辦事處) (“the Owner”); and
 - (v) Wuhan Yancao has not obtained the approval for leasing the property from the Owner, the legality of the Tenancy Agreement may be in a state of uncertainty. Eycom may not be able to use the property.

VALUATION CERTIFICATE

Group IV — Property interest rented and occupied by the Group in Hong Kong

	Property	Description	Particulars of occupancy	Capital value in existing state as at 31 October 2007
5.	8th Floor, Tien Chu Commercial Building, Nos. 173–174 Gloucester Road, Wan Chai, Hong Kong	<p>The property comprises the whole 8th Floor of a 23-storey Commercial building completed in about 1984.</p> <p>The saleable area of the property is approximately 64.94 sq.m. (699 sq.ft.).</p> <p>The property is leased to the Group from SIIC Estate Company Limited, an independent third party for a term of 2 years commencing on 15 October 2007 and expiring on 14 October 2009 at a monthly rent of HK\$22,487.50 exclusive of rates.</p>	The property is occupied by the Group for office purposes.	No commercial value

Notes:

1. The registered owner of the property is SIIC Estate Company Limited vide Memorial No. UB3076548 dated 5 May 1986.
2. The Group's Hong Kong legal adviser is of the view that the Tenancy Agreement is valid, subsisting and enforceable in accordance with its terms.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 March 2007 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 30 November 2007. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the

board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or subunderwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 per cent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
 - (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.
- (vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds

for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and exemployees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or exemployees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last reelection or appointment but as between persons who became or were last reelected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than threefourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than onethird in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than threefourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by

proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (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 by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) 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 equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange (as defined in the Articles), 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.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in subparagraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times

and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular

dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call

may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of nonpayment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any

other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association,

purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 13 March 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the Court or by a special resolution of its members. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the

property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 6 March 2007. The Company is registered as an oversea company under Part XI of the Companies Ordinance and the Company's principal place of business in Hong Kong is at 8th Floor, Tien Chu Commercial Building, 173–174 Gloucester Road, Wanchai, Hong Kong. In compliance with the requirements of the Companies Ordinance, Mr. Chen Weirong and Mr. Zeng Zhi have been appointed as the authorised representatives of the Company and Mr. Zeng Zhi of Flat A, 9/F, Kingston Heights, Belair Gardens, Shatin, Hong Kong, has been appointed to accept service of process and notices on behalf of the Company in Hong Kong. As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution, which comprises a memorandum of association and the articles of association. A summary of the relevant aspects of the Companies Law and the Company's articles of association is set out in Appendix V of this prospectus.

2. Changes in share capital of the Company

- (a) As at the date of incorporation of the Company, its authorised share capital was HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each, one of which was allotted and issued, nil paid, to the initial subscriber Codan Trust Company (Cayman) Limited ("Codan Trust"). On 6 March 2007, Codan Trust transferred its one nil paid share in the Company and the Company issued an additional 4,366,999 nil paid Shares of HK\$0.01 each to EY Ocean.
- (b) On 6 March 2007, the Company allotted and issued 448,500 Shares, 98,000 Shares and 86,500 Shares, nil paid, to Legend New-Tech, Shengxue and Ever-win, respectively.
- (c) On 5 December 2007, pursuant to the Reorganisation as disclosed in the paragraph headed "Corporate reorganisation" in this appendix, as consideration for the acquisition by the Company of the entire issued share capital of Eyang Management from EY Ocean, Legend New-Tech, Shengxue and Ever-win, 4,367,000, 448,500, 98,000 and 86,500 nil paid Shares held by EY Ocean, Legend New-Tech, Shengxue and Ever-win, respectively, were credited as fully paid.

Immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of any Share which may be issued and allotted pursuant to the Share Option Scheme or the exercise of Over-allotment Option, the authorised share capital of the Company will be HK\$10,000,000 divided into 1,000,000,000 Shares, of which 400,000,000 Shares will be issued fully paid or credited as fully paid, and 600,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of all the Shareholders passed on 30 November 2007" in this appendix, the Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions of all the Shareholders passed on 30 November 2007

Pursuant to the written resolutions of all the Shareholders entitled to vote at general meetings of the Company, which were passed on 30 November 2007:

- (a) the authorised share capital of the Company be increased from HK\$50,000 to HK\$10,000,000 by the creation of 995,000,000 Shares of HK\$0.10 each which rank *pari passu* in all respects with the Shares in issue as at the date of passing of this written resolutions;
- (b) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Share Offer, the Capitalisation Issue, the Over-allotment Option and the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before 21 December 2007:
 - (i) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to approve to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
 - (ii) the rules of the Share Option Scheme were approved and adopted, and the Directors or any committee thereof established by the Board were authorised, at their sole discretion, to grant options to subscribe for Shares under the Share Option Scheme, to allot, issue and deal with the Shares pursuant to the exercise of any options granted under the Share Option Scheme, and to take such action as they consider necessary, expedient or desirable to implement the Share Option Scheme;
- (c) conditional on the share premium account of the Company being credited as a result of the Share Offer, the Directors are authorised to capitalise the sum of HK\$2,950,000 and to apply in paying up in full at par 295,000,000 Shares for allotment and issue to the Shareholders whose names were on the register of members of the Company as at the close of business on 30 November 2007 (or as they may direct) in proportion (as nearly as possible without involving fractions) to its (their) then existing shareholdings in the Company and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
- (d) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Share Offer, a rights issue or the exercise of any subscription rights under the Share Option Scheme or any

scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by the shareholders) with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue but before any exercise of the Over-allotment Option; and
 - (ii) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any);
- (e) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with an aggregate nominal value of not more than 10% of the aggregate nominal value of the Company's share capital in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- (f) the general unconditional mandate as mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Share Offer), and the Capitalisation Issue but before the exercise of the Over-allotment Option; and
- (g) the Company approved and adopted the new memorandum and articles of association.

Each of the general mandates referred to in paragraphs (d), (e) and (f) above will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions;
- (ii) the expiration of the period within which the Company is required by any applicable law or the articles of association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied or revoked by an ordinary resolution of the shareholders in a general meeting.

B. CORPORATE REORGANISATION

In order to rationalise its structure and prepare for the Listing, the Company has undertaken several restructuring steps which involved in the following:

- (a) On 10 August 2006, Eyang Management was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, an aggregate of 10,000 shares were allotted and issued at par, as to 8,734 shares to EY Ocean, 897 shares to Legend New-Tech, 196 shares to Shengxue and 173 shares to Ever-win.
- (b) On 11 August 2006, Hong Kong Eyang was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each and one share of HK\$1.00 in the capital of Hong Kong Eyang was subscribed by the initial subscriber. On 11 August 2006, Hong Kong Eyang allotted and issued at par 9,999 shares to Eyang Management. On 13 August 2006, the subscriber share was transferred to Eyang Management.
- (c) On 11 August 2006, Hong Kong Eyang acquired the entire equity interests in Eyang Shenzhen for a total consideration of RMB210,149,255.46 from the following shareholders:

Shareholders	Approximate percentage of equity interests
Shenzhen Yinrun 聯想投資有限公司	38.194%
(Legend Investment Co., Ltd.*)	8.974%
深圳市勝旭實業發展有限公司 (Shenzhen Shengxu Industrial Development Co., Ltd.*)	1.964%
Mr. Zhang Zhilin (張志林)	7.701%
Mr. Zhou Penghong (周鵬鴻)	3.273%
Mr. Cheng Wusheng (程吳生)	5.391%
Mr. Zhou Pengying (周鵬鷹)	3.273%
Mr. Chen	10.776%
Mr. Li Heqiu (李賀球)	6.931%
Mr. Luo Chaoen (羅朝恩)	4.236%
Mr. Zheng Jinshun (鄭錦順)	3.851%
Ms. Shuang Mei (霜梅)	3.050%
Mr. Liao Jie (廖杰)	2.387%
Total:	<u>100.0%</u>

After the acquisition described above, Eyang Shenzhen converted from a limited liability company in the PRC to a wholly foreign-owned enterprise, and became wholly owned by Hong Kong Eyang.

- (d) On 5 December 2007, EY Ocean, Legend New-Tech, Shengxue and Ever-win (together, the “Vendors”) transferred 8,734 shares, 897 shares, 196 shares and 173 shares in the issued capital of Eyang Management respectively held by them to the Company in consideration of the Company crediting as fully paid at par an aggregate of 5,000,000 nil paid Shares held by the Vendors.

C. CHANGES IN SHARE CAPITAL OF THE SUBSIDIARIES OF THE COMPANY

The Company’s subsidiaries are referred to in the accountants’ report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed “Corporate reorganisation” in this appendix, there has been no change in the share capitals of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

D. REPURCHASE BY THE COMPANY OF ITS OWN SHARES

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(1) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(i) *Shareholders’ approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions of all the Shareholders passed on 30 November 2007, a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of the Company’s share capital in issue or to be issued immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Over- allotment Option), such mandate to expire at the earliest of: (i) the conclusion of its next annual general meeting, unless renewed by an ordinary resolution of the shareholders in a general meeting, either unconditionally or subject to conditions; (ii) the expiration of the period within which the Company is required by any applicable law or the articles of association to hold its next annual general meeting; or (iii) the time when such mandate is varied or revoked by an ordinary resolution of the shareholders in a general meeting which ever shall first occur; details of which have been described above in the paragraph headed “Written resolutions of all the Shareholders passed on 30 November 2007”.

(ii) *Source of funds*

Any repurchases of Shares by the Company must be paid out of funds legally available for the purpose in accordance with the Company's memorandum and articles of association, the Listing Rules and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchase of Shares by the Company may be made out of funds legally permitted to be utilised in this connection, including profits of the Company or out of proceeds of a fresh issue of Shares made for that purpose or, if so authorised by the articles of association of the Company and subject to the provisions of the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be purchased must be paid out of profits of the Company or out of the Company's share premium account, or if so authorised by the articles of association of the Company and subject to the provisions of the Companies Law, out of capital.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by the Company must be fully-paid up.

(2) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit the Company and the Shareholders.

(3) Financial effect of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the articles of association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of Company's current financial position as disclosed in this prospectus and taking into account its current working capital position, the Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on the Company's working capital and/or gearing position as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the Company's working capital requirements or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(4) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to the Company.

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

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The Company has not made any repurchases of its own securities in the past six months.

No Connected Person has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

E. FURTHER INFORMATION ABOUT THE COMPANY'S BUSINESS

1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) An equity transfer agreement dated 11 August 2006 and entered into between Shenzhen Yinrun, 聯想投資有限公司 (Legend Investment Co., Ltd.*), 深圳市勝旭實業發展有限公司 (Shenzhen Shengxu Industrial Development Co., Ltd.*), Mr. Zhang Zhilin (張志林), Mr. Zhou Penghong (周鵬鴻), Mr. Cheng Wusheng (程吳生), Mr. Zhou Pengying (周鵬鷹), Mr. Chen, Mr. Li Heqiu (李賀球), Mr. Luo Chaoen (羅朝恩), Mr. Zheng Jinshun (鄭錦順), Ms. Shuang Mei (霜梅) and Mr. Liao Jie (廖傑) as transferors and Hong Kong Eyang as transferee, pursuant to which the entire equity interests in Eyang Shenzhen was transferred to Hong Kong Eyang for a total consideration of RMB210,149,255.46.
- (b) A share transfer agreement dated 5 December 2007 and entered into between the Company, EY Ocean, Legend New-Tech, Shengxue, Ever-win and Mr. Chen, pursuant to which the Company agreed to acquire from EY Ocean, Legend New-Tech, Shengxue and Ever-win the entire shareholding interest in Eyang Management held by them in consideration of the Company, crediting as fully paid 4,367,000, 448,500, 98,000 and 86,500 nil paid Shares held by EY Ocean, Legend New-Tech, Shengxue and Ever-win, respectively.

- (c) The Underwriting Agreement.
- (d) The deed of indemnity dated 10 December 2007 entered into by the indemnifiers named therein in favour of the Company for itself and as trustee for each of its subsidiaries in respect of estate duty and tax liabilities referred to in paragraph I-1 of this appendix.

2. Intellectual Property Rights of the Group



Trademarks

As at the Latest Practicable Date, members of the Group have registered the following trademarks:

Trademark	Place of registration	Class	Registration number	Registration date	Expiry date
EYANG	PRC	17	1925741	28 September 2002	27 September 2012
EYANG	PRC	9	1981476	21 December 2002	20 December 2012
EYKOTI	PRC	9	4069824	28 January 2007	27 January 2012

As at the Latest Practicable Date, members of the Group have applied for registration of the following trademarks:

Trademark	Name of applicant	Place of application	Class	Application number	Application date
EYANG	Eyang Shenzhen	Hong Kong	9, 17	301000754	26 November 2007
EYANG	Eyang Shenzhen	Hong Kong	9, 17	301000754	26 November 2007
	Eyang Shenzhen	Hong Kong	9	301000772	26 November 2007
	Eyang Shenzhen	Hong Kong	9	301000772	26 November 2007
EY	Eyang Shenzhen	Hong Kong	9	301000763	26 November 2007
EY	Eyang Shenzhen	Hong Kong	9	301000763	26 November 2007
EY	Eyang Shenzhen	PRC	9	5161639	17 February 2006
	Eyang Shenzhen	PRC	9	4875762	5 September 2005
	Eyang Shenzhen	PRC	9	4370854	19 November 2004
EYANG	Eyang Shenzhen	Hong Kong	9	301009188	7 December 2007
eyang	Eyang Shenzhen	Hong Kong	9	301009188	7 December 2007

Trademark	Name of applicant	Place of application	Class	Application number	Application date
	Eyang Shenzhen	PRC	9	6353041	1 November 2007
	Eyang Shenzhen	PRC	9	6353042	1 November 2007

Domain Names

As at the Latest Practicable Date, members of the Group have registered the following domain names:

Domain Name	Registrant	Date of Registration	Expiry Date
szeyang.com	Eyang Shenzhen	5 December 2001	21 November 2009
szeycom.com	Eycom	31 May 2004	31 May 2009

Save as mentioned above, there are no other trademark, patent or other intellectual properties that are material in relation to the Group's business.

F. FURTHER INFORMATION ABOUT THE GROUP'S PRC ESTABLISHMENTS

The Group has three subsidiaries in the PRC. A summary of the corporate information of these subsidiaries are set out as follows:

Eyang Shenzhen⁽¹⁾

Nature of the company	:	Wholly foreign-owned enterprise established in the PRC
Term of business operation	:	From 22 February 2001 to 21 August 2016, established on 22 February 2001
Registered office	:	South West B 3F, No. 2 Duoli Industrial Park Meihua Road Futian District Shenzhen, PRC
Total investment	:	RMB200.01 million
Registered capital	:	RMB200.01 million, which had been fully paid up as at the Latest Practicable Date
Attributable interest of the Company	:	100%
Registered owner	:	Hong Kong Eyang
Directors	:	Chen Weirong, Shuang Mei, Liao Jie, Cheng Wusheng, Zhang Zhilin, Chen Hao and Li Heqiu
Legal representative	:	Chen Weirong

Scope of business : Technology development, wholesale, import- export and related business of wireless telecommunication product, electronic product, electronic components, computer software and hardware, multi-layer ceramic chip capacitor (special commodities shall be subject to the laws on quota license and other special regulations); manufacture and sale of multi-layer ceramic chip capacitor and mobile phone.

Note:

(1) Eyang Shenzhen established a branch in Dongguan, the PRC and the term of business operation for this branch commenced from 28 June 2001 to 21 August 2016. The scope of business for this branch is the production of multi-layer ceramic chip capacitor.

Eyang Dongguan

Nature of the company : Limited liability company established in the PRC
 Term of business operation : No fixed term, established on 22 March 2001
 Registered office : Yongsheng Road
 Fenggang Town
 Dongguan, PRC
 Registered capital : RMB20 million, which had been fully paid up as at the Latest Practicable Date
 Attributable interest of the Company : 100%
 Registered owner : Eyang Shenzhen
 Director : Chen Weirong
 Legal representative : Chen Weirong
 Scope of business : Development, production and sales in micro-electronic product and related equipments and materials; technology development of wireless communication product, electronic product, electronic components, computer software and hardware; manufacture of multi-layer ceramic chip capacitors and terminal communication products; industrial investment; import and export of goods and technologies (except for the prohibited project determined by the State Council or stipulated by laws and regulations; approval is essential for engaging in the restricted project which is determined by the State Council or stipulated by laws and regulations); distribution of electronic products and terminal communication products.

Eycom

Nature of the company	:	Limited liability company established in the PRC
Term of business operation	:	From 24 March 2004 to 24 March 2014, established on 24 March 2004
Registered office	:	South West A 3F, No. 2 Duoli Industrial Park Meihua Road Futian District Shenzhen, PRC
Registered capital	:	RMB10 million, which had been fully paid up as at the Latest Practicable Date
Attributable interest of the Company	:	100%
Registered owners	:	Eyang Shenzhen (90%) Eyang Dongguan (10%)
Director	:	Chen Weirong
Legal representative	:	Chen Weirong
Scope of business	:	Engage in industries (specific project shall be approved separately); manufacture and sales of communication product (except for restricted projects); technology development and sales of wireless communication product, electronic product, electronic components, computer software and hardware; other domestic commerce, supply and marketing of commodities (not including the special-managed, special-controlled, monopolistic and other restricted project); import and export of goods and technology.

G. FURTHER INFORMATION ABOUT THE DIRECTORS**1. Particulars of Directors' service contracts****(a) Executive Directors**

Each of the executive Directors has entered into a service contract with the Company on 30 November 2007 for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms of the service contract.

Each of the executive Directors is currently entitled to the respective basic salary set out below:

Executive Directors	Basic Salary per annum <i>(in RMB)</i>
Chen Weirong	800,000
Shuang Mei	600,000
Liao Jie	500,000

The above basic salary shall be subject to review by the remuneration committee each year.

Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

(b) *Non-executive Directors and independent non-executive Directors*

Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from the Listing Date. The appointments are subject to the provisions of retirement and rotation of Directors under the articles of association of the Company.

Each of the independent non-executive Director is entitled to the respective basic salary set out below:

Independent non-executive Directors	Basic salary per annum <i>(in RMB)</i>
Mr. Pan Wei	84,000
Mr. Liu Huanbin	84,000
Mr. Chu King Wang, Peleus	120,000

Save for aforesaid, none of the non-executive Directors and independent non-executive Directors is expected to receive any other remuneration for holding their office as non-executive Directors or independent non-executive Directors.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

The Company has not entered into any service contract with the Directors which is for a duration that may exceed three years or which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

2. Directors' remuneration during the Track Record Period

The Company's policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Company; and (ii) non-cash benefits may be provided to the Directors under their remuneration package.

For each of the three years ended 31 December 2004, 2005 and 2006 and the first nine months in 2007 ended 30 September 2007, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Company and its subsidiaries was approximately RMB0.88 million, RMB0.99 million, RMB1.0 million and RMB0.67 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the Track Record Period by the Company to the Directors.

Under the arrangements currently in force, the Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, the Directors (excluding discretionary bonus) by the Company for the year ended 31 December 2007 will be approximately RMB1.0 million.

H DISCLOSURE OF INTERESTS

1. Disclosure of Interests

- (a) *Interests and short positions of the Directors in the share capital of the Company and its associated corporations following the completion of the Share Offer and the Capitalisation Issue*

Immediately following the completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to

section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Name of Director	Company/ Name of associated corporation	Capacity/ Nature of interest	Amount of share capital/ registered capital held	Approximate percentage of interest in the Company/ associated corporations (%)
Mr. Chen Weirong	Company	Interest of controlled corporations ⁽¹⁾	262,020,000	65.51%
Ms. Shuang Mei	Company	Corporate interest ⁽²⁾	9,160,000	2.29%
Mr. Liao Jie	Company	Corporate interest ⁽³⁾	7,160,000	1.79%
Mr. Cheng Wusheng	Company	Corporate interest ⁽⁴⁾	16,160,000	4.04%
Mr. Li Heqiu	Company	Corporate interest ⁽⁵⁾	20,800,000	5.20%
Mr. Zhang Zhilin	Company	Corporate interest ⁽⁶⁾	23,120,000	5.78%

Notes:

- (1) Mr. Chen Weirong legally owns 100% of the issued share capital of Eversharp Management Limited, which in turn legally owns 42.71% of the issued share capital of EY SHINE Management Limited (“EY Shine”). Mr. Chen Weirong also legally owns 100% of the issued share capital of Everbright Management Limited, which owns 36.01% of the issued share capital of EY Shine. EY Shine legally owns 60.31% of EY Ocean. For the purposes of Part XV of the SFO, Mr. Chen Weirong is deemed to be interested in all the Shares held by EY Ocean.
- (2) Ms. Shuang Mei legally owns 100% of the issued share capital of HE-YANG Management Limited, which in turn legally owns 5.79% of the issued share capital of EY Shine. EY Shine legally owns 60.31% of EY Ocean. Ms. Shuang Mei therefore is indirectly interested in approximately 9,160,000 Shares.
- (3) Mr. Liao Jie legally owns 100% of the issued share capital of LJ Management Limited, which in turn legally owns of the issued share capital of 4.53% of EY Shine. EY Shine legally owns 60.31% of EY Ocean. Mr. Liao Jie therefore is indirectly interested in approximately 7,160,000 Shares.
- (4) Mr. Cheng Wusheng legally owns 100% of the issued share capital of WUSHENG Management Limited, which in turn legally owns 6.17% of the issued share capital of EY Ocean. Mr. Cheng Wusheng therefore is indirectly interested in approximately 16,160,000 Shares.
- (5) Mr. Li Heqiu legally owns 100% of the issued share capital of HEQ Management Limited, which own 7.94% of the issued share capital of EY Ocean. Mr. Li Heqiu therefore is indirectly interested in approximately 20,800,000 Shares.

- (6) Mr. Zhang Zhilin legally owns 100% of the issued share capital of ZHILIN Management Limited, which in turn legally owns 8.82% of the issued share capital of EY Ocean. Mr. Zhang Zhilin therefore is indirectly interested in approximately 23,120,000 Shares.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Information on the person, not being a Director or chief executive of the Company, who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, directly or indirectly interested in 10% or more of the nominal value of any class of shares capital carrying rights to vote in all circumstances at general meeting of any member of the Company is set out in the section headed “Substantial shareholders” of this prospectus.

2. Disclaimers

Save as disclosed in this prospectus:

- (a) the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately after completion of the Share Offer and the Capitalisation Issue (taking no account of the Over-allotment Option or any Shares which may be issued pursuant to the grant of Shares under the Share Scheme or the exercise of options under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group;
- (b) none of the Directors has any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this appendix is interested in the promotion of the Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries;

- (d) none of the Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the Company’s business;
- (e) save in connection with the Underwriting Agreement, none of the parties listed in the section headed “Other Information – Consents of experts” of this appendix:
 - (i) is interested legally or beneficially in any securities of the Company or any of its subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Company or any of its subsidiaries; or
- (f) none of the Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of the Directors, owns more than 5% of the Company’s issued share capital) has any interest in any of the five largest customers or the five largest suppliers of the Group.

I. OTHER INFORMATION

1. Estate Duty, tax and other indemnities

Mr. Chen and the Concert Parties who were indirectly holding shares of the Company as at the Latest Practicable Date, namely, Ms. Shuang Mei, Mr. Zhang Zhilin, Mr. Zhou Penghong, Mr. Cheng Wusheng, Mr. Liao Jie and Mr. Luo Chaoen, (together, the “Indemnifiers”) have entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (d) referred to in the paragraph headed “Summary of the Material Contracts” under the section headed “Further Information about the Company’s Business” in this appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group and/or its associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of the Group on or before the date on which the Share Offer becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under the laws of Hong Kong, the Cayman Islands and the British Virgin Islands, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group on a joint and several basis in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Share Offer becomes unconditional.

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed in respect of any taxation:

- (a) to the extent that adequate provision has been made for such taxation in the combined audited accounts of the Company or the audited accounts of the relevant Group members up to 30 September 2007;
- (b) to the extent that such taxation or liability falling on any of the members of the Group would not have arisen but for any act or omission of, or transaction voluntarily carried out or effected by, any of such members without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction carried out in the ordinary course of business or carried out, made or entered pursuant to a legally binding commitment created on or before the date on which the Share Offer becomes unconditional by the fulfilment of the conditions set out in the section headed “Structure of the Share Offers” in this prospectus (the “Relevant Date”);
- (c) for which any of the Group members is primarily liable as a result of any events occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring or disposing of capital assets after the Relevant Date;
- (d) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date on which the Share Offer becomes unconditional or to the extent such claim arises or is increased by an increase in rates of taxation after such date with retrospective effect; or
- (e) to the extent that any provision or reserve made for taxation in the audited accounts of any member of the Group up to 30 September 2007 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers’ liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this item (e) to reduce the Indemnifiers’ liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

The Indemnifiers have also provided an indemnity in favour of the Group to cover (i) any loss or damage that the Group may suffer or incur as a result of any penalties that may be imposed for the Mobile Phone Production Arrangement, (ii) any loss, damage or relocation cost that the Group may suffer or incur in relation to the Defective Property, (iii) any loss, damage or relocation cost that the Group may suffer or incur in relation to the Defective Leased Property, (iv) any loss, damage or relocation cost that the Group may suffer or incur in relation to the Meihua Properties; and (v) any loss, damage or cost that the Group may suffer or incur in relation to any claims or litigations regarding the infringement of third parties’ intellectual property rights of the mobile phone appearance design by the mobile phone models developed by the Group during the Track Record Period.

2. Litigation

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Company, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary Expenses

The Company's estimated preliminary expenses are approximately US\$20,000 and are payable by the Company.

4. Sponsor

The Sponsor made an application on the Company's behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. No Material Adverse Change

The Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 30 September 2007 (being the date to which the Company's latest audited combined financial statements were made up).

6. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

7. Miscellaneous

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus,

- (a) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither the Company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

- (d) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
- (e) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in the Company;
- (f) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (g) the Company has no outstanding convertible debt securities.

8. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong.)

9. Qualifications of experts

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

Name	Qualification
CAF Securities Company Limited	Licensed corporation to conduct types 1, 4 and 6 regulated activities under the SFO
Ernst & Young	Certified public accountants
Conyers Dill & Pearman	Cayman Islands legal counsel
Commerce & Finance Law Offices	PRC legal counsel
Savills Valuation and Professional Services Limited	Professional surveyors and valuers

10. Consents of experts

Each of CAF Securities Company Limited, Ernst & Young, Commerce & Finance Law Offices, Conyers Dill & Pearman and Savills Valuation and Professional Services Limited has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

J. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a written resolution of all the Shareholders passed on 30 November 2007 and adopted by a resolution of the Board on 30 November 2007. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written resolution of all the Shareholders passed on 30 November 2007. For the purpose of this section, the following terms will be given the following meaning unless the context otherwise requires:

“Acceptance Date”	the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 30 days after the Offer Date;
“Adoption Date”	the date on which approval of the Stock Exchange is obtained for the listing of and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the Options in accordance with the terms and conditions of the Share Option Scheme;
“Affiliate Company”	a Controlling Shareholder of the Company or a Subsidiary or an Associate of a Controlling Shareholder;
“Allotment Date”	the date on which Shares are allotted to a Grantee (or his legal representatives) pursuant to the Option granted and exercised hereunder;
“Articles of Association”	the articles of association of the Company as amended from time to time;
“Associate”	shall have the same meaning ascribed to it under the Listing Rules;
“Auditors”	the auditors or independent financial advisor appointed by the Company;
“Bankruptcy Ordinance”	the Bankruptcy Ordinance (Chapter 6 of the laws of Hong Kong) as amended from time to time;
“Board”	the board of directors of the Company or a duly authorised committee thereof;
“Board Lot”	the board lot in which the Stock Exchange is open for the business of dealing in securities;

“Business Day”	any day on which the Stock Exchange is open for the business of dealing in securities;
“Commencement Date”	in respect of any particular Option, the Business Day on which the Option is deemed to be granted and accepted in accordance with Clause 5.6 of the Scheme;
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the laws of Hong Kong) as amended from time to time;
“Company”	EYANG Holdings (Group) Co., Limited, a company incorporated in the Cayman Islands with limited liability on 6 March 2007;
“Controlling Shareholder”	shall have the meaning ascribed to it under the Listing Rules;
“Culpable Termination”	termination of the employment of an Executive on the grounds that he has been guilty of serious misconduct, or there exists grounds allowing his summary dismissal under his employment contract or under common law, or he is unable or has no reasonable prospects of being able to pay his debts within the meaning of the Bankruptcy Ordinance or any other applicable law, or he has become otherwise insolvent or has made any arrangement or composition with his creditors generally, or he has been convicted of any criminal offence involving his integrity or honesty;
“Directors”	directors of the Company;
“Eligible Person”	means any of the following persons: <ul style="list-style-type: none">(a) an Executive;(b) a director or proposed director (including an independent non-executive director) of any member of the Group;(c) a direct or indirect shareholder of any member of the Group;(d) a supplier of goods or services to any member of the Group;(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

	(g) an Associate of any of the foregoing persons;
“Employee”	any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group;
“Executive”	any proposed Employee, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group;
“Expiry Date”	in respect of an Option, such date of the expiry of the Option as the Board may in its absolute discretion determine and which shall not exceed 10 years from the Commencement Date but subject to the provisions for early termination thereof contained herein;
“financial year”	a year or other period for which the Company’s accounts are made up;
“Grantee”	any Eligible Person who accepts the offer of the grant of an Option in accordance with the terms of the Scheme or (in the case of an Eligible Person being an individual and where the context so permits) the legal personal representative(s) entitled to any such Option in consequence of the death of the Eligible Person;
“Group”	the Company and its Subsidiaries (as defined under the Listing Rules);
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time;
“Non-Executive Director Retirement”	a non-executive director of the Company who retires pursuant to the Company’s Articles of Association and who notifies the Company that he is not offering himself for re-election at the Company’s annual general meeting;
“Offer Date”	the date of the Board resolution approving the grant of Options, which must be a Business Day;
“Option”	an option to subscribe for Shares granted pursuant to the Scheme and for the time being subsisting;
“Option Period”	in respect of an Option, the period commencing immediately after the Commencement Date and expiring on the Expiry Date for such option;
“Option Shares”	Shares to which any particular Option relates;

“PRC”	the People’s Republic of China;
“Scheme”	this share option scheme, the rules of which are set out in this document in its present or any amended form;
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company, or, if there has been a sub-division, consolidation, reclassification of or reconstruction of the share capital of the Company, shares forming part of the ordinary share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option pursuant to the Scheme;
“Subsidiary”	a subsidiary (within the meaning of the Companies Ordinance as amended from time to time) of the Company from time to time;
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers approved by the Securities and Futures Commission from time to time;
“HK\$”	Hong Kong dollars.

1. Purpose

The purpose of the Share Option Scheme is to motivate Eligible Persons (as mentioned in the following paragraph) to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

The Board may, at its absolute discretion, offer options (“Options”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any proposed Employee, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (the “Executive”);
- (b) a director or proposed director (including an independent non-executive director) of any member of the Group;
- (c) a direct or indirect shareholder of any member of the Group;
- (d) a supplier of goods or services to any member of the Group;

- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and
- (g) an Associate of any of the foregoing persons.

3. Maximum number of Shares

- (A) The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the date of listing of the Shares on the Main Board (the “Scheme Mandate Limit”) provided that the Company may at any time as the Board may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as at the date of approval by the shareholders of the Company in general meeting where the Scheme Mandate Limit is refreshed.
- (B) The Company may seek separate approval from its shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by the Company before such approval is obtained.
- (C) The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other schemes shall not exceed 30% of the Company’s issued share capital from time to time.

4. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company’s issued share capital from time to time.

5. Grant of Options

Subject to the terms of the Scheme, the Board shall be entitled at any time within 10 years after the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the Subscription Price for such number of Shares as the Board may (subject to the terms of this Share Option Scheme) determine.

6. Granting Options to Connected Persons

Subject to the terms in this Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an option is proposed to be made to a director, chief executive or a substantial shareholder of the Company or any of their respective associates, such offer must first be approved by the independent non-executive directors of the Company (excluding the independent non-executive director who or whose associates is the grantee of an option).

Where any grant of options to a substantial shareholder as defined in the Listing Rules or an independent non-executive director of the Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by shareholders of the Company.

Approval from the shareholders of the Company is required for any change in the terms of options granted to a participant who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates.

7. Offer Period and Number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the Offer Date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Scheme stated in paragraph 12 of this section. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the Grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company on or before the Acceptance Date. Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option in the manner as set out in the above paragraph. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

8. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period and the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

9. Exercise price

The Subscription Price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the Subscription Price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the Offer Date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the Offer Date.

10. Exercise of Option

- 10.1 An Option shall be exercised in whole or in part (but if in part only, in respect of a Board Lot or any integral multiple thereof) within the Option Period in the manner as set out in this Scheme by the Grantee (or his legal personal representative(s)) by giving notice in writing to the Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of the Auditors' certificate pursuant to paragraph 14 of this section, the Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the Grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.
- 10.2 The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the authorised share capital of the Company.

- 10.3 Subject as hereinafter provided, an Option may be exercised by the Grantee at any time during the Option Period, provided that:
- (a) in the event that the Grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;
 - (b) in the event that the Grantee ceases to be an Executive by reason of his retirement pursuant to such retirement scheme applicable to the Group at the relevant time, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period;
 - (c) in the event that the Grantee ceases to be an Executive by reason of his transfer of employment to an Affiliate Company, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined;
 - (d) in the event that the Grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of the Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to the Group at the relevant time or the transfer of his employment to an Affiliate Company or the termination of his employment with the relevant member of the Group by resignation or Culpable Termination, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;
 - (e) in the event that the Grantee ceases to be an Executive by reason of the termination of his employment by resignation or Culpable Termination, the Option (to the extent not already exercised) shall lapse on the date on which the notice of termination is served (in the case of resignation) or the date on which the Grantee is notified of the termination of his employment (in the case of Culpable Termination) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such service or notification. A resolution of the Board resolving that the Executive's Option has lapsed pursuant to sub-paragraph 10.3(e) of this section shall be final and conclusive;

- (f) if a Grantee being:
- (i) an executive director of the Company ceases to be an Executive but remains a non-executive director, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined; or
 - (ii) a non-executive director of the Company ceases to be a director:
 - (1) by reason of Non-Executive Director Retirement, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined; or
 - (2) for reasons other than Non-Executive Director Retirement, his Option (to the extent not already exercised) shall lapse on the date of cessation of such appointment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;
- (g) if:
- (i) the Board in its absolute discretion at any time determines that a Grantee has ceased to be an Eligible Person; or
 - (ii) a Grantee has failed to or no longer satisfies or complies with such criteria or terms and conditions that may be attached to the grant of the Option or which were the basis on which the Option was granted,
- the Option (to the extent not already exercised) shall lapse on the date on which the Grantee is notified thereof (in the case of (i)) or on the date on which the Grantee has failed to or no longer satisfies or complies with such criteria or terms and conditions as aforesaid (in the case of (ii)) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such notification or the date of such failure, non-satisfaction or non-compliance. In the case of (i), a resolution of the Board resolving that the Grantee's Option has lapsed pursuant to sub-paragraph 10.3(g) of this section shall be final and conclusive;
- (h) if a Grantee (being a corporation):
- (i) has a liquidator or receiver appointed anywhere in the world in respect of the whole or any part of the assets or undertaking of the Grantee; or

- (ii) has suspended, ceased or threatened to suspend or cease business; or
- (iii) is unable to pay its debts; or
- (iv) otherwise becomes insolvent; or
- (v) suffers a change in its constitution, management, directors or shareholding which in the opinion of the Board is material; or
- (vi) commits a breach of any contract entered into between the Grantee or his Associate and any member of the Group,

the Option (to the extent not already exercised) shall lapse on the date of appointment of the liquidator or receiver or on the date of suspension or cessation of business or on the date when the Grantee is deemed to be unable to pay its debts as aforesaid or on the date of notification by the Company that the said change in constitution, management, directors or shareholding is material or on the date of notification by the Company of the said breach of contract (as the case may be) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such occurrence. A resolution of the Board resolving that the Grantee's Option has lapsed pursuant to sub-paragraph 10.3(h) of this section by reason of breach of contract or material change in the constitution, management, directors or shareholding as aforesaid shall be final and conclusive;

- (i) if a Grantee (being an individual):
 - (i) is unable or has no reasonable prospects of being able to pay his debts within the meaning of the Bankruptcy Ordinance (chapter 6 of the laws of Hong Kong) or any other applicable law or has otherwise become insolvent; or
 - (ii) has made any arrangement or composition with his creditors generally; or
 - (iii) has been convicted of any criminal offence involving his integrity or honesty; or
 - (iv) commits a breach of any contract entered into between the Grantee or his Associate and any member of the Group,

the Option (to the extent not already exercised) shall lapse on the date on which he is deemed unable or to have no reasonable prospects of being able to pay his debts as aforesaid or on the date on which a petition for bankruptcy has been presented in any jurisdiction or on the date on which he enters into the said arrangement or composition with his creditors or on the date of his conviction or on the date of the said breach of contract (as the case may be) and not be

exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such occurrence. A resolution of the Board resolving that the Grantee's Option has lapsed pursuant to sub-paragraph 10.3(i) of this section for breach of contract as aforesaid shall be final and conclusive;

- (j) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of shareholders of the Company (in the case of a scheme of arrangement), the Grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by the Company;
- (k) if a compromise or arrangement between the Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company, the Company shall give notice thereof to the Grantees who have Options unexercised at the same time as it despatches notices to all members or creditors of the Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
 - (i) the Option Period;
 - (ii) the period of two months from the date of such notice; or
 - (iii) the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option. Except insofar as exercised in accordance with sub-paragraph 10.3(k) of this section, all Options outstanding at the expiry of the relevant period referred to in sub-paragraph 10.3(k) of this section shall lapse. The Company may thereafter require each Grantee to transfer or otherwise deal with the Shares issued on exercise of the Option to place the Grantee in the same position as would have been the case had such Shares been the subject of such compromise or arrangement; and

- (l) in the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a

remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

11. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the articles of association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the Allotment Date or, if that date falls on a day when the register of members of the Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the Allotment Date or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the Allotment Date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the Grantee (or any other person) as the holder thereof.

12. Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

13. Lapse of Share Option Scheme

13.1 An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of any of the period referred to sub-paragraph 10.3 of this section;
- (c) subject to sub-paragraph 10.3(l) of this section, the date of the commencement of the winding-up of the Company;
- (d) there is an unsatisfied judgement, order or award outstanding against the Grantee or the Board has reason to believe that the Grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts;

- (e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in subparagraph 10.3(h) or 13.1(d) of this section; or
- (f) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

14. Adjustment

14.1 In the event of any alteration to the capital structure of the Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, open offer, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of the Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the Subscription Price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the Auditors appointed by the Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall be made on the basis that the aggregate Subscription Price payable by the Grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;
- (b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (c) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

The capacity of the Auditors in sub-paragraph 14.1 of this section is that of experts and not arbitrators and their certification shall be final and binding on the Company and the Grantees in the absence of manifest error. The costs of the Auditors shall be borne by the Company.

- 14.2 If there has been any alteration in the capital structure of the Company as referred to in paragraph 14 of this section, the Company shall, upon receipt of a notice from the Grantee in accordance with sub-paragraph 10.1 of this section, inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made pursuant to the certificate of the Auditors obtained by the Company for such purpose, or if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the Auditors to issue a certificate in that regard in accordance with the terms in this Schedule.

15. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the Grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “Cancellation Date”):

- (a) the Grantee commits or permits or attempts to commit or permit a breach of paragraph 17 of this section or any terms or conditions attached to the grant of the Option;
- (b) the Grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the Grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of the Company or a Subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

16. Termination

The Company may by resolution in general meeting at any time terminate the operation of the Scheme. Upon termination of the Scheme as aforesaid, no further Options shall be offered but the provisions of the Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Scheme.

17. Transferability

The Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt so to do (save that the Grantee

may nominate a nominee in whose name the Shares issued pursuant to the Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such Grantee.

18. Amendment

The Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the shareholders of the Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of Grantee; and (iii) any alteration to the aforesaid termination provisions.

19. Conditions of the Share Option Scheme

The Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) the approval of all the shareholders of the Company for the adoption of the Scheme; and
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the Options in accordance with the terms and conditions of the Scheme.

If the permission referred to in the aforesaid is not granted within two calendar months after the Adoption Date:

- (a) the Scheme will forthwith determine;
- (b) any Option granted or agreed to be granted pursuant to the Scheme and any offer of such a grant shall be of no effect; and
- (c) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Scheme or any Option.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed “Consents of experts” in appendix VI, copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI and the statement of adjustments in relation to the accountants’ report on the Company in Appendix I prepared by Ernst & Young.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Coudert Brothers in association with Orrick, Herrington & Sutcliffe LLP at 39th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including Thursday, 27 December 2007:

- (1) the memorandum of association and the articles of association of the Company;
- (2) the accountants’ report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;
- (3) the audited financial statements of the companies now comprising the Group for each of the three years ended 31 December 2006;
- (4) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (5) the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by Savills Valuation and Professional Services Limited, the texts of which are set out in Appendix IV to this prospectus;
- (6) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this prospectus;
- (7) the service contracts with Directors, referred to in the paragraph headed “Particulars of Directors’ service contracts” of Appendix VI to this prospectus;
- (8) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI to this prospectus;
- (9) the legal opinions prepared by Commerce & Finance Law Offices, the Company’s legal counsel as to PRC law, in respect of certain aspects of the Group and the property interests of the Group;
- (10) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Companies Law referred to in Appendix V to this prospectus;
- (11) the Companies Law; and
- (12) the rules of the Share Option Scheme.

EYANG

宇陽控股(集團)有限公司

EYANG HOLDINGS (GROUP) CO., LIMITED