

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Photar Electronics Group Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHINA PHOTAR ELECTRONICS GROUP LIMITED

中國豐達電子集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8220

**PROPOSED SUBSCRIPTION OF NEW SHARES
POSSIBLE SPECIAL DEAL UNDER RULE 25 OF THE TAKEOVERS CODE
AND
PROPOSED CHANGE OF COMPANY NAME**

Financial adviser to Emcom Limited



**昱豐融資有限公司
CERES CAPITAL LIMITED**

Independent financial adviser to
the Independent Board Committee and Independent Shareholders of
China Photar Electronics Group Limited



**WALLBANCK BROTHERS
Securities (Hong Kong) Limited**

A letter from the board of directors of China Photar Electronics Group Limited (the "Company") is set out on pages 5 to 21 of this circular.

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on page 22 of this circular. A letter from Wallbank Brothers Securities (Hong Kong) Limited containing its advice to the independent board committee and independent shareholders of the Company is set out on pages 23 to 47 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Suite 5601, The Center, 99 Queen's Road Central, Hong Kong on 27 July 2007, Friday, at 9:00 a.m. (or any adjournment thereof) is set out on pages 53 to 54 of this circular. If you are not able to attend the meeting, you are strongly urged to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

5 July 2007

CHARACTERISTICS OF GEM

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

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

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

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DEFINITIONS

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

“Announcement”	the announcement dated 13 June 2007 jointly issued by the respective board of directors of the Company and Emcom in relation to, among other things, the Subscription Agreement, the possible General Offer, the Special Deal and the proposed change of Company name
“Associate(s)”	has the meanings ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	means a day on which licensed banks in Hong Kong are required to be and are generally open for business (other than any Saturday, Sunday or gazetted public holiday in Hong Kong and in Singapore);
“Company”	China Photar Electronics Group Limited, a company incorporated in the Cayman Islands whose shares are listed on GEM
“Completion”	completion of the Subscription pursuant to the Subscription Agreement
“Completion Date”	means three Business Days after all of the conditions precedent specified in the Subscription Agreement have been fulfilled by the Company or, as the case may be, waived by the Subscribers (or such later date as the parties to the Subscription Agreement may agree in writing)
“Conditions”	the conditions precedent specified in clause 4.1 of the Subscription Agreement which are summarized in the paragraph headed “Conditions of the Subscription” in this circular
“Convertible Note”	the convertible notes in the aggregate principal sum of HK\$20 million issued by the Company pursuant to an agreement dated 7 June 2006
“Deposit”	the sum of HK\$4 million placed by the Subscribers with their solicitors in escrow under the Subscription Agreement

DEFINITIONS

“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company (or any adjournment thereof) to be convened to consider and, if thought fit, approve the Resolutions and the proposed change of Company name
“Emcom”	Emcom Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned as to 75%, 15% and 10% by Messrs. Phang Wah, Yong Wai Hong and Lee Pin Yeow respectively and is one of the Subscribers
“Executive”	the Executive of the Corporate Finance Division of the SFC (or any delegate of the Executive Director)
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Offer”	the unconditional mandatory cash offer for the Offer Shares in accordance with the Takeovers Code
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising Messrs. Chen Weirong, Lam Hon Kuen and Law Chi Yuen who are all independent non-executive Directors
“Independent Shareholders”	the disinterested holders of the Offer Shares as defined under or interpreted pursuant to the Takeovers Code
“Latest Practicable Date”	4 July 2007, being the latest practicable date for ascertaining certain information contained in this circular
“Long Stop Date”	31 August 2007 (or such later date as the parties to the Subscription Agreement may agree in writing)
“MCH”	Modern China Holdings Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Chen

DEFINITIONS

“Mr. Chen”	Mr. Chen Jijin, a Director and the Chairman of the Group and the sole shareholder of MCH, which holds approximately 54.39% of the issued share capital of the Company as at the date of the Subscription Agreement
“Noteholder”	Lark International Transport Systems Limited, being the holder of the Convertible Note as at the Latest Practicable Date, the beneficial owner of which is Mr. Chan Wai Kwong, Michael, an independent third party
“Offer Price”	the offer price of HK\$0.017 per Offer Share pursuant to the General Offer
“Offer Share(s)”	all the issued Shares at the relevant time of the General Offer save and except for the Shares which are held by the Subscribers or parties acting in concert with them and those which were held by MCH or its Associates as at the date of the Subscription Agreement
“parties acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“PRC”	the People’s Republic of China (for the purposes of this circular, excluding Hong Kong, Taiwan and Macau)
“Resolutions”	the resolutions to be considered by the Shareholders of the Company (or, where applicable, by the Independent Shareholders of the Company) which are necessary to: (i) give effect to the transactions contemplated under the Subscription Agreement; and (ii) comply with the GEM Listing Rules and the Takeovers Code and, including: (a) the approval of the terms of the Subscription Agreement; (b) the approval of the issue of the Subscription Shares; and (c) the approval of the Special Deal
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company

DEFINITIONS

“Shareholder(s)”	the holder(s) of the Share(s)
“Shareholder’s Loan”	all the outstanding loan due to Mr. Chen by the Company
“Smart Step”	Smart Step Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Lim Yi Shenn and is one of the Subscribers
“Special Deal”	the repayment of the Shareholder’s Loan upon Completion which constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	Emcom and Smart Step, and “Subscriber” shall mean any one of them
“Subscription”	the subscription of the Subscription Shares at a subscription price of HK\$0.017 each according to the terms and subject to the conditions under the Subscription Agreement
“Subscription Agreement”	the agreement dated 4 June 2007 entered into among the Company, the Subscribers, MCH and Mr. Chen in relation to the subscription of 1,800 million new Shares
“Subscription Price”	the subscription price of HK\$0.017 per Subscription Share pursuant to the Subscription Agreement
“Subscription Shares”	1,800 million new Shares
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Trading Day”	a full trading day upon which the Stock Exchange is open for business
“Wallbanck Brothers”	Wallbanck Brothers Securities (Hong Kong) Limited, a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the Special Deal
“HK\$”	Hong Kong dollar(s), the lawful currency in Hong Kong

LETTER FROM THE BOARD



CHINA PHOTAR ELECTRONICS GROUP LIMITED

中國豐達電子集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8220

Board of Directors:

Executive Directors

Mr. Chen Jijin (*Chairman*)

Ms. Huang Menghuai

Mr. Zhong Min

Independent non-executive Directors

Mr. Chen Weirong

Mr. Lam Hon Kuen

Mr. Law Chi Yuen

Registered office:

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681GT

George Town

Grand Cayman

Cayman Islands

British West Indies

*Head office and principal place
of business in Hong Kong:*

Suite 5601, The Center

99 Queen's Road Central

Hong Kong

5 July 2007

To the Shareholders

Dear Sir or Madam,

**PROPOSED SUBSCRIPTION OF NEW SHARES
POSSIBLE SPECIAL DEAL UNDER RULE 25 OF THE TAKEOVERS CODE
AND
PROPOSED CHANGE OF COMPANY NAME**

1. INTRODUCTION

Reference is made to the announcement dated 13 June 2007 jointly issued by the respective board of directors of the Company and Emcom relating to the Subscription Agreement, the possible General Offer, the possible Special Deal and the proposed change of the Company name.

The issue of the Subscription Shares is subject to various conditions precedent which include, among other things, obtaining the approval of the Shareholders at the EGM as required under the GEM Listing Rules. At the EGM, MCH and its Associates and the parties acting in concert with them will abstain from voting on the resolution(s) which require the approval of the Independent Shareholders.

LETTER FROM THE BOARD

Pursuant to the Subscription Agreement, at Completion the Company shall apply HK\$8 million of the proceeds from the Subscription for repayment of the Shareholder's Loan and upon which Mr. Chen shall duly execute a deed of release in favour of the Company for full discharge of the Shareholder's Loan. The repayment of the Shareholder's Loan using part of the proceeds from the Subscription will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code. Both the Board and the Subscribers consider that the repayment of the Shareholder's Loan is an arm's length transaction on normal commercial terms and therefore will apply to the Executive for his consent to such repayment. Pursuant to Note 5 to Rule 25 of the Takeovers Code, the Special Deal is subject to, among other things, the approval of the Independent Shareholders at a general meeting of the Company.

It is intended that after Completion and subject to the approval of the Shareholders, the name of the Company will be changed in order to reflect the change in controlling shareholder of the Company.

In connection with the foregoing, Messrs. CHEN Weirong, LAM Hon Kuen and LAW Chi Yuen, being the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to advise and make recommendation to the Independent Shareholders in respect of the Subscription Agreement and the Special Deal. Wallbanck Brothers has also been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect in accordance with the GEM Listing Rules and the Takeovers Code.

The purpose of this circular is to give you (i) further information on the Subscription, the Special Deal and the proposed change of Company name; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Subscription Agreement and the Special Deal; (iii) the advice and recommendation of Wallbanck Brothers to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the Special Deal; (iv) the notice of the EGM to be convened for the purpose of considering and, if thought fit, approving the resolutions on the Subscription Agreement and the transactions contemplated thereunder, the Special Deal and the proposed change of Company name.

2. SUBSCRIPTION AGREEMENT

Date: 4 June 2007

Parties: the Company, as issuer;
Emcom and Smart Step, collectively as Subscribers; and
MCH and Mr. Chen, as guarantors

Each of Emcom, Smart Step and their ultimate beneficial owners is independent of and not connected to the directors, chief executive and substantial shareholders of the Company, any of its subsidiaries or their respective Associates.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, having made all reasonable enquiries, the Company does not have any prior transactions or business relationship with Emcom, Smart Step or each of their ultimate beneficial owners.

Shares to be issued

Pursuant to the Subscription Agreement, an aggregate of 1,800 million Subscription Shares will be issued to the Subscribers or their nominees, representing approximately 282.38% of the existing issued share capital of the Company and approximately 73.85% of the issued share capital of the Company as enlarged by the Subscription. Of the Subscription Shares, 1,620 million Subscription Shares will be subscribed by Emcom, and 180 million Subscription Shares will be subscribed by Smart Step, a party acting in concert with Emcom, representing approximately 66.46% and 7.39% respectively of the enlarged issued share capital of the Company. The sole beneficial owner of Smart Step is a business advisor to Emcom who will continue his business advisory services to Emcom covering areas in corporate development and formulation of business strategies for the Group after the Completion and business expansion of the Group to new markets and countries. The Subscription Shares will rank *pari passu* in all respects with all existing Shares, including the right to receive all future dividends and distributions declared, made or paid by the Company on or after the date of their issue.

An application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares to be issued under the Subscription.

Subscription Price

The Subscription Shares will be issued at HK\$0.017 per Subscription Share which was determined after arm's length negotiations. This issue price of HK\$0.017 per Subscription Share represents:

- (a) a discount of approximately 94.24% from HK\$0.295 per Share, the closing price on 1 June 2007, being the last trading day prior to the suspension of trading of the Shares on 4 June 2007 pending the publication of the Announcement;
- (b) a discount of approximately 94.53% from HK\$0.311 per Share, the average closing price for the last 5 trading days prior to the suspension of trading of the Shares on 4 June 2007;
- (c) a discount of approximately 93.28% from HK\$0.253 per Share, the average closing price for the last 10 trading days prior to the suspension of trading of the Shares on 4 June 2007;

LETTER FROM THE BOARD

- (d) a discount of approximately 91.05% from HK\$0.190 per Share, the average closing price for the last 30 trading days prior to the suspension of trading of the Shares on 4 June 2007; and
- (e) a discount of approximately 15.0% from the audited consolidated net assets of the Group of approximately HK\$0.020 per Share as at 31 March 2007 (based on a total of 637,432,000 Shares in issue).

The aggregate consideration for the Subscription Shares of HK\$30.6 million will be paid in cash upon Completion. The Subscribers have placed the Deposit, i.e. an amount of HK\$4,000,000, with their solicitors in escrow. Upon Completion, the Deposit will be applied to set off against the consideration payable by the Subscribers. In the event that all the Conditions are satisfied on or before the Long Stop Date and the Subscribers elect not to proceed to Completion, the Company is entitled to forfeit the Deposit.

The Subscription Price represents a discount to the recent market prices of the Shares. The Directors and the Subscribers consider such discount acceptable as the liquidity of the Shares has been low. During the six months prior to the suspension of trading of the Shares on 17 May 2007, the average monthly turnover of the Shares was about 4,121,000 Shares, representing less than 0.65% of the total issued Shares of the Company. On the basis that the proceeds from the Subscription would reduce the Group's liabilities substantially and hence strengthen the Group's overall financial position, the Directors consider that the Subscription Agreement is in the interests of the Company and the Shareholders as a whole and its terms are fair and reasonable.

Conditions of the Subscription

Completion shall be conditional upon the following conditions being fulfilled (or being waived by the Subscribers in accordance with the Subscription Agreement) at or before 5:00 p.m. (Hong Kong time) on the Long Stop Date:

- (a) the Shares remaining listed and traded on the Stock Exchange at all times from the date of the Subscription Agreement to the Completion Date, save for any temporary suspension not exceeding 7 consecutive Trading Days (except for the suspension for the purpose of clearing any announcements to be released by the Company relating to the Subscription Agreement or the matters contemplated therein), or such longer period as the Subscribers may accept in writing, and no indication being received on or before the Completion Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) as a result of Completion or in connection with the terms of the Subscription Agreement;

LETTER FROM THE BOARD

- (b) listing of and permission to deal in all of the Subscription Shares being granted by the GEM Listing Committee of the Stock Exchange (either unconditionally, or subject to conditions which are acceptable to each of the Subscribers in their respective opinions);
- (c) passing of the Resolutions by the shareholders of the Company, other than shareholders abstaining from voting as may be so required by law, the GEM Listing Rules or by the Stock Exchange and/or the SFC (as the case may be), at the EGM;
- (d) the granting of consent to the Special Deal by the Executive;
- (e) the granting of any other waivers, consents, authorizations, clearances and approvals which are required from the Shareholders, the Stock Exchange and/or the SFC, which the Subscribers reasonably consider as necessary for Completion and the implementation of the other matters contemplated under the Subscription Agreement;
- (f) the representations, warranties and undertakings contained in or referred to in the Subscription Agreement remaining true and accurate in all material respects, and not misleading in any material respect, as given on the date of the Subscription Agreement and at Completion; and
- (g) the Company, MCH and Mr. Chen having complied fully with their respective obligations under the Subscription Agreement in all material respects and likewise having performed in all material respects all of the covenants and agreements required to be performed by each of them under the Subscription Agreement on or prior to the Completion Date.

Completion

Completion shall be conditional upon all the Conditions being fulfilled (or being waived by the Subscribers) at or before 5:00 p.m. on the Long Stop Date, or such other later date as the parties to the Subscription Agreement may agree in writing, and will take place three Business Days after all conditions of the Subscription Agreement have been fulfilled or waived. In the event that the above conditions of the Subscription Agreement are not fulfilled or waived by the Long Stop Date, i.e. 31 August 2007, the Subscription Agreement will lapse unless the parties to the Subscription Agreement agree upon an extension.

It is expected by the Company and the Subscribers that Completion will take place in or about early August 2007 and in any event no later than the Long Stop Date.

LETTER FROM THE BOARD

Reasons for the Subscription and use of proceeds

The Group had reported continuous operating losses for the past three years. The Group's audited consolidated loss attributable to Shareholders for the year ended 31 March 2005 and 2006 was approximately HK\$11.6 million and HK\$12.6 million respectively, and such net loss had increased to approximately HK\$28.5 million for the year ended 31 March 2007.

The Group's operations have been funded to a significant extent by the Convertible Note and the Shareholder's Loan. As at the date of the Subscription Agreement, the Convertible Note had an outstanding principal amount of HK\$20 million and the Shareholder's Loan amounted to approximately HK\$10.3 million. Pursuant to the terms of the Convertible Note (which are the same as the terms of the Convertible Note at the time when it was issued), the holder of the Convertible Note has the right to request the Company to redeem the Convertible Note at 92% of the outstanding principal amount after the first anniversary of the issue date. On 20 June 2007, the Company received a notice from the Noteholder requesting the Company for redemption of the Convertible Note. Consequently, an amount of HK\$18.4 million, being 92% of the outstanding principal amount of the Convertible Note, becomes due and repayable by the Company. The Company has agreed with the Noteholder that such amount will be repaid in full upon Completion. In the event that Completion does not take place, the Company shall explore other financing alternatives to meet its repayment obligation under the Convertible Note.

The Directors consider it imperative for the Group to have stable and strong financial position so as to enable long-term business development and to sustain healthy business growth. The Directors consider that the Subscription provides the Group with a good opportunity to expand its capital base and strengthen its overall financial position.

Pursuant to the Subscription Agreement, at Completion the Company shall apply HK\$8 million of the proceeds from the Subscription for repayment of the Shareholder's Loan and upon which Mr. Chen shall duly execute a deed of release in favour of the Company for full discharge of the Shareholder's Loan. The Directors and the Subscribers also intend to apply HK\$18.4 million from the proceeds of the Subscription for redemption of the Convertible Note after Completion and the remaining balance of the proceeds from the Subscription of approximately HK\$4.2 million for general working capital purposes. On the basis that the liabilities of the Group would be significantly reduced following Completion and the Group's overall financial position would be strengthened, the Directors consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Fund raising activity of the Company in the past 12 months

Other than the issuance of the Convertible Note on 7 June 2006, the Company has not carried out any other fund raising activities in the 12 months preceding the date of the Announcement. The following table summarizes the details of such convertible note of the Company:

Date of announcement	Nature of transaction	Amount of net proceeds	Intended use of proceeds	Actual use of proceeds
9 June 2006	Issue of convertible note at the principal amount of HK\$20,000,000	Approximately HK\$16,800,000	General working capital	General working capital

Shareholding Structure

Set out below is a table showing the Company's shareholding structure as at the Latest Practicable Date and the structure immediately after Completion assuming no change during the period except as described below:

Shareholders	Shareholding structure as at the Latest Practicable Date		Shareholding structure after Completion		Shareholding structure upon Completion and after restoration of public float (Note 2)	
	Shares	%	Shares	%	Shares	%
Emcom, Smart Step and parties acting in concert with them	-	-	1,800,000,000	73.85	1,481,374,000	60.78
Emcom and its nominees	-	-	1,620,000,000	66.46	1,333,236,600	54.70
Smart Step and its nominees	-	-	180,000,000	7.39	148,137,400	6.08
MCH (Note 1)	346,700,000	54.39	346,700,000	14.22	346,700,000	14.22
Public shareholders	290,732,000	45.61	290,732,000	11.93	609,358,000	25.00
Total	<u>637,432,000</u>	<u>100.00</u>	<u>2,437,432,000</u>	<u>100.00</u>	<u>2,437,432,000</u>	<u>100.00</u>

Notes:

1. MCH is wholly and beneficially owned by Mr. Chen, a Director and the creditor in respect of the Shareholder's Loan.
2. Assuming that each of Emcom and Smart Step will place down its shareholding in the Company by 90% and 10%, respectively, of the excess shares in order to restore the minimum public float requirement.

LETTER FROM THE BOARD

3. POSSIBLE UNCONDITIONAL MANDATORY CASH OFFER

As at the date of this circular, Emcom and the parties acting in concert with it do not hold any Shares. Upon Completion, Emcom will own approximately 66.46% of the enlarged issued share capital of the Company and will be obliged to make an unconditional mandatory general offer for all the issued shares of the Company, other than those already owned or agreed to be acquired by Emcom or parties acting in concert with it in accordance with Rule 26.1 of the Takeovers Code. Emcom has appointed Ceres Capital Limited which is independent of and not connected with the Company as its financial adviser in relation to the Subscription and the General Offer. Emcom has also appointed Partners Capital International Limited as its agent to make the General Offer on its behalf on the following terms and in accordance with Rule 26 of the Takeovers Code.

For each Offer Share HK\$0.017 in cash

The Offer Price of HK\$0.017 for each Offer Share is the same as the Subscription Price to be paid by Emcom for each Subscription Share under the Subscription Agreement.

During the period beginning six months immediately preceding 28 May 2007 and up to the date of the Announcement, there were no dealings in the Shares by the Subscribers or parties acting in concert with any of them. At present, none of the Subscribers and parties acting in concert with any of them holds any Shares.

Except for the Convertible Note which has an outstanding principal amount of HK\$20 million as at the Latest Practicable Date, there are no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

MCH confirms that as at the date of the Subscription Agreement, MCH and parties acting in concert with it held in aggregate 346,700,000 Shares, representing approximately 54.39% of the issued share capital of the Company which will be diluted to approximately 14.22% upon Completion. Under the Subscription Agreement, MCH and Mr. Chen have undertaken that they will not, and will procure their Associates and parties acting in concert with them that they will not, dispose of or part with their interests in the 346,700,000 Shares for 12 months from the Completion Date and that they will not accept the General Offer in respect of such Shares. As at the Latest Practicable Date, none of Emcom, its ultimate beneficial owners or any person acting in concert with it had received any irrevocable commitment to accept the General Offer.

The possible obligation of Emcom to make the General Offer will only arise after completion of the Subscription. The Subscription is conditional on, among other things, the Subscription Agreement becoming unconditional on or before the Long Stop Date.

Warning: The Subscription may or may not be approved and proceed, and therefore the General Offer is a possibility only. An announcement will be made as soon as practicable after Completion. Accordingly, Shareholders and prospective investors are reminded to exercise extreme caution when dealing in the securities of the Company.

LETTER FROM THE BOARD

Comparison of value

The Offer Price represents:

- (a) a discount of approximately 94.24% from HK\$0.295 per Share, the closing price on 1 June 2007, the last trading day prior to the suspension of trading of the Shares on 4 June 2007 pending the publication of the Announcement;
- (b) a discount of approximately 94.53% from HK\$0.311 per Share, the average closing price for the last 5 trading days prior to the suspension of trading of the Shares on 4 June 2007;
- (c) a discount of approximately 93.28% from HK\$0.253 per Share, the average closing price for the last 10 trading days prior to the suspension of trading of the Shares on 4 June 2007;
- (d) a discount of approximately 91.05% from HK\$0.190 per Share, the average closing price for the last 30 trading days prior to the suspension of trading of the Shares on 4 June 2007; and
- (e) a discount of approximately 15.0% from the audited consolidated net assets of the Group of approximately HK\$0.020 per Share as at 31 March 2007 (based on a total of 637,432,000 Shares in issue).

Highest and lowest prices

The highest closing price per Share, based on the Share price as quoted on the Stock Exchange during the six-month period starting from 13 December 2006 to the date of the Announcement, was HK\$0.36 on 29 May 2007.

The lowest closing price per Share, based on the Share price as quoted on the Stock Exchange during the six-month period starting from 13 December 2006 to the date of the Announcement, was HK\$0.12 on 16 February 2007.

Total consideration

As at the Latest Practicable Date, the Company had 637,432,000 Shares in issue. Based on the offer price of HK\$0.017 per Offer Share, the General Offer values all the issued Shares at approximately HK\$10.84 million. Taking into account the undertaking by Mr. Chen not to tender the 346,700,000 Shares in his beneficial ownership for acceptance under the General Offer, a total of 290,732,000 Offer Shares shall be subject to the General Offer and are valued at approximately HK\$4.94 million.

LETTER FROM THE BOARD

Ceres Capital Limited, as the financial adviser to Emcom in respect of the Subscription and the General Offer, and Partners Capital International Limited, as the agent to make the General Offer on behalf of Emcom, are satisfied that there are sufficient financial resources available for Emcom to meet its payment obligations under the Subscription and in the event of full acceptances of the Offer Shares under the General Offer.

Effect of accepting the General Offer

By accepting the General Offer, the relevant Shareholders will sell to Emcom their Offer Shares, and all rights attached to them, including the rights to receive all dividends and distributions declared, made or paid on or after the Completion Date.

Settlement of the consideration

Seller's ad valorem stamp duty amounting to HK\$1.00 for every HK\$1,000 or part thereof (rounded up to the nearest HK\$1.00) will be deducted from the consideration payable to the Shareholders who accept the General Offer. Emcom will arrange for payment of the stamp duty in connection with such sale.

The amounts due to the Shareholders who accept the General Offer will be posted by Emcom or its agent at the risk of the Shareholders accepting the General Offer as soon as possible but in any event within 10 days of the date of receipt of a duly completed acceptance in accordance with the Takeovers Code.

4. POSSIBLE SPECIAL DEAL

Pursuant to the Subscription Agreement, the Company shall apply HK\$8 million of the proceeds from the Subscription for repayment of the Shareholder's Loan at Completion and upon which Mr. Chen shall duly execute a deed of release in favour of the Company for full discharge of the Shareholder's Loan. In other words, Mr. Chen will waive the Company from its obligation to repay the Shareholder's Loan to the extent of any amount in excess of HK\$8 million. As at the date of the Subscription Agreement, the Shareholder's Loan, which is interest-free, had an outstanding amount of approximately HK\$10.3 million. The repayment of the Shareholder's Loan using part of the proceeds from the Subscription will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code. Both the Board and the Subscribers consider that the repayment of the Shareholder's Loan in the manner as provided under the Subscription Agreement is an arm's length transaction on normal commercial terms and is in the interest of the Company and will seek from the Executive his consent to such repayment. Pursuant to Note 5 to Rule 25 of the Takeovers Code, the Special Deal is subject to, among other things, the approval of the Independent Shareholders at a general meeting of the Company.

LETTER FROM THE BOARD

5. INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture and sale of electronics consumer products, including electronic telecommunication, office automation and network products. It is the intention of the Company to continue its existing business after completion of the General Offer.

6. INFORMATION ON THE SUBSCRIBERS

Emcom

Emcom is an investment holding company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 75% by Mr. Phang Wah, 15% by Mr. Yong Wai Hong and 10% by Mr. Lee Pin Yeow, all citizens of Singapore. Messrs. Phang Wah, Yong Wai Hong and Lee Pin Yeow altogether have been actively engaged in the development of telecommunication infrastructure and telecommunication services in the Asia Pacific region. Through their various business ventures headquartered in Singapore, the three beneficial owners of Emcom are also involved in the distribution of telecommunications services and products in the Asia Pacific region, particularly Singapore, Malaysia and Indonesia.

The Directors expect that the Group would benefit from the additional financial and management resources from Emcom, particularly in strengthening the operations and future development of the Group, and will explore and utilize the distribution network of Emcom in the Asia Pacific region for the Group's products.

Messrs. Yong Wai Hong and Lee Pin Yeow are expected to be nominated to the Board and their biographical details are summarised below under the section headed "Proposed Change of Board Composition".

Smart Step

Smart Step is an investment holding company incorporated in the British Virgin Islands with limited liability and is solely and beneficially owned by Mr. Lim Yi Shenn, a citizen of Singapore. Mr. Lim has more than 10 years of banking and corporate experience and had worked in Sanwa Bank and Banque National de Paris before he founded his own corporate advisory firm. Mr. Lim has particular experience in advising various industries like software, mobile and telecommunication, manufacturing and food and beverage sectors throughout the Asia Pacific region. Mr. Lim holds a Bachelor of Arts in Economics from University of California Berkeley and a Master of Business Administration degree from University of London Leeds. Mr. Lim is both an investor and a corporate adviser. He is presently a business advisor to Emcom. Although Mr. Lim may not be part of the senior management of the Group after the Completion, it is currently expected that Mr. Lim will continue his business advisory services to Emcom covering areas in corporate development and formulation of business strategies for the Group after the Completion and business expansion of the Group to new markets and countries.

LETTER FROM THE BOARD

Save as the business relationship and Smart Step being a party acting in concert with Emcom, Emcom and Smart Step are independent of and not connected with each other, and are not parties to any shareholders agreement or other voting agreement, or any other agreement, arrangement, understanding or undertaking, formal or informal, express or implied, with respect to the Subscription Shares.

The Directors confirm that the Subscribers and each of their ultimate beneficial owners are third parties independent of the Company and are not connected persons of the Company. Mr. Lim Yi Shenn, the ultimate beneficial owner of Smart Step holds certain number of shares in two private companies owned by Mr. Phang Wah, being one of the ultimate beneficial owners of Emcom. Another ultimate beneficial owner of Emcom, Mr. Yong Wai Hong, is director of two private companies owned by Mr. Phang Wah. Further, Mr. Lee Pin Yeow, the third ultimate beneficial owner of Emcom, is a shareholder of a private company owned by Mr. Phang Wah. Other than these relationships, there are no other connections or relationships among the ultimate beneficial owners of the Subscribers.

7. FUTURE INTENTIONS

Emcom will conduct a review of the financial position and operations of the Group with a view to broadening and expanding the business and operations of the Group. The Directors and the Subscribers intend that the Group will maintain its existing business and there is no plan to redeploy any fixed assets of the Group. In addition, new employees may be needed to help strengthen the corporate management and develop new expanded business lines of the Group, although there is no plan to change the management structure and employees of the existing business.

Emcom intends that the Subscription is a long-term investment for it and intends to work closely with the existing management of the Group. It intends to evaluate the potential of expanding the existing businesses into other high-growth telecommunications value-added services. It is also the intention of Emcom to, after Completion, explore and utilize the distribution network of Emcom in the Asia Pacific region for the Group's products. However, there is no specific plan or target to which the Company is committed at present and no negotiation has taken place in this regard. Emcom confirms that there is no specific plan to inject any of its existing assets or business into the Group.

The Directors believe that the Company will benefit from the Subscription to the extent that the Group's liabilities will be reduced significantly and the overall financial position will be strengthened. The Group would also benefit from having Emcom as the controlling shareholder of the Company as all three beneficial owners of Emcom have extensive business experience, particularly in telecommunications infrastructure and telecommunications services in the Asia Pacific region. For background information on the two beneficial owners of Emcom who will be appointed to the Board, namely Messrs. Yong Wai Hong and Lee Pin Yeow, please refer to the section headed "Proposed Change of Board Composition" below.

LETTER FROM THE BOARD

8. PROPOSED CHANGE OF BOARD COMPOSITION

Emcom intends that no material change to the existing employees of the Group will be made by reasons only of the General Offer. However, pursuant to the Subscription Agreement, the Subscribers have the right to appoint up to 5 persons to the Board and/or to replace the existing Directors as and when they consider appropriate. It is presently expected that Emcom will nominate new directors to replace all the existing Directors including independent non-executive Directors and a new chairman or chief executive officer will be appointed to the Group. Any appointment of new directors to the Board will be made in full compliance with the requirements of the Takeovers Code. It is currently expected that Messrs. Yong Wai Hong and Lee Pin Yeow will be nominated to join the Board. There may be other changes to the Board after the Subscription and the Company will announce such further information in accordance with the GEM Listing Rules requirements as and when appropriate. Particulars of the proposed new Directors are set out below, and further details will be announced later when they are appointed as Directors:

Mr. Lee Pin Yeow

Mr. Lee Pin Yeow, 32, is an entrepreneur in both the property and technology sectors in the Asia Pacific region. He has extensive experience in the areas of wireless broadband technology and operations and has strong relationships with multi-national corporations as his technology vendors and partners.

Mr. Lee holds a diploma in Building from Singapore Polytechnic and a Bachelor of Building first class honours from the University of New South Wales, Sydney, Australia. He is presently the Chief Technical Officer of Empire Communications Technology Pte Ltd. which was co-founded by him and is engaged in the development of telecommunication infrastructure and telecommunication services in the Asia Pacific region.

As at the date of this circular, Mr. Lee does not hold any Shares.

Mr. Yong Wai Hong

Mr. Yong Wai Hong, 26, has extensive experience in business development and marketing communications. He had been involved in various start-up companies and had helped them expand and tap into international markets, particularly the Asia Pacific region.

Mr. Yong graduated with an honours degree from the University of Wisconsin – Stevens Point with majors in Economics and History. He is presently the Managing Director of Empire Communications Technology Pte Ltd which was co-founded by him and is engaged in the development of telecommunication infrastructure and telecommunication services in the Asia Pacific region.

As at the date of this circular, Mr. Yong does not hold any Shares.

LETTER FROM THE BOARD

9. PROPOSED CHANGE OF NAME

Subject to approval by the Shareholders of the Subscription Agreement and the passing of a special resolution approving the change of company name, the name of the Company will be changed to “Emcom International Limited 帝国通讯科技有限公司” to reflect the change in the controlling shareholder of the Company.

Upon the change of Company name becoming effective, all existing share certificates bearing the current name of China Photar Electronics Group Limited 中國豐達電子集團有限公司 will continue to be evidence of title to the Shares and will continue to be valid for trading, settlement and registration purposes and the rights of the Shareholders will not be affected as a result of the change of Company name. Accordingly, there will not be any arrangement for an exchange of existing share certificates of the Company for new share certificates bearing the Company’s new name. Should the change of Company name become effective, any issue of share certificates thereafter will be in the new company name and the securities of the Company will be traded on the Stock Exchange in the new name. Further announcement will be made when the change of Company name becomes effective.

10. MAINTAINING THE LISTING STATUS OF THE COMPANY ON THE STOCK EXCHANGE

Emcom does not intend to exercise the power of compulsory acquisition under the Companies Law of the Cayman Islands. It intends to maintain the listing status of the Shares on the Stock Exchange.

Upon Completion, the Subscribers and MCH will be interested in approximately 73.85% and 14.22%, respectively, of the enlarged issued share capital of the Company. The public float of the Company will be approximately 11.93% and will therefore be less than the 25% minimum public float requirement applicable to the Company under the GEM Listing Rules. Therefore, Emcom and its directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float will exist for the Shares upon the close of the General Offer, including by means of potential placements by the Subscribers. Based on the existing shareholding structure of the Company, MCH is the only substantial shareholder (as defined under the GEM Listing Rules) and will hold approximately 14.22% of the entire issue share capital of the Company upon Completion. To ensure the Company’s strict compliance with the 25% minimum public float requirement under the GEM Listing Rules upon Completion, Emcom and parties acting in concert with it shall place down 318,626,000 Shares (the “Excess Shares”) representing approximately 13.07% of the entire issued share capital of the Company immediately upon Completion. Pursuant to Rule 21.2 of the Takeovers Code, Emcom and the parties acting in concert with it are restricted to dispose of any Shares during the General Offer period, the Stock Exchange has stated that the Company shall comply with the public float requirement upon the close of the General Offer. Emcom (and parties acting in concert with it) will enter into a fully underwritten placing arrangement with a placing agent as permitted under Rule 21.2 of the Takeovers Code to place down the Excess Shares and any additional Shares in respect of which acceptances are tendered under the General Offer so as to enable the Company to comply with the 25% minimum

LETTER FROM THE BOARD

public float requirement upon the close of the General Offer. As Completion is subject to various conditions precedent and the Subscription may or may not proceed, Emcom (and parties acting in concert with it) had not entered into any placing arrangement as at the Latest Practicable Date for the purpose of complying with the minimum public float requirement and will not do so until after Completion. Details of such placing arrangement will be disclosed in the composite offer document to be jointly issued by the Company and Emcom for the purpose of the General Offer, if any.

The Stock Exchange has stated that if, at the close of the General Offer, less than 25% of the Shares are held by the public or the Stock Exchange believes that:

- a false market exists or may exist in the Shares; or
- there are too few Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

11. ARRANGEMENT IN RELATION TO THE GENERAL OFFER

Other than the Subscription under the Subscription Agreement and the intention to maintain public float of the Company, there is no agreement, arrangement or understanding existing between the Company, the Subscribers or any person acting in concert with either of them or any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the General Offer, and there is no intention to enter into any such agreement, arrangement or understanding.

12. DELAY IN DESPATCH OF THE OFFER DOCUMENT

Rule 8.2 of the Takeovers Code provides that an offer document should normally be posted by or on behalf of the offeror within 21 days of the date of the announcement of the terms of offer (i.e. the Announcement). Pursuant to Note 2 to Rule 8.2 of the Takeovers Code, the Executive's consent is required if the making of offer is subject to the prior fulfillment of a pre-condition and the pre-condition cannot be fulfilled within the time period contemplated by Rule 8.2 of the Takeovers Code. An application has been made to the Executive pursuant to Note 2 to Rule 8.2 of the Takeovers Code for the consent to the delay in despatch of the composite offer document. The composite offer document containing, among other things, the advice from the independent board committee and the independent financial adviser, in relation to the General Offer will be posted to the Shareholders within 7 days from Completion. It is expected by the Company and the Subscribers that Completion will take place in or before early August 2007 and the General Offer will commence within 7 days from Completion.

13. EGM AND PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

A notice convening the EGM to be held at Suite 5601, The Center, 99 Queen's Road Central, Hong Kong on 27 July 2007, Friday, at 9:00 a.m. (or any adjournment thereof) is set out at the end of this circular.

LETTER FROM THE BOARD

If you are not able to attend the EGM, you are requested to complete and return the form of proxy for the EGM enclosed in this circular in accordance with the instructions printed thereon to the Company's branch share registrar, Tengis Limited in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

According to the Articles of Association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required under the GEM Listing Rules or is (before or on the declaration of the result of the show of hands) demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three (3) 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) by 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) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the Shares conferring that right.

In addition, under the GEM Listing Rules, if the chairman of the meeting and/or the Directors individually or collectively hold(s) proxies in respect of Shares holding 5% or more of the total voting rights of the Company at the EGM, and if the votes cast at the EGM on a show of hands are in the opposite manner to that instructed in those proxies, then the chairman shall demand a poll. If, however, it is apparent from the total proxies held that a vote taken on a poll will not reverse the vote taken on a show of hands, then the chairman shall not be required to demand a poll.

The resolutions to be proposed at the EGM in relation to the Subscription Agreement, the Special Deal and the proposed change of Company name will be voted by way of a poll.

As at the Latest Practicable Date, MCH and its Associates held 346,700,000 Shares, representing approximately 54.39% of the total issued share capital of the Company. MCH is wholly and beneficially owned by Mr. Chen who is the creditor in respect of the

LETTER FROM THE BOARD

Shareholder's Loan. The repayment of the Shareholder's Loan using part of the proceeds from the Subscription will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code. At the EGM, MCH and its Associates and the parties acting in concert with them will abstain from voting on the resolution in respect of the Special Deal which requires the approval of the Independent Shareholders under the Takeovers Code.

The Independent Board Committee has been formed, comprising the three independent non-executive Directors, to advise and make recommendation to the Independent Shareholders in respect of the Subscription Agreement and the Special Deal. Wallbanck Brothers has also been appointed as the independent financial adviser in accordance with the GEM Listing Rules and the Takeovers Code to advise the Independent Board Committee and the Independent Shareholders in this connection.

14. RECOMMENDATION

Having considered the potential benefits which the Subscription would bring to the Group and the advice given by Wallbanck Brothers contained in this circular, the Directors consider that the Subscription Agreement and the Special Deal are in the interests of the Company and the Shareholders as a whole and recommend all Independent Shareholders to attend and vote at the EGM in favour of the ordinary resolutions set out in the notice of the EGM. The Directors also recommend all the Shareholders to vote at the EGM in favour of the special resolution set out in the notice of the EGM to approve the proposed change of Company name. The terms of the resolutions to be proposed at the EGM are set out at the end of this circular.

Independent Shareholders are urged to read carefully the letter from the Independent Board Committee set out on page 22 of this circular and the letter from Wallbanck Brothers set out on pages 23 to 47 of this circular containing their respective advice and recommendations to the Independent Shareholders as to how to vote at the EGM with regard to the Subscription Agreement and the Special Deal.

15. GENERAL

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

Yours faithfully,
For and on behalf of the Board
Chen Jijin
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the full text of a letter from the Independent Board Committee to the Independent Shareholders in connection with the Subscription Agreement and the Special Deal prepared for inclusion in this circular.



CHINA PHOTAR ELECTRONICS GROUP LIMITED

中國豐達電子集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8220

5 July 2007

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED SUBSCRIPTION OF NEW SHARES AND POSSIBLE SPECIAL DEAL UNDER RULE 25 OF THE TAKEOVERS CODE

We have been appointed to form this Independent Board Committee to consider and advise you on the terms of the Subscription Agreement and the Special Deal, details of which are set out in the circular issued by the Company to the Shareholders dated 5 July 2007 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from Wallbanck Brothers set out on pages 5 to 21 and pages 23 to 45 of the Circular respectively.

Having taken into account the principal factors and reasons considered by Wallbanck Brothers, its conclusion and advice, we concur with the view of Wallbanck Brothers and consider that the Subscription Agreement and the Special Deal are in the interests of the Company and the Shareholders as a whole and their respective terms are fair and reasonable.

Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder and the Special Deal.

Yours faithfully,

For and on behalf of the

Independent Board Committee

CHEN Weirong LAM Hon Kuen LAW Chi Yuen

Independent non-executive Directors

LETTER FROM WALLBANCK BROTHERS

The following is the full text of a letter of advice from Wallbanck Brothers, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Subscription and the Special Deal, for the purpose of incorporation into this circular.



**WALLBANCK BROTHERS
Securities (Hong Kong) Limited**

1005B, Tower 1, Lippo Centre,
89 Queensway, Central,
Hong Kong

5 July 2007

*To the Independent Board Committee and
the Independent Shareholders of
China Photar Electronics Group Limited*

Dear Sirs,

**PROPOSED SUBSCRIPTION OF NEW SHARES
AND
POSSIBLE SPECIAL DEAL**

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Special Deal, details of which are set out in the “Letter from the Board” contained in the circular to the Shareholders dated 5 July 2007 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires the otherwise.

On 13 June 2007, the Board announced that the Subscribers, MCH, Mr. Chen and the Company have entered into the Subscription Agreement on 4 June 2007 in relation to the subscription of a total of 1,800 million Subscription Shares at a subscription price of HK\$0.017 per Subscription Share. The aggregate consideration for the Subscription Shares is HK\$30.6 million and will be paid in cash by the Subscribers upon Completion. Upon Completion, Emcom and its Associates will be interested in 1,620 million Shares, representing approximately 66.46% of the share capital of the Company as enlarged by the Subscription, resulting in a change of control of the Company, and Smart Step, a party acting in concert with Emcom, will be interested in 180 million Shares, representing approximately 7.39% of the share capital of the Company as enlarged by the Subscription. The issue of the Subscription Shares is subject to various conditions precedent which

LETTER FROM WALLBANCK BROTHERS

includes obtaining the approval of the Shareholders at the EGM under the GEM Listing Rules. At the EGM, MCH and its Associates and the parties acting in concert with them will abstain from voting on the resolution(s) which require the approval of the Independent Shareholders.

Pursuant to the Subscription Agreement, at Completion the Company shall apply HK\$8 million of the proceeds from the Subscription for repayment of the Shareholder's Loan and upon which Mr. Chen shall duly execute a deed of release in favour of the Company for full discharge of the Shareholder's Loan. The repayment of the Shareholder's Loan using part of the proceeds from the Subscription will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code. Pursuant to Note 5 to Rule 25 of the Takeovers Code, the Special Deal is subject to, among other things, the approval of the Independent Shareholders at a general meeting of the Company.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Subscription and the Special Deal. We have been appointed by the Independent Board Committee to advise the Independent Board Committee as to whether the terms of the Subscription and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned and whether the Subscription Agreement is in the interest of the Company and the Shareholders as a whole, and further to give our opinions for the Independent Board Committee's consideration in making their recommendation to the Independent Shareholders as to whether or not the Independent Shareholders should approve the Subscription and the Special Deal at the EGM.

Messrs. Chen Weirong, Lam Hon Kuen and Law Chi Yuen, who are all independent non-executive Directors, have confirmed to the Company their nil interests in the Company and that they are independent with respect to the Subscription and the Special Deal. Accordingly, the Independent Board Committee comprises Messrs. Chen Weirong, Lam Hon Kuen and Law Chi Yuen.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the accuracy of the information, opinions and representations provided to us by the Directors and management of the Company, and have assumed that all information, opinions and representations contained or referred to in this circular were true and accurate at the time when they were made and will continue to be accurate as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in this circular were reasonably made after due enquiry. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have received sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this circular to provide a reasonable basis for our opinions and recommendations. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in this

LETTER FROM WALLBANCK BROTHERS

circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business, financial position and affairs of the Company.

In formulating our opinion, we have relied on the financial information provided by the Company, particularly, on the accuracy and reliability of financial statements and other financial data of the Company. We have not audited, compiled nor reviewed the said financial statements and financial data. We shall not express any opinion or any form of assurance on them. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Directors have also advised us that no material facts have been omitted from the information to reach an informed view, and we have no reason to suspect that any material information has been withheld. We have not carried out any feasibility study on any past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company. Our opinion has been formed on the assumption that any analysis, estimation, forecast, anticipation, condition and assumption provided by the Company are valid and sustainable. Our opinions shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company.

In formulating our opinion, we have not considered the taxation implications on the Independent Shareholders arising from the Subscription and the Special Deal as these are particular to the individual circumstances of each Shareholder. It is emphasized that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her decision to the Subscription and the Special Deal. In particular, the Independent Shareholders who are overseas residents or are subject to overseas taxation or Hong Kong taxation on securities dealings should consult their own tax positions, and if in any doubt, should consult their own professional advisers.

Our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of, the Latest Practicable Date. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention before and after the EGM.

Our opinions are formulated only and exclusively for the purpose of the Subscription and the Special Deal and shall not be used for any other purpose in any circumstance nor for any comparable purpose with any other opinions.

LETTER FROM WALLBANCK BROTHERS

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscription and the Special Deal, we have taken into consideration the following principal factors and reasons:

A. The Subscription

1. Business review of the Group

The Group is principally engaged in the manufacture and sale of electronics consumer products, including electronic telecommunication, office automation and network products.

Tabularised below is a summary of the audited consolidated financial statements for the three years ended 31 March 2007:

	Year ended 31 March 2007 (audited) (HK\$'000)	Year ended 31 March 2006 (audited) (HK\$'000)	Year ended 31 March 2005 (audited) (HK\$'000)
Turnover	63,072	64,147	34,526
Cost of sales	<u>(56,675)</u>	<u>(58,717)</u>	<u>(35,003)</u>
Gross profit/(loss)	6,397	5,430	(477)
Other revenue	127	2,621	682
Distribution expenses	–	(1)	(17)
Administrative expenses	<u>(32,845)</u>	<u>(21,756)</u>	<u>(11,572)</u>
Loss from operations	(26,321)	(13,706)	(11,384)
Share of profits of jointly controlled entity	940	407	–
Finance costs	<u>(3,129)</u>	<u>–</u>	<u>–</u>
Loss before taxation	(28,510)	(13,299)	(11,384)
Income tax refund/(expenses)	<u>–</u>	<u>700</u>	<u>(233)</u>
Profit/(loss) attributable to Shareholders	<u><u>(28,510)</u></u>	<u><u>(12,599)</u></u>	<u><u>(11,617)</u></u>

Sources: the Company's annual reports for the year ended 31 March 2006 and 31 March 2007

LETTER FROM WALLBANCK BROTHERS

Based on the Company's annual report for the year ended 31 March 2006 ("2006"), the Group recorded a net loss attributable to Shareholders of approximately HK\$12.599 million in comparison with a net profit attributable to Shareholders of approximately HK\$11.617 million for the year ended 31 March 2005 ("2005"). The Group had an increase of approximately 88.0% in administrative expense to approximately HK\$21.756 million in 2006 (2005: approximately HK\$11.572 million). The Group's turnover increased by approximately 85.79% to approximately HK\$64.147 million in 2006 (2005: approximately HK\$34.526 million). Gross profit of approximately HK\$5.43 million was recorded in 2006 in comparison with a gross loss of approximately HK\$477,000 in 2005.

As stated in the Company's annual report in 2006, the net loss attributable to Shareholders of the Group in 2006 was approximately HK\$12.599 million. The said loss was mainly due to bad debt written off for the impairment of other receivables and increase in administrative expenses for paying the non-recurrent cost to create additional distribution and selling points over the Mainland China, in order to strengthen and expand the existing distribution and selling network of the Group.

Based on the Company's annual report for the year ended 31 March 2007 ("2007"), the Group recorded a net loss attributable to Shareholders of approximately HK\$28.510 million in comparison with a net loss attributable to the Shareholders of approximately HK\$12.599 million in 2006. The Group incurred an increase of approximately 50.97% in administrative expense to approximately HK\$32.845 million in 2007 (2006: approximately HK\$21.756 million). The Group's turnover decreased by approximately 1.68% to approximately HK\$63.072 million in 2007 (2006: approximately HK\$64.147 million).

As stated in the Company's 2007 annual report in 2007, the Group has launched new digital AV products to the market and at the same time discontinued non-profitable production lines. The new products' contribution in terms of turnover was approximately HK\$50.141 million for 2007. As the businesses on the new AV products are still in the development stage despite a year of fast expansion, the Group continued to operate a loss. Net loss attributable to equity holders of the Group in 2007 was approximately HK\$28.510 million. The said loss was mainly due to bad debt written off for the impairment of trade receivables and increase in administrative expenses for paying non-recurrent cost incurred in creating additional distribution and selling points throughout the Mainland China in order to strengthen and expand the existing distribution and selling network of the Group.

The Shareholders shall note that in the 2007 annual report, the auditor's opinion indicated that the Group incurred a net loss of HK\$28,510,000 during the year ended 31 March 2007 and, as of that date, the Group's current liabilities

LETTER FROM WALLBANCK BROTHERS

exceeded its current assets by HK\$5,565,000. These conditions, along with other matters, indicate a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

2. *Other financing alternatives*

As stated in the Letter from the Board, save and except the issuance of the Convertible Note on 7 June 2006, the Company has not carried out any other fund raising activities in the 12 months preceding the date of the Announcement.

In view of unsatisfactory liquidity and high leverage positions of the Group, we have enquired with and were informed by the Directors that they have considered various methods, namely debt financing and equity financing, for fund raising. Nevertheless, in view of that (i) the Group is still recording loss from its business operations at present; (ii) the high gearing position of the Group; and (iii) the Group lacks valuable assets for pledging against bank borrowings, the Directors believe that the Company would be unable to obtain additional debts/borrowings; and therefore, debt financing is not considered to be practical to the Group.

With regard to equity financing, the Company is a GEM listed company with relatively small market capitalisation. Accordingly, the Directors advised that placing of new Shares under the general mandate granted to the Directors would be rather inadequate. In addition, the Directors also advised that the Company would be unable to secure an underwriter in the case of a rights issue or an open offer due to (i) the present poor business and financial positions of the Group as set forth under the section headed "Business review of the Group" in this letter; and (ii) the low liquidity of the Shares which will be described in more details below in this letter. Even if the Company can succeed in procuring an underwriter, the Shares to be issued in either a rights issue or an open offer are expected to be at a deep discount not to mention that both the two methods will be more time-consuming than the subscription of new shares.

Having taken into account the above reasons, it is reasonable to infer that the Subscription is one of the most feasible and time effective methods that the Group can reasonably use for fund raising purpose.

3. *Principal terms of the Subscription*

Date	4 June 2007
Parties	the Company, as issuer; Emcom and Smart Step, collectively as Subscribers and MCH and Mr. Chen, as guarantors

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Information of the Subscribers

(i) Emcom

According to the Letter from the Board, Emcom is an investment holding company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 75% by Mr. Phang Wah, 15% by Mr. Yong Wai Hong and 10% by Mr. Lee Pin Yeow, all citizens of Singapore. Messrs. Phang Wah, Yong Wai Hong and Lee Pin Yeow altogether have been actively engaged in the development of telecommunication infrastructure and telecommunication services in the Asia Pacific region. Through their various business ventures headquartered in Singapore, the three beneficial owners of Emcom are also involved in the distribution of telecommunications services and products in the Asia Pacific region, particularly Singapore, Malaysia and Indonesia.

The Directors expect that the Group would benefit from the additional financial and management resources from Emcom, particularly in strengthening the operations and future development of the Group, and will explore and utilize the distribution network of Emcom in the Asia Pacific region for the Group's products.

(ii) Smart Step

According to the Letter from the Board, Smart Step is an investment holding company incorporated in the British Virgin Islands with limited liability and is solely and beneficially owned by Mr. Lim Yi Shenn, a citizen of Singapore. Mr. Lim has more than 10 years of banking and corporate experience and had worked in Sanwa Bank and Banque National de Paris before he founded his own corporate advisory firm. Mr. Lim has particular experience in advising various industries like software, mobile and telecommunication, manufacturing and food and beverage sectors and throughout the Asia Pacific region. Mr. Lim holds a Bachelor of Arts in Economics from University of California Berkeley and a Master of Business Administration degree from University of London Leeds. Mr. Lim is both an investor and a corporate adviser. He is presently a business advisor to Emcom. Although Mr. Lim may not be part of the senior management of the Group after the Completion, it is currently expected that Mr. Lim will continue his business advisory services to Emcom covering areas in corporate development and formulation of business strategies for the Group after the Completion and business expansion of the Group to new markets and countries.

Save as the business relationship and Smart Step being a party acting in concert with Emcom, Emcom and Smart Step are independent of and not connected with each other, and are not parties to a

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shareholders agreement or other voting agreement, or any other agreement, arrangement, understanding or undertaking, formal or informal, express or implied, with respect to the Subscription Shares.

The Directors confirm that the Subscribers and each of their ultimate beneficial owners are third parties independent of the Company and are not connected persons of the Company. Mr. Lim Yi Shenn, the ultimate beneficial owner of Smart Step holds certain number of shares in a private company owned by Mr. Phang Wah, being one of the ultimate beneficial owners of Emcom. Another ultimate beneficial owner of Emcom, Mr. Yong Wai Hong, is director of two private companies owned by Mr. Phang Wah. Further, Mr. Lee Pin Yeow, the third ultimate beneficial owner of Emcom, is a shareholder of a private company owned by Mr. Phang Wah. Other than these relationships, there are no other connections or relationships among the ultimate beneficial owners of the Subscribers.

Shares to be issued

According to the Letter from the Board, pursuant to the Subscription Agreement, an aggregate of 1,800 million Subscription Shares will be issued to the Subscribers or their nominees, representing approximately 282.38% of the existing issued share capital of the Company and approximately 73.85% of the issued share capital of the Company as enlarged by the Subscription. Of the Subscription Shares, 1,620 million Subscription Shares will be subscribed by Emcom, and 180 million Subscription Shares will be subscribed by Smart Step, a party acting in concert with Emcom, representing approximately 66.46% and 7.39% respectively of the enlarged issued share capital of the Company. The sole beneficial owner of Smart Step is a business advisor to Emcom who will continue his business advisory services to Emcom covering areas in corporate development and formulation of business strategies for the Group after the Completion and business expansion of the Group to new markets and countries. The Subscription Shares will rank pari passu in all respects with all existing Shares, including the right to receive all future dividends and distributions declared, made or paid by the Company on or after the date of their issue.

The Subscription Shares will be issued at HK\$0.017 per Subscription Share which was determined after arm's length negotiations. This issue price of HK\$0.017 per Subscription Share represents:

- (a) a discount of approximately 94.24% from HK\$0.295 per Share, the closing price on 1 June 2007, the last trading day prior to the suspension of trading of the Shares on 4 June 2007;

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- (b) a discount of approximately 94.53% from HK\$0.311 per Share, the average closing price for the last 5 trading days prior to the suspension of trading of the Shares on 4 June 2007;
- (c) a discount of approximately 93.28% from HK\$0.253 per Share, the average closing price for the last 10 trading days prior to the suspension of trading of the Shares on 4 June 2007;
- (d) a discount of approximately 91.05% from HK\$0.190 per Share, the average closing price for the last 30 trading days prior to the suspension of trading of the Shares on 4 June 2007;
- (e) a discount of approximately 95.41% from HK\$0.37 per Share, the closing price of the Shares as at the Latest Practicable Date; and
- (f) a discount of approximately 15.0% from the unaudited consolidated net assets of the Group of approximately HK\$0.02 per Share as at 31 March 2007 (based on a total of 637,432,000 Shares in issue).

The aggregate consideration for the Subscription Shares of HK\$30.6 million will be paid in cash upon Completion. The Subscribers have placed the Deposit, i.e. an amount of HK\$4,000,000, with their solicitors in escrow. Upon Completion, the Deposit will be applied to set off against the consideration payable by the Subscribers. In the event that all the Conditions are satisfied on or before the Long Stop Date and the Subscribers elect not to proceed to Completion, the Company is entitled to forfeit the Deposit.

The Subscription Price represents a discount to the recent market prices of the Shares. The Directors and the Subscribers consider such discount is acceptable as the liquidity of the Shares has been low. During the six months prior to the suspension of trading of the Shares on 17 May 2007, the average monthly turnover of the Shares was about 4,121,000 Shares, representing less than 0.65% of the total issued Shares of the Company. On the basis that the proceeds from the Subscription would reduce the Group's liabilities substantially and hence strengthen the Group's overall financial position, the Directors consider that the Subscription Agreement is in the interests of the Company and the Shareholders as a whole and its terms are fair and reasonable.

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Conditions of the Subscription

According to the Letter from the Board, completion shall be conditional upon the following conditions being fulfilled (or being waived by the Subscribers in accordance with the Subscription Agreement) at or before 5:00 p.m. (Hong Kong time) on the Long Stop Date:

- (a) the Shares remaining listed and traded on the Stock Exchange at all times from the date hereof to the Completion Date, save for any temporary suspension not exceeding 7 consecutive Trading Days (except for the suspension for the purpose of clearing the any announcements to be released by the Company relating to the Subscription Agreement or the matters contemplated therein), or such longer period as the Subscribers may accept in writing, and no indication being received on or before the Completion Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) as a result of Completion or in connection with the terms of the Subscription Agreement;
- (b) listing of and permission to deal in all of the Subscription Shares being granted by the GEM Listing Committee of the Stock Exchange (either unconditionally, or subject to conditions which are acceptable to each of the Subscribers in their respective opinions);
- (c) passing of the Resolutions by the shareholders of the Company, other than shareholders abstaining from voting as may be so required by law, the GEM Listing Rules or by the Stock Exchange and/or the SFC (as the case may be), at the EGM;
- (d) the granting of consent to the Special Deal by the Executive;
- (e) the granting of any other waivers, consents, authorizations, clearances and approvals which are required from the Shareholders, the Stock Exchange and/or the SFC, which the Subscribers reasonably consider are necessary for the Completion and the implementation of the other matters contemplated under the Subscription Agreement;
- (f) the representations, warranties and undertakings contained in or referred to in the Subscription Agreement remaining true and accurate in all material respects, and not misleading in any material respect, as given on the date of the Subscription Agreement and at Completion; and

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- (g) the Company, MCH and Mr. Chen having complied fully with their respective obligations under the Subscription Agreement in all material respects and likewise having performed in all material respects all of the covenants and agreements required to be performed by each of them under the Subscription Agreement on or prior to the Completion Date.

Completion

According to the Letter from the Board, completion shall be conditional upon all the Conditions being fulfilled (or being waived by the Subscribers) at or before 5:00 p.m. on the Long Stop Date, or such other later date as the parties to the Subscription Agreement may agree in writing, and will take place three Business Days after all conditions of the Subscription Agreement have been fulfilled or waived. In the event that the above conditions of the Subscription Agreement are not fulfilled or waived by the Long Stop Date, i.e. 31 August 2007, the Subscription Agreement will lapse unless the parties to the Subscription Agreement agree upon an extension.

It is expected by the Company and the Subscribers that the Completion will take place in or about early August 2007 and in any event no later than the Long Stop Date.

4. Reasons for the Subscription and use of proceeds

According to the Letter from the Board, the Directors represented that the Group had reported continuous operating losses for the past three years. The Group's audited consolidated loss attributable to Shareholders for the years ended 31 March 2005 and 2006 was approximately HK\$11.6 million and HK\$12.6 million respectively, and such net loss had increased to approximately HK\$28.5 million for the year ended 31 March 2007.

The Group's operations have been funded to a significant extent by the Convertible Note and the Shareholder's Loan. As at the date of the Subscription Agreement, the Convertible Note had an outstanding principal amount of HK\$20 million and the Shareholder's Loan amounted to approximately HK\$10.3 million. Pursuant to the terms of the Convertible Note, the holder of the Convertible Note has the right to request the Company to redeem the Convertible Note at 92% of the outstanding principal amount after the first anniversary of the issue date. On 20 June 2007, the Company received a notice from the Noteholder requesting the Company for redemption of the Convertible Note. Consequently, an amount of HK\$18.4 million, being 92% of the outstanding principal amount of the Convertible Note, becomes due and repayable by the Company. The Company has agreed with the Noteholder

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that such amount will be repaid in full upon completion of the Subscription. In the event that Completion does not take place, the Company shall explore other financing alternatives to meet its repayment obligation under the Convertible Note.

The Directors consider it imperative for the Group to have stable and strong financial strength so as to enable long-term business development and to sustain healthy business growth. The Directors consider that the Subscription provides the Group with a good opportunity to expand its capital base and strengthen its overall financial position.

Pursuant to the Subscription Agreement, at Completion the Company shall apply HK\$8 million of the proceeds from the Subscription for repayment of the Shareholder's Loan and upon which Mr. Chen shall duly execute a deed of release in favour of the Company for full discharge of the Shareholder's Loan. The Directors and the Subscribers also intend to apply HK\$18.4 million from the proceeds of the Subscription for redemption of the Convertible Note after Completion and the remaining balance of the proceeds from the Subscription of approximately HK\$4.2 million for general working capital purposes. On the basis that the liabilities of the Group would be significantly reduced following the Completion and the Group's overall financial position would be strengthened, the Directors consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

5. *Basis of the Subscription Price*

Historical share price performance

The Subscription Shares will be issued at HK\$0.017 per Subscription Share which was determined after arm's length negotiations. This issue price of HK\$0.017 per Subscription Share represents:

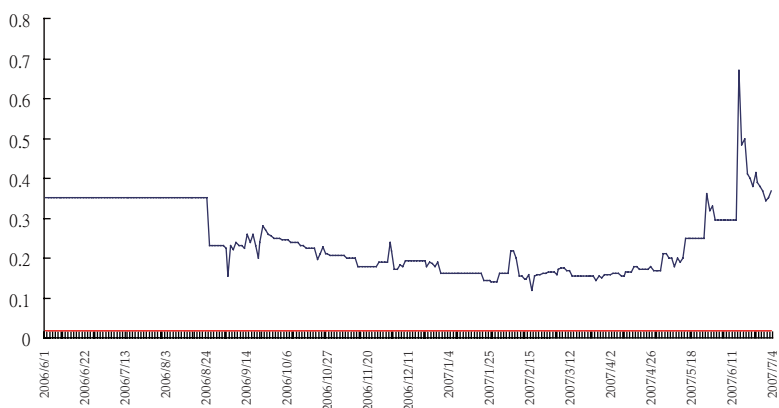
- (a) a discount of approximately 94.24% from HK\$0.295 per Share, the closing price on 1 June 2007, the last trading day prior to the suspension of trading of the Shares on 4 June 2007;
- (b) a discount of approximately 94.53% from HK\$0.311 per Share, the average closing price for the last 5 trading days prior to the suspension of trading of the Shares on 4 June 2007;
- (c) a discount of approximately 93.28% from HK\$0.253 per Share, the average closing price for the last 10 trading days prior to the suspension of trading of the Shares on 4 June 2007;

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- (d) a discount of approximately 91.05% from HK\$0.190 per Share, the average closing price for the last 30 trading days prior to the suspension of trading of the Shares on 4 June 2007;
- (e) a discount of approximately 95.41% from HK\$0.37 per Share, the closing price of the Shares as at the Latest Practicable Date; and
- (f) a discount of approximately 15.0% from the audited consolidated net assets of the Group of approximately HK\$0.020 per Share as at 31 March 2007 (based on a total of 637,432,000 Shares in issue).

We set out below a chart showing the Share price performance for the period from 1 June 2006 up to and including the Latest Practicable Date (the “Review Period”):

Share price performance



Notes:

1. On market days when the Shares are not traded, the closing price equals to that of the preceding trading days.
2. Trading of the Shares was suspended from 8 June 2006 to 9 June 2006 and from 17 May 2007 to 28 May 2007, pending the release of relevant announcements, both days inclusive.
3. Trading of the Shares was suspended from 4 June 2007 to 13 June 2007, pending the release of the Announcement, both days inclusive.

Source: website of the Stock Exchange

The above chart shows that the shares closing price was generally within the range of HK\$0.12 to HK\$0.67 for the Review Period, with an

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exceptional high closing price from 14 June 2007 to the Latest Practicable Date.

Historical trading volume of the Shares

The average monthly trading volume of the Shares, the percentages of monthly trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Review Period, were as follows:

Month	Average daily turnover (in number of Shares)	Percentage of average daily turnover to total number of Shares in issue (%) (Note 1)	Percentage of average daily turnover to total number of Shares held by the Independent Shareholders (%) (Note 2)
2006			
June (Note 3)	10,000	0.0016	0.0034
July	0	0.0000	0.0000
August	34,434	0.0054	0.0118
September	57,904	0.0091	0.0199
October	400	0.0001	0.0001
November	221,818	0.0348	0.0763
December	109,474	0.0172	0.0377
2007			
January	47,272	0.0074	0.0163
February	184,444	0.0289	0.0634
March	125,454	0.0197	0.0432
April	172,000	0.0270	0.0592
May (Note 3)	1,105,142	0.1734	0.3801
June (Note 4)	6,187,333	0.9707	2.1282
July (Note 5)	764,000	0.1199	0.2628

Notes:

1. Based on 637,432,000 Shares in issue as at the Latest Practicable Date.
2. Based on the total number of Shares held by the Independent Shareholders of 290,732,000 Shares as at the Latest Practicable Date.
3. Trading of the Shares was suspended from 8 June 2006 to 9 June 2006 and from 17 May 2007 to 28 May 2007, pending the release of relevant announcements, both days inclusive.
4. Trading of the Shares was suspended from 4 June 2007 to 13 June 2007, pending the release of the Announcement, both days inclusive.

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5. Trading of Shares in July 2007 include 3 July 2007 and the Latest Practicable Date.

Source: website of the Stock Exchange

The table above demonstrates that during the Review Period, the trading volume of the Shares on GEM was thin within a range of (i) 0.0000% to approximately 0.9707% as to the total number of issued Shares as at the Latest Practicable Date; and (ii) 0.0000% to approximately 2.1282% as to the total number of Shares held by the Independent Shareholders as at the Latest Practicable Date.

Save and except for the calendar months of May 2007, June 2007 and July 2007, the average daily trading volume of the Shares on GEM was constantly below 0.0348% of the total number of Shares held by the Independent Shareholders. According to the Directors, they were not aware of any reasons for the increase in trading volume of the Shares in May 2007, June 2007 and July 2007 except the negotiation for the Subscription Agreement. Besides that, there were 179 days within the 271 trading days during the Review Period in which the Shares had no trading, representing approximately 66.05% of the total trading days of the Shares in the Review Period.

Subsequent to the release of the Announcement, we note that the trading of the Shares on GEM has become relatively more active; however, we consider that such a sudden up rise of market interest in the Shares is mainly attributable to the announcement of the Subscription and hence may not be sustainable in the long run.

In view of the above, the extremely low liquidity of the Shares may as aforementioned above hinder the Directors in securing an underwriter to underwrite the Shares in case of a rights issue or an open offer of the Shares and at the same time lead to a deep discount on the Subscription Price.

Comparison with other share subscriptions or placing exercises

In order to assess the fairness and reasonableness of the Subscription Price, we have also reviewed the recent transactions announced by the Main Board and GEM's listed companies on the Stock Exchange from 14 May 2007 to 13 June 2007 (being the calendar month prior to the date of Announcement, as timely information reflecting relevant market sentiment), involving placing and subscription of shares. To the best of our knowledge and based on the information from the Stock Exchange and GEM's websites, we understand that there is no company listed on GEM and the Main Board that is engaged in identical business and with same financial position as the Company. In order to

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ensure that there is reasonable number of comparable companies even though they are not in similar business with the Company, we have included both the Main Board and GEM listed companies for our comparison purpose and identified 34 such transactions (the “Market Comparables”). The Shareholders shall be fully aware that these companies may be profit making, have positive net assets or significantly different in size (total assets, market capitalization etc.). Set out below is a summary of the key terms of the Market Comparables:

Company (stock code)	Announcement date	Transaction Type	Premium/ (discount) of subscription price to the closing price quoted on the Last Trading Day (%)	Premium/ (discount) of subscription price to the 5-day average closing price up to and including the Last Trading Day (%)	Premium/ (discount) of subscription price to the 10-day average closing price up to and including the Last Trading Day (%)
CATIC International Holdings Limited (232)	2-May-07	Top up placing	(18.07)	(14.36)	(15.63)
Oriental Investment Corporation Limited (735)	2-May-07	Top up placing	(4.73)	(0.77)	NA
Chevalier iTech Holdings Limited (508)	3-May-07	Top up placing	(5.13)	(1.18)	3.38
Greentown China Holdings Limited (3900)	4-May-07	Top up placing	(3.82)	0.80	NA
Magnificent Estates Limited (201)	4-May-07	Placing of new shares	(4.14)	NA	(7.02)
Sino Katalytics Investment Corporation (2324)	7-May-07	Placing of new shares	(13.85)	(13.32)	NA
Shimao Property Holdings Limited (813)	7-May-07	Top up placing	(5.10)	2.23	0.73
Tanrich Financial Holdings Limited (812)	8-May-07	Top up placing	(4.76)	(5.36)	NA
China Resources Land Limited (1109)	8-May-07	Top up placing	(3.40)	1.70	2.50
China Financial Industry Investment Fund Limited (1227)	10-May-07	Placing of new shares	0.00	10.50	11.80
GOME Electrical Appliances Holding Limited (493)	11-May-07	Top up placing	(6.30)	2.60	6.30

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Company (stock code)	Announcement date	Transaction Type	Premium/ (discount) of subscription price to the closing price quoted on the Last Trading Day (%)	Premium/ (discount) of subscription price to the 5-day average closing price up to and including the Last Trading Day (%)	Premium/ (discount) of subscription price to the 10-day average closing price up to and including the Last Trading Day (%)
Inno-tech Holdings Limited (8202)	11-May-07	Top up placing	(5.17)	(3.51)	8.59
Proview International Holdings Limited (334)	11-May-07	Placing of new shares	(19.35)	0.81	6.56
New Times Group Limited (166)	14-May-07	Top up placing	(10.34)	16.77	25.80
Wing On Travel (Holdings) Limited (1189)	14-May-07	Placing of new shares	(6.98)	2.30	15.27
Wah Nam International Holdings Limited (159)	15-May-07	Top up placing	(14.63)	12.54	24.78
Lo's Enviro-Pro Holdings Limited (309)	15-May-07	Placing of new shares	(25.90)	(23.40)	(20.50)
New Times Group Limited (166)	16-May-07	Top-up placing and placing of new shares	(9.38)	17.25	30.04
Asia Zirconium Limited (395)	18-May-07	Top up placing	(14.29)	(6.90)	(1.82)
Macau Prime Properties Holdings Limited (199)	18-May-07	Top up placing	(8.20)	9.80	15.70
Chu Kong Shipping Development Company Limited (560)	18-May-07	Top up placing	(16.67)	(7.65)	4.32
Freeman Corporation Limited (279)	21-May-07	Placing of new shares	(14.47)	(14.47)	(11.56)
Century City International Holdings Limited (355)	22-May-07	Top up placing	(7.10)	(4.70)	NA
Hong Kong Pharmaceutical Holdings Limited (182)	23-May-07	Top up placing	(41.90)	(19.20)	NA
China Oil and Gas Group Limited (603)	23-May-07	Top up placing	(12.40)	(14.30)	(13.70)
Sino Gas Group Limited (260)	25-May-07	Top up placing	(16.39)	(16.39)	(10.53)
Forefront International Holdings Limited (885)	25-May-07	Top up placing	(18.75)	(16.67)	NA
Fortune Telecom Holdings Limited (110)	25-May-07	Placing of new shares	(23.73)	(22.41)	(21.51)

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Company (stock code)	Announcement date	Transaction Type	Premium/ (discount) of subscription price to the closing price quoted on the Last Trading Day (%)	Premium/ (discount) of subscription price to the 5-day average closing price up to and including the Last Trading Day (%)	Premium/ (discount) of subscription price to the 10-day average closing price up to and including the Last Trading Day (%)
Shougang Concord International Enterprises Company Limited (697)	29-May-07	Top up placing	(4.76)	(0.79)	NA
Luks Industrial (Group) Limited (366)	29-May-07	Top up placing	(10.99)	(4.76)	10.73
Simsen International Corporation Limited (993)	30-May-07	Placing of new shares	(17.65)	(7.49)	NA
Get Nice Holdings Limited (64)	30-May-07	Top up placing	(7.41)	(8.98)	(4.94)
Radford Capital Investment Limited (901)	30-May-07	Subscription of new shares	(0.83)	(1.64)	NA
Jade Dynasty Group Limited (970)	31-May-07	Top up placing	(9.50)	(6.20)	6.40
		Mean	(11.36)	(4.16)	2.74
		Median	(9.44)	(4.70)	3.85
		Range	(41.90) to 0	(23.40) to 17.25	(21.51) to 30.04
The Company (8220)	13-Jun-07	Subscription of new shares	(94.24)	(94.53)	(93.28)

Source: website of the Stock Exchange

The above table shows that (i) premium on/discount to the closing share prices of the last trading days before the release of the relevant announcements of the Market Comparables ranged from a discount of approximately 41.90% to zero discount (the “First Comparable Range”), with the mean at a discount of approximately 11.36% and the median at a discount of approximately 9.44%; (ii) the premium on/discount to the average closing share prices for the last five trading days before the release of the relevant announcements of the Market Comparables ranged from a discount of approximately 23.40% to a premium of approximately 17.25% (the “Second Comparable Range”), with the mean at a discount of approximately 4.16% and the median at a discount of approximately 4.70%; and (iii) the premium on/discount to the average closing share prices for the last ten trading days before the release of the relevant announcements of the Market Comparables ranged from a discount of approximately 21.51% to a premium of approximately 30.04% (the “Third Comparable Range”), with the mean at a premium of approximately 2.74% and the median at a premium of approximately 3.85%.

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The Subscription Price, being at a discount of approximately 94.24% to the closing price of HK\$0.295 per Share as quoted on GEM on the Last Trading Day, is out of the First Comparable Range of that of the Market Comparables.

The Subscription Price, being at a discount of approximately 94.53% to the closing price of HK\$0.311 per Share as quoted on GEM over the last five consecutive trading days up to and including the Last Trading Day, is out of the Second Comparable Range of that of the Market Comparables.

The Subscription Price, being at a discount of approximately 93.28% to the closing price of HK\$0.253 per Share as quoted on GEM over the last ten consecutive trading days up to and including the Last Trading Day, is out of the Third Comparable Range of that of the Market Comparables.

Although the discounts of Subscription Price are all out of the range to their respective First Comparable Range, Second Comparable Range and Third Comparable Range, it may not be unfair and unreasonable that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned in light of that (i) the Subscription, for the time being, is the most probable and fastest way for the Company to raise capital; and (ii) the trading of the Shares was historically extremely thin (the average daily trading volume of the Shares on GEM was constantly below 0.0348% of the total number of Shares held by the Independent Shareholders in ten months, and 179 days out of the 271 trading days had no trading) and hence it is reasonable and rational for the Company to offer a higher discount as an incentive to the Subscribers to subscribe for the Shares.

6. *Possible financial effects of the Subscription*

Net liabilities

According to the Letter from the Board, the Company plans to apply approximately HK\$8 million of the proceeds from the Subscription for repayment of the Shareholder's Loan and upon which Mr. Chen shall duly execute a deed of release in favour of the Company for full discharge of the Shareholder's Loan. As at the date of the Subscription Agreement, the Shareholder's Loan, which is interest-free, had an outstanding amount of approximately HK\$10.3 million. The Directors and the Subscribers also intend to apply HK\$18.4 million from the proceeds of the Subscription for redemption of the Convertible Note with an outstanding principal amount of HK\$20 million after Completion and the remaining balance of the proceeds from the Subscription of approximately HK\$4.2 million for general working capital purposes. Accordingly, the current liabilities of the Group would be reduced while its current assets would be increased.

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Working capital and gearing ratio

As stated in the 2007 annual report, the cash balance of the Group was HK\$8.624 million. According to the Letter from the Board, HK\$8 million of the proceeds will be used for the repayment of Shareholder's Loan and HK\$18.4 million will be used for redemption of the Convertible Note after Completion and the remaining balance of the proceeds from the Subscription of approximately HK\$4.2 million for general working capital purposes. Due to the reduction in total borrowings and the enlargement in the Group's total assets attributable to the said rise in working capital, it is expected that the Group's gearing level would shrink.

In view of the above, it is reasonable to infer that the Subscription would have a positive effect to the Group's asset, liquidity and leverage positions. For this reason, it is reasonable to infer that the Subscription will strengthen the overall financial position of the Group and therefore is in the interests of the Company and the Shareholders as a whole.

7. Dilution of shareholding

Set out below is a table showing the Company's shareholding structure as at the date of the Announcement and the structure immediately after Completion assuming no change during the period:

Shareholders	Shareholding structure as at the Latest Practicable Date		Shareholding structure after Completion		Shareholding structure upon Completion after restoration of public float (Note 2)	
	Shares	%	Shares	%	Shares	%
Emcom, Smart Step and parties acting in concert with them	-	-	1,800,000,000	73.85	1,481,374,000	60.78
Emcom and its nominees	-	-	1,620,000,000	66.46	1,333,236,600	54.70
Smart Step and its nominees	-	-	180,000,000	7.39	148,137,400	6.08
MCH (Note 1)	346,700,000	54.39	346,700,000	14.22	346,700,000	14.22
Public shareholders	290,732,000	45.61	290,732,000	11.93	609,358,000	25.00
Total	<u>637,432,000</u>	<u>100.00</u>	<u>2,437,432,000</u>	<u>100.00</u>	<u>2,437,432,000</u>	<u>100.00</u>

Notes:

1. MCH is wholly and beneficially owned by Mr. Chen, a Director and the creditor in respect of the Shareholder's Loan.
2. Assuming that each of Emcom and Smart Step will place down its shareholding in the Company by 90% and 10%, respectively, of the Excess Shares in order to restore the minimum public float requirement.

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The Subscribers will collectively become the controlling Shareholders, holding approximately 60.78% of the issued share capital upon Completion of the Subscription after restoration of public float. The shareholding of the other public Shareholders in the Company will be reduced from approximately 45.61% to 25.00%.

Based on the fact that the Subscription will strengthen the financial position of the Group and enable the Group to repay the Shareholder's Loan and redeem the Convertible Note, it is reasonable to infer that the Subscription is essential to the Company's continual business operations.

8. *Maintenance of the listing of the Shares*

According to the Letter from the Board, Emcom does not intend to exercise the power of compulsory acquisition under the Companies Law of the Cayman Islands. It intends to maintain the listing status of the Shares on the Stock Exchange.

Upon Completion, the Subscribers and MCH will be interested in approximately 73.85% and 14.22%, respectively, of the enlarged issued share capital of the Company. The public float of the Company will be approximately 11.93% and will therefore be less than the 25% minimum public float requirement applicable to the Company under the GEM Listing Rules. Therefore, Emcom and its directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float will exist for the Shares upon the close of the General Offer, including by means of potential placements by Emcom. Based on the existing shareholding structure of the Company, MCH is the only substantial shareholder (as defined under the GEM Listing Rules) and will hold approximately 14.22% of the entire issue share capital of the Company. To ensure the Company's strict compliance with the 25% minimum public float requirement under the GEM Listing Rules upon Completion, Emcom and parties acting in concert with it shall place down 318,626,000 Shares (the "Excess Shares") representing approximately 13.07% of the entire issued share capital of the Company immediately upon Completion. As pursuant to Rule 21.2 of the Takeovers Code, Emcom and the parties acting in concert with it are restricted to dispose any Shares during the General Offer period, the Stock Exchange has stated that the Company shall comply with the public float requirement upon the close of the General Offer. Emcom (and parties acting in concert with it) will enter into a fully underwritten placing arrangement with a placing agent as permitted under Rule 21.2 of the Takeovers Code to place down the Excess Shares and any additional Shares in respect of which acceptances are tendered under the General Offer so as to enable the Company to comply with the 25% minimum public float requirement upon the close of the General Offer. As Completion is subject to various conditions precedent and the Subscription may or may not proceed, Emcom (and parties acting in concert with it) had not entered into any placing arrangement as at the Latest Practicable Date for

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the purpose of complying with the minimum public float requirement and will not do so until after Completion. Details of such placing arrangement will be disclosed in the composite offer document to be jointly issued by the Company and Emcom for the purpose of the General Offer, if any.

The Stock Exchange has stated that if, at the close of the General Offer, it will closely monitor trading in the Shares if less than 25% of the Shares are held by the public or the Stock Exchange believes that:

- a false market exists or may exist in the Shares; or
- there are too few Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

9. Future intentions of the Subscribers

According to the Letter from the Board, Emcom will conduct a review of the financial position and operations of the Group with a view to broadening and expanding the business and operations of the Group. The Directors and the Subscribers intend that the Group will maintain its existing business and there is no plan to redeploy any fixed assets of the Group. In addition, new employees may be needed to help strengthen the corporate management and develop new expanded business lines of the Group, although there is no plan to change the management structure and employees of the existing business.

Emcom intends that the Subscription is a long-term investment for it and intends to work closely with the existing management of the Group. It intends to evaluate the potential of expanding the existing businesses into other high-growth telecommunications value-added services. It is also the intention of Emcom to, after Completion, explore and utilize the distribution network of Emcom in the Asia Pacific region for the Group's products. However, there is no specific plan or target to which the Company is committed at present and no negotiation has taken place in this regard. Emcom confirms that there is no specific plan to inject any of its existing assets or business into the Group.

The Directors believe that the Company will benefit from the Subscription to the extent that the Group's liabilities will be reduced significantly and the overall financial position will be strengthened. The Directors represented that the Group would also benefit from having Emcom as the controlling shareholder of the Company as all three beneficial owners of Emcom have extensive business experience, particularly in telecommunications infrastructure and telecommunications services in the Asia Pacific region.

LETTER FROM WALLBANCK BROTHERS

RECOMMENDATION

Having considered the principal factors and reasons as discussed above and as summarized below:

- (i) The unsatisfactory performance of the Group for the three consecutive years of 2005, 2006 and 2007, especially the loss incurred by the Group for the said three years amounting to approximately HK\$11.617 million, HK\$12.599 million and HK\$28.510 million respectively;
- (ii) In the 2007 annual report, the auditor's opinion indicated that the Group incurred a net loss of HK\$28,510,000 during the year ended 31 March 2007 and, as of that date, the Group's current liabilities exceeded its current assets by HK\$5,565,000. These conditions, along with other matters, indicate a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern;
- (iii) The cash and bank balance of the Group may be insufficient to repay the Shareholder's Loan and redeem the Convertible Note;
- (iv) The difficulties for the Group to obtain debt financing due to the said significant loss incurred by the Group for 2005, 2006 and 2007 and a lack of property to be used as security for debt financing;
- (v) Low liquidity of the Shares;
- (vi) The difficulties in securing independent underwriting from the other securities houses by the Group;
- (vii) The Subscription being the most viable immediate method presently available to the Group for fund raising purpose;
- (viii) The Subscription will not affect the business operations of the Company and instead may provide potential benefits to the Company due to the aforementioned synergy effect;
- (ix) The Subscription will result in positive impact on the financial positions of the Group;

it is reasonable to infer that the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable so far as the Independent Shareholders are concerned and that the Share Subscription is in the interests of the Company and the Shareholders as a whole.

LETTER FROM WALLBANCK BROTHERS

B. Possible Special Deal

1. *Background and Terms of the Possible Special Deal*

According to the Letter from the Board, pursuant to the Subscription Agreement, at Completion the Company shall apply HK\$8 million of the proceeds from the Subscription for repayment of the Shareholder's Loan and upon which Mr. Chen shall duly execute a deed of release in favour of the Company for full discharge of the Shareholder's Loan. In other words, Mr. Chen will waive the Company from its obligation to repay the Shareholder's Loan to the extent of any amount in excess of HK\$8 million. As at the date of the Subscription Agreement, the Shareholder's Loan, which is interest-free, had an outstanding amount of approximately HK\$10.3 million. The said repayment of HK\$8 million represented a 22.33% discount to the original outstanding amount. The Board considered that the repayment of the Shareholder's Loan in the manner as provided under the Subscription Agreement is an arm's length transaction on normal commercial terms and is in the interest of the Company.

2. *Takeover Implication*

The repayment of the Shareholder's Loan using part of the proceeds from the Subscription will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code. Both the Board and the Subscribers consider that the repayment of the Shareholder's Loan in the manner as provided under the Subscription Agreement is an arm's length transaction on normal commercial terms and is in the interest of the Company and will seek from the Executive his consent to such repayment. Pursuant to Note 5 to Rule 25 of the Takeovers Code, the Special Deal is subject to, among other things, the approval of the Independent Shareholders at a general meeting of the Company.

3. *Reasons for the Possible Special Deal*

The Directors represent that the proceeds from the Subscription to repay the Shareholder's Loan and to redeem the Convertible Note would reduce the Group's liabilities substantially and hence strengthen the Group's overall financial position.

Furthermore, neither the Subscribers and parties acting in concert with any of them and their respective associates are connected persons of the Company or the Subscribers nor have they been involved in or are interested in the transactions contemplated under the Subscription Agreement. Taking into account the present relatively tight cash flow position of the Group, we concur with the Directors that the Company may fail to fulfill its repayment obligation under Shareholder's Loan as the Company is unable to raise funds

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externally. Besides, the said repayment of HK\$8 million represented a 22.33% discount to the original outstanding amount. It is reasonable to infer that such repayment arrangement which constitutes a “Special Deal” to be fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above factors and reason, we are of the opinion that in such circumstances the Special Deal so far as the Independent Shareholders are concerned is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the forthcoming EGM to approve the Special Deal and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
WALLBANCK BROTHERS
Securities (Hong Kong) Limited
Phil Chan
Chief Executive Officer

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material aspects and not misleading;
- (b) there are no other matters the omission of which would make any statement herein misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

DISCLOSURE OF INTERESTS

(a) Director's Interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required pursuant to Rule 5.45 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of interest	Number of Shares (long position)	Approximate percentage of existing issued share capital of the Company	Number of Shares (short position)	Approximate percentage of existing issued share capital of the Company
Chen Jijin (<i>Note</i>)	Interest of controlled corporation	346,700,000	54.39%	-	-

Note: The Shares are held by MCH, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Chen.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transaction by Directors to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Number of Shares	Position	Approximate percentage of issued share capital
MCH (<i>Note</i>)	346,700,000	Long	54.39%

Note: The issued share capital of MCH is wholly and beneficially owned by Mr. Chen.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 member of the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company passed on 19 October 2002, the Company adopted a share option scheme (the “Scheme”) under which share options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. As at the Latest Practicable Date, no share option had been granted or agreed to be granted by the Company under the Scheme.

LITIGATION

To the best of the Directors’ knowledge, no member of the Group was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

SERVICE AGREEMENTS

Each of Mr. Chen, Ms. Huang Meng Huai and Mr. Zhong Ming entered into a service agreement with the Company on 13 June 2005, 15 June 2005 and 4 November 2005 respectively. The commencement date of the service agreement with each of Mr. Chen, Ms. Huang and Mr. Zhong is 14 June 2005, 16 June 2005 and 16 June 2005 respectively. The term of each of these service agreements is for an initial term of three years renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term, unless and until terminated in accordance with the termination clause set out therein or by either party serving not less than 3 months’ notice in writing.

Each of Mr. Law Chi Yuen, Mr. Lam Hon Kuen and Mr. Chen Weirong is appointed as independent non-executive Director pursuant to their respective letters of appointment.

Save as disclosed above, none of the Directors has any existing or proposed service agreements with the Company or any of its subsidiaries other than contracts expiring or determinable by the Group within one (1) year without payment of compensation (other than statutory compensation).

COMPETING INTERESTS

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at the Latest Practicable Date, the following director of the Company is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group:

Mr. Chen is an executive Director and a controlling shareholder of the Company. In addition, Mr. Chen also holds shareholdings and directorships in Guangdong Photar High Technology Co., Ltd. (“Guangdong Photar”) which engages principally in manufacturing and selling of electronic communication and consumer products. In this regard, Mr. Chen is considered to have interests in businesses which compete, or might compete, either

directly or indirectly, with the businesses of the Group. Guangdong Photar is a private company which is not in any way related to the Company except that Mr. Chen holds 100% of its shares and being its executive director. Mr. Chen has undertaken to use his best endeavour to procure Guangdong Photar not to compete in any way with the Group in relation to the business of the Group and with effect from 20 June 2005, Guangdong Photar ceased to engage in any business in relation to tele-facsimile machine products.

Save as disclosed above, none of the Directors, the management shareholders or the substantial shareholders of the Company, or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

MATERIAL ADVERSE CHANGE

The Directors have confirmed that, save and except the increase in current liabilities of the Company as a result of the request by the Noteholder for repayment of the Convertible Note, none of the Directors were aware of any material adverse change in the financial or trading position of the Group since 31 March 2007, being the date to which the latest published audited financial statements of the Group were made up.

EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Wallbanck Brothers	a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, Wallbanck Brothers:

- (a) did not have any direct or indirect interest in any assets which have since 31 March 2007 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Wallbanck Brothers has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report and reference to its name in the form and context in which they appear.

MISCELLANEOUS

- (a) The registered office of the Company is situated at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2682 GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and principal place of business of the Company in Hong Kong is situated at Suite 5601, The Center, 99 Queen's Road Central, Hong Kong.
- (b) The secretary and qualified accountant of the Company is Ms. Chan Ling. Ms. Chan is a member of the CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tengis Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Messrs. Li & Partners at 22nd Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

- (a) the Subscription Agreement;
- (b) the letter from the Independent Board Committee dated 5 July 2007, the full text of which is set out on page 22 of this circular;
- (c) the written consent referred to in the section headed "Expert and consent" in this appendix; and
- (d) the letter from Wallbanck Brothers dated 5 July 2007, the full text of which is set out on pages 23 to 47 of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



CHINA PHOTAR ELECTRONICS GROUP LIMITED

中國豐達電子集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8220

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of China Photar Electronics Group Limited (the “Company”) will be held at Suite 5601, The Center, 99 Queen’s Road Central, Hong Kong on 27 July 2007, Friday, at 9:00 a.m (or any adjournment thereof) for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions of the Company:

“THAT:

AS ORDINARY RESOLUTIONS

1. the terms of the subscription agreement (the “**Subscription Agreement**”) dated 4 June 2007 entered into among (1) the Company, (2) Modern China Holdings Limited, (3) Mr. Chen Jijin, (4) Emcom Limited (“**Emcom**”) and (5) Smart Step Holdings Limited (“**Smart Step**”), a copy of which has been produced to the meeting and contained in the document marked “A” and signed by the Chairman therein for identification purposes and the transactions contemplated under the Subscription Agreement, including but not limited to the allotment and issue of an aggregate of 1,800,000,000 shares (the “**Subscription Shares**”), as to 1,620,000,000 shares to Emcom and 180,000,000 shares to Smart Step of HK\$0.01 each in the capital of the Company at a subscription price HK\$0.017 each, be and is hereby approved;
2. the repayment of the shareholder’s loan in the amount of HK\$8,000,000 due to Mr. Chen Jijin as referred to in the Subscription Agreement, out of the proceeds from the subscription of the Subscription Shares under the Subscription Agreement, be and is hereby approved; and
3. the directors of the Company be and are hereby authorised for and on behalf of the Company to sign, execute, perfect and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to carry out the Subscription Agreement into effect and to allot and issue the Subscription Shares to Emcom and Smart Step as aforesaid; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

AS SPECIAL RESOLUTION

4. subject to the passing of the ordinary resolutions 1 to 3 above, the name of the Company be changed from “China Photar Electronics Group Limited 中國豐達電子集團有限公司” to “Emcom International Limited 帝国通讯科技有限公司” and the directors of the Company be and are hereby authorised for and on behalf of the Company to do all such acts, execute all such documents and deeds as they may in their discretion consider necessary or desirable to carry out the foregoing into effect.”

By Order of the Board

Chen Jijin

Chairman

Hong Kong, 5 July 2007

Notes:

- (1) A shareholder of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his/her proxy to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
- (2) A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
- (3) To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited with the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
- (4) Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (5) Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased shareholder in whose name any share stands shall for this purpose be deemed joint holders thereof.