



PROSPECTUS DATED 2 December 2003
(registered with the Monetary Authority of Singapore on 2 December 2003)

This document is important. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional adviser.

We have made an application to the Singapore Exchange Securities Trading Limited ("SGX-ST") for permission to deal in and for quotation of the ordinary shares of HK\$0.17 each (the "Shares") in the capital of Superior Fastening Technology Limited (the "Company") already issued, the new Shares which are the subject of this Invitation (the "New Shares") and the Shares which may be issued upon the exercise of the options to be granted under the Superior Employee Share Option Scheme (the "Option Shares"). Such permission will be granted when we have been admitted to the Official List of the SGX-ST Dealing and Automate Quotation System ("SGX-SESDAQ"). The dealing in and quotation of the Shares will be in Singapore dollars.

Acceptance of applications will be conditional upon permission being granted to deal in, and for quotation of, all of the issued Shares, the New Shares and the Option Shares. If the completion of the Invitation does not occur because the SGX-ST's permission is not granted or for any other reasons, moneys paid in respect of any application accepted will be returned to you at your own risk, without interest or any share of revenue or other benefit arising therefrom and you will not have any claims whatsoever against us or the Manager.

The SGX-ST assumes no responsibility for the correctness of any of the statements or opinions made or reports contained in this Prospectus. Admission to the Official List of the SGX-SESDAQ is not to be taken as an indication of the merits of the Invitation, our Company, our subsidiaries, our Shares, the New Shares or the Option Shares.

A copy of this Prospectus has been lodged with and registered by the Monetary Authority of Singapore (the "Authority"). The Authority assumes no responsibility for the contents of the Prospectus. Registration of the Prospectus by the Authority does not imply that the Securities and Futures Act (Chapter 289 of Singapore), or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of the shares or units of shares, as the case may be, being offered or in respect of which an invitation is made, for investment.

A copy of this Prospectus has been filed with the Registrar of Companies in Bermuda, who accepts no responsibility for the financial soundness of our Group (as defined herein) or any proposal or the correctness of any of the statements made or opinions expressed therein or any of the other documents referred to therein.

The Bermuda Monetary Authority has given its consent to the issue of the New Shares pursuant to the Invitation on the terms referred to in this Prospectus. In granting such consent, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of our Group or any proposal or for the correctness of any of the statements made or opinions expressed herein or any of the other documents referred to in this Prospectus.

Investing in our Shares involves risks which are described in the section entitled "RISK FACTORS" of this Prospectus. No Shares will be allotted or allocated on the basis of this Prospectus later than six months after the date of registration of this Prospectus.



Invitation in respect of 25,000,000 New Shares of HK\$0.17 each comprising:

- (i) 2,000,000 Offer Shares at S\$0.23 for each Offer Share by way of public offer; and
- (ii) 23,000,000 Placement Shares by way of placement, comprising:
 - (a) a minimum of 21,000,000 Placement Shares at S\$0.23 for each Placement Share; and
 - (b) 2,000,000 Internet Placement Shares at S\$0.23 for each Internet Placement Share reserved for applications through the IPO Website at www.ePublicOffer.com,

payable in full upon application.



Joint Lead Placement Agents and Underwriters for the Public Offer
SBI E2-Capital Securities Pte Ltd UOB Kay Hian Private Limited

Sub-Placement Agent
The Bank of East Asia, Limited

Our Business



We are manufacturers and suppliers of high quality fasteners with fully integrated metal-forming, metallurgy and surface treatment capabilities. Our customers are typically contract manufacturers for MNCs in various industries such as home consumer appliances, telecommunication products, computing, imaging and printing devices and motor products.

Our Fastener Division

Our fastener division manufactures fasteners based on customers' specifications and in accordance with international standards such as JIS, ANSI and DIN. Our fasteners are used in a wide range of products as follows:-

- Home consumer appliances such as VCD, DVD players, fans and heating devices;
- Telecommunication products, computing, imaging and printing devices such as handphones, satellite radios, personal computers, handheld PDAs, printers and calculators; and
- Motor products such as micro motors used in automotive products, power tools, home appliances, business equipment, audio-video and personal care products.



Our Surface Treatment Division

Our surface treatment capabilities include electroplating using a variety of plating materials such as nickel, copper and chromate. Fasteners that have undergone surface treatment processes are more resistant to corrosion. Our surface treatment division carries out surface treatment of fasteners manufactured by our own manufacturing division as well as metal parts manufactured by other companies.

Our Competitive Strengths

Possess Surface Treatment Capabilities

- Set us apart from competitors as there are not many fasteners manufacturers which offer an integrated manufacturing and surface treatment capability
- With surface treatment capabilities, we are able to keep production costs low compared to our competitors



Successful History of Operating in the PRC

- Established presence in the PRC since 1993
- Early entry to China market gives us an advantage over other competitors who have yet to enter or have recently entered the PRC market
- Manufacturing plant in Huizhou and sales office in Hong Kong puts us in close proximity with our customers to provide responsive customer service and fast delivery of our products



Experienced Management Team

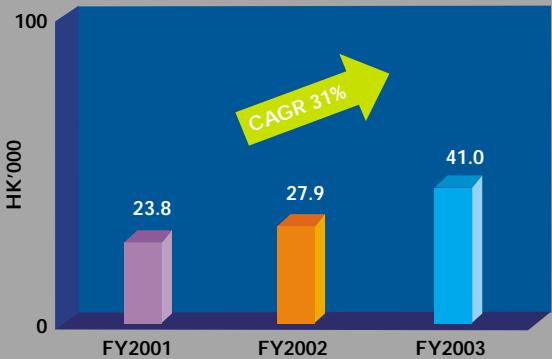
- Our founders have over 20 years' experience in the fastener manufacturing industry
- Management team is experienced in the fastener manufacturing industry
- Understands customers' needs and requirements
- Has a good track record in the industry and strong rapport with the customers

Production Facility Capable of High output and Manufacture of High-Precision Fasteners

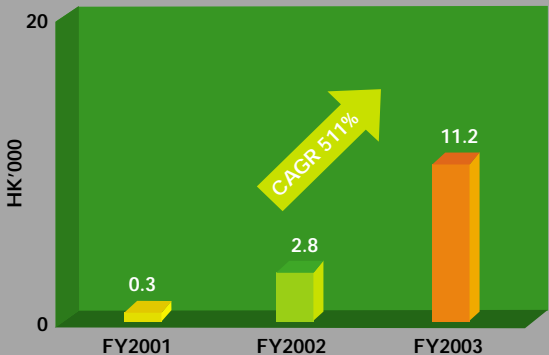
- As at end FY2003, we have the capacity to manufacture 3.7 billion units a year
- Able to accept orders for large quantities and manufacture more products in a shorter time due to our high capacity
- Has the capacity to manufacture complex multi-stage fasteners which require high precision

Financial Highlights

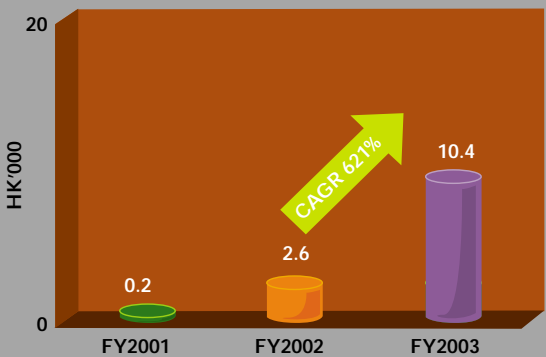
REVENUE



PROFIT BEFORE TAX



PROFIT AFTER TAX



Wide Customer Base and Good Working Relationships with Customers

- Geographically well-spread throughout the world in countries such as the PRC, Hong Kong, Singapore, Malaysia, Thailand, Taiwan, USA, Canada, Israel and UK
- Able to meet the requirements of the wide variety of customers in different industries

Growth Prospects

Healthy Demand for Our Products

- Fasteners are one of the most basic and vital components for all kinds of mechanical, electrical and electronic products that are manufactured for industrial, commercial and household use
- Fasteners applications are so versatile across varied consumer groups that the demand is continually growing, notably in the home consumer appliances, telecommunication products, computing, imaging and printing devices, and motor products industries.

Benefit from Relocation of the MNCs

- Trend of MNCs and equipment manufacturers from America and Europe relocating their operations to Asia, especially the PRC
- Same trend is emerging within Asia, as evidenced by the relocation of major manufacturing bases from Japan, Taiwan, and Korea to the PRC



Future Plans

Expand Our Market Reach Regionally

- Fast growing market in Asia
- Set up sales office in various countries in Asia to provide better and faster services
- Recently set up an office in Shanghai to service customers in northern China region
- Intend to set up a plant in Shanghai to cater and expand business in the PRC market and a sales office in Thailand to service the Indo-China region

Expand Our Range of Capabilities to Better Meet Demands of Worldwide Markets

- Currently, we outsource heat treatment of our fasteners to other service providers
- Intend to acquire heat treatment capabilities to better control the heat treatment process thereby improving product quality and reducing manufacturing costs

Expand into the Japanese Market

- Employ more personnel specialised in the Japanese market
- Japanese outsourcing market presents a potentially lucrative market for us as a substantial percentage of Japan manufacturers outsource production of various parts to third party manufacturers

Set Up a Design and Engineering Team to Assist Our Customers

- Provide value-added services to customers by providing design services
- Able to engage customers at an earlier stage by jointly participating in the design of new fasteners products
- Complement the efforts of sales and marketing team which currently provides advice on technical aspects of our products
- Adding value to our customers, thereby setting us apart from other fastener manufacturers

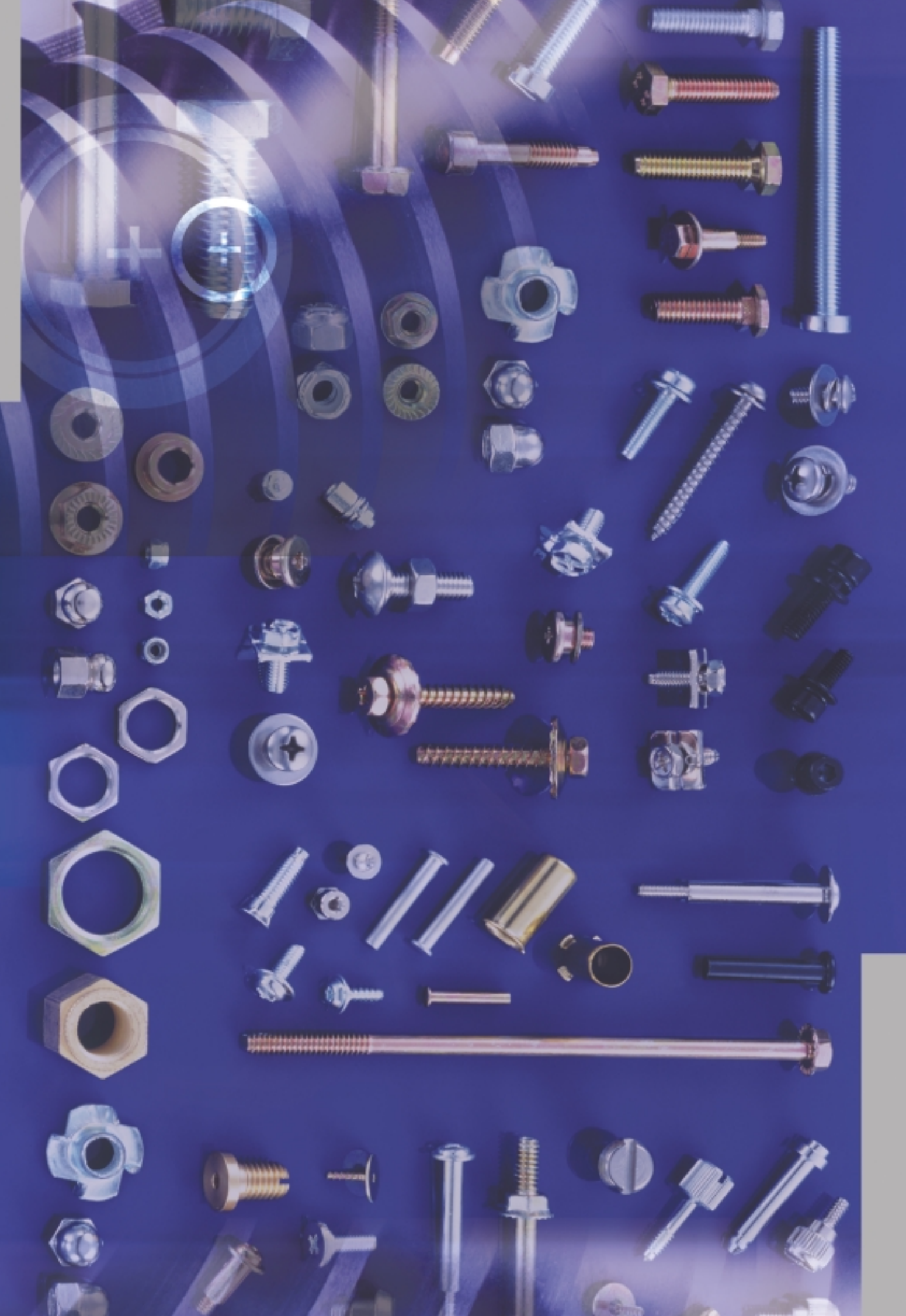


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CORPORATE INFORMATION

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| BOARD OF DIRECTORS | : Lam Tak Shing (Chief Executive Officer) Tang Yuk Fung (Executive Director, Operations) Kwan Suk Yee (Executive Director, Sales & Administration) Chan Kam Fuk (Non-executive Director) Goh Boon Huat (Independent Director) Tan Chong Huat (Independent Director) |
| BERMUDA RESIDENT REPRESENTATIVE | : Alison Dyer-Fagundo* |
| JOINT COMPANY SECRETARIES | : Raymond Tong Wei Min, LLB (Hons) Soh Ee Hwee, LLB (Hons) Yu Wing Cheung, AHKSA Helen Ann Chisholm* |
| BERMUDA ASSISTANT RESIDENT REPRESENTATIVE AND ASSISTANT SECRETARY | : A.S.& K. Services Ltd.* Canon's Court 22 Victoria Street Hamilton HM12 Bermuda |
| REGISTERED OFFICE | : Canon's Court 22 Victoria Street Hamilton HM12 Bermuda |
| REGISTRAR FOR THE INVITATION AND SINGAPORE SHARE TRANSFER AGENT | : Lim Associates (Pte) Ltd 10 Collyer Quay #19-08 Ocean Building Singapore 049315 |
| BERMUDA REGISTRAR AND SHARE TRANSFER AGENT | : Reid Management Limited Canon's Court 22 Victoria Street Hamilton HM12 Bermuda |
| MANAGER | : SBI E2-Capital Pte Ltd 5 Shenton Way #09-07 UIC Building Singapore 068808 |
| JOINT LEAD PLACEMENT AGENTS AND UNDERWRITERS | : SBI E2-Capital Securities Pte Ltd 5 Shenton Way #09-08 UIC Building Singapore 068808 UOB Kay Hian Private Limited 80 Raffles Place #30-01 UOB Plaza 1 Singapore 048624 |
| SUB-PLACEMENT AGENT | : The Bank of East Asia, Limited 137 Market Street Bank of East Asia Building Singapore 048943 |

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| SOLICITORS TO THE INVITATION | : Wong Partnership 80 Raffles Place #58-01 UOB Plaza 1 Singapore 048624 |
| REPORTING AUDITORS | : PricewaterhouseCoopers Hong Kong Certified Public Accountants 22 nd Floor, Prince's Building Central, Hong Kong PricewaterhouseCoopers Singapore Certified Public Accountants 8 Cross Street #17-00 PWC Building Singapore 048424 |
| LEGAL ADVISERS TO THE COMPANY ON BERMUDA LAW | : Appleby Spurling & Kempe 5511 The Center 99 Queen's Road Central Central Hong Kong |
| LEGAL ADVISERS TO THE COMPANY ON HONG KONG LAW | : Kitty So & Tong 9 th Floor, Asia Standard Tower 59-65 Queen's Road Central Hong Kong |
| LEGAL ADVISERS TO THE COMPANY ON PRC LAW | : Fangda Partners Room 2202-2207, Kerry Center, 1515, Nan Jing West Road, Shanghai 200040, People's Republic of China |
| RECEIVING BANKER | : The Bank of East Asia, Limited 137 Market Street Bank of East Asia Building Singapore 048943 |
| PRINCIPAL BANKER | : Citibank N.A Hong Kong Citibank Tower, Citibank Plaza, 3 Garden Road, Central Hong Kong |
| PUBLIC RELATIONS CONSULTANT | : Quattro Media Pte Ltd 5 Shenton Way #09-11 UIC Building Singapore 068808 |

** Ms Alison Dyer-Fagundo and Ms Helen Ann Chisholm will resign as Bermuda Resident Representative and Company Secretary respectively upon Listing of the Shares on the SGX-ST, upon which A.S. & K. Services Ltd. will remain as the Assistant Secretary of the Company and will also be appointed as the Bermuda Resident Representative.*

DEFINITIONS

In this Prospectus and the accompanying Application Forms and, in relation to Electronic Applications, the instructions appearing on the screens of the ATMs or the IB websites of the relevant Participating Banks, the following definitions apply where the context so admits:

Group Companies

| | | |
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| “Company” or “Superior Fastening” | : | Superior Fastening Technology Limited. The terms “we”, “our”, “our Company” or “us” have correlative meanings |
| “Billion East” | : | Billion East Limited |
| “Chain Dragon” | : | Chain Dragon Asia Limited |
| “Genstar” | : | Genstar Holdings Limited |
| “Group” | : | Our Company and its subsidiaries following the completion of the Restructuring Exercise, treated for the purpose of this Prospectus, as if it had been in existence since 1 April 2000 |
| “Newsy” | : | Newsy Global Limited |
| “Silver Star” | : | Silver Star Electro-Plating Co., Limited |
| “Sportmax” | : | Sportmax Ltd. |
| “Superior HK” | : | Superior Screws Manufacturers Limited |
| “Superior Huizhou” | : | Superior Screws (Huizhou) Industry Company Limited (卓越螺丝(惠州)工业有限公司) |
| “Superior Singapore” | : | Superior Fasteners (S) Pte. Ltd. |
| “Superior Metal” | : | Superior Metal Hardware Products (Huizhou) Ltd. (卓越五金制品(惠州)有限公司) |

General

| | | |
|---------------------|---|--|
| “Application Forms” | : | The printed application forms to be used for the purpose of the Invitation and which form part of this Prospectus |
| “Application List” | : | The list of applications for subscription of the New Shares |
| “associates” | : | (a) in relation to a corporation, means: <ul style="list-style-type: none">(i) a director or controlling shareholder;(ii) a subsidiary or associated company; or(iii) a subsidiary or associated company of the controlling shareholder, of the corporation; |
| | : | (b) in relation to any director, chief executive officer, substantial shareholder or controlling shareholder of a corporation who is an individual, means: <ul style="list-style-type: none">(i) his immediate family; |

- (ii) a trustee, acting in his capacity as such trustees, of any trust of which the individual or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and
- (iii) any corporation in which he and his immediate family together (directly or indirectly) have an interest of not less than 30% of the aggregate of the nominal amount of all the voting shares;
- (c) in relation to a substantial shareholder, or controlling shareholder, which is a corporation, means, notwithstanding paragraph (a), any corporation which is its related corporation or associated company

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| <i>“associated company”</i> | : In relation to a corporation, means: <ul style="list-style-type: none"> (a) any corporation in which the corporation or its subsidiary has, or the corporation and its subsidiary together have, a direct interest of not less than 20% but not more than 50% of the aggregate of the nominal amount of all the voting shares; or (b) any corporation, other than a subsidiary of the corporation or a corporation which is an associated company by virtue of paragraph (a), the policies of which the corporation or its subsidiary, or the corporation together with its subsidiary, is able to control or influence materially |
| <i>“ATM”</i> | : Automated teller machines of a Participating Bank |
| <i>“ATM Application”</i> | : An application for the Offer Shares made through an ATM of one of the Participating Banks, in accordance with the terms and conditions of this Prospectus |
| <i>“Audit Committee”</i> | : The audit committee of our Company |
| <i>“Authority”</i> | : The Monetary Authority of Singapore |
| <i>“Bermuda Act” or “Companies Act”</i> | : The Companies Act 1981 of Bermuda (as amended) |
| <i>“Board”</i> | : Board of Directors of our Company |
| <i>“BVI”</i> | : British Virgin Islands |
| <i>“Bye-Laws”</i> | : Bye-Laws of our Company |
| <i>“CDP”</i> | : The Central Depository (Pte) Limited |
| <i>“CEO”</i> | : Chief executive officer of our Company |
| <i>“controlling shareholder”</i> | : In relation to a corporation, means: <ul style="list-style-type: none"> (a) a person who has an interest of 15% or more of the aggregate of the nominal amount of all the voting shares in a corporation, unless he does not exercise control over the corporation; or (b) a person who in fact exercises control over the corporation |

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| <i>“CPF”</i> | : The Central Provident Fund |
| <i>“Directors”</i> | : The directors of our Company as at the Latest Practicable Date |
| <i>“Electronic Applications”</i> | : Applications for the New Shares made through an ATM application, an IB application or the IPO website in accordance with the terms of and subject to the conditions in this Prospectus |
| <i>“EPS”</i> | : Earnings per Share |
| <i>“ESOS”</i> | : Superior Employee Share Option Scheme |
| <i>“Executive Directors”</i> | : The executive Directors of our Company as at the Latest Practicable Date |
| <i>“Executive Officers”</i> | : The executive officers of our Company as at the Latest Practicable Date |
| <i>“FY”</i> | : Financial year ended or, as the case may be, ending 31 March |
| <i>“IB”</i> | : Internet Banking |
| <i>“IB Application”</i> | : An application for Offer Shares made through an IB website of one of the relevant Participating Banks, in accordance with the terms and conditions of this Prospectus |
| <i>“Independent Directors”</i> | : The independent Directors of our Company as at the Latest Practicable Date |
| <i>“Internet Placement Application”</i> | : An application by a Qualifying User for the Internet Placement Shares through the IPO website in accordance with the terms and conditions of this Prospectus |
| <i>“Internet Placement Shares”</i> | : The 2,000,000 Placement Shares available for application through the IPO Website, upon the terms of and subject to the Conditions in this Prospectus |
| <i>“Invitation”</i> | : The invitation by us to the public to subscribe for the New Shares upon the terms of and subject to the conditions set out in this Prospectus |
| <i>“IPO website”</i> | : The Internet website at www.ePublicOffer.com of the IPO Website Operator |
| <i>“IPO Website Operator”</i> | : SBI E2-Capital Securities Pte Ltd |
| <i>“Issue Price”</i> | : S\$0.23 for each New Share |
| <i>“Joint Lead Placement Agents and Underwriters” or “Joint Lead Placement Agents” or “Underwriters”</i> | : SBI E2-Capital Securities Pte Ltd and UOB Kay Hian Private Limited |
| <i>“Latest Practicable Date”</i> | : 28 October 2003, being the latest practicable date prior to the printing of this Prospectus |
| <i>“Listing Manual”</i> | : Listing Manual of the SGX-ST |

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| <i>“MNC”</i> | : Multinational corporation |
| <i>“Manager”</i> | : SBI E2-Capital Pte Ltd |
| <i>“Market Day”</i> | : A day on which the SGX-ST is open for trading in securities |
| <i>“New Shares”</i> | : The 25,000,000 new Shares for which our Company invites applications to subscribe for pursuant to the Invitation, subject to and on the terms and conditions of this Prospectus |
| <i>“Non-executive Directors”</i> | : Non-executive Directors of our Company (including Independent Directors) as at the Latest Practicable Date |
| <i>“NTA”</i> | : Net Tangible Assets |
| <i>“Offer”</i> | : The offer by our Company of the Offer Shares to the public in Singapore for subscription at the Issue Price, subject to and on the terms and conditions of this Prospectus |
| <i>“Offer Shares”</i> | : 2,000,000 of the New Shares which are the subject of the Offer |
| <i>“Participating Banks”</i> | : United Overseas Bank Limited and its subsidiary, Far Eastern Bank Limited (the “UOB Group”); DBS Bank Ltd (including POSB) (“DBS”) and Oversea-Chinese Banking Corporation Limited (“OCBC”) |
| <i>“PAT”</i> | : Profit after tax |
| <i>“PBT”</i> | : Profit before tax |
| <i>“PER”</i> | : Price earnings ratio |
| <i>“Placement”</i> | : The placement by the Joint Lead Placement Agents on behalf of our Company of the Placement Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus |
| <i>“Placement Shares”</i> | : 23,000,000 of the New Shares which are the subject of the Placement |
| <i>“PRC” or “China”</i> | : People’s Republic of China, excluding Macau and Hong Kong for the purposes of this Prospectus and for geographical reference only |
| <i>“Qualifying Internet Applicant” or “Qualifying Users”</i> | : Any member of the public (being an individual) in Singapore who registered for and holds a valid membership account with the IPO website, subject to the terms and conditions for the membership and use of the IPO website |
| <i>“Restructuring Exercise”</i> | : The corporate restructuring exercise undertaken upon receipt of in-principle approval from the SGX-ST in connection with the Invitation as described on pages 54 and 55 of this Prospectus |
| <i>“Securities Account”</i> | : The securities account maintained by a Depositor with CDP |
| <i>“SGX-SESDAQ”</i> | : SGX-ST Dealing and Automated Quotation System |

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| “SGX-ST” or “Singapore Exchange” | : Singapore Exchange Securities Trading Limited |
| “Shareholders” | : Registered holders of Shares, except where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the Depositors whose Securities Accounts are credited with Shares |
| “Shares” | : Ordinary shares of HK\$0.17 each in the capital of our Company |
| “Singapore Companies Act” | : The Companies Act (Chapter 50 of Singapore) |
| “Singapore Securities and Futures Act” | : The Securities and Futures Act (Chapter 289 of Singapore) |
| “substantial shareholder” | : A person who holds directly or indirectly 5% or more of the total issued share capital in our Company |
| “WFOE” | : A wholly foreign-owned enterprise established in the PRC |
| “RMB” | : The PRC Renminbi |
| “\$” or “S\$” and “cents” | : Singapore dollars and cents respectively |
| “HK\$” and “HK cents” | : Hong Kong dollars and cents respectively |
| “US” or “United States” | : United States of America |
| “US\$” and “US cents” | : United States dollars and cents respectively |
| “%” or “per cent.” | : Per centum |

The terms “Depositor”, “Depository Agent” and “Depository Register” shall have the meanings ascribed to them respectively in Section 130A of the Singapore Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Prospectus and the Application Forms to any statute or enactment is a reference to that statute or enactment for the time being amended or re-enacted. Any word defined under the Singapore Companies Act, the Singapore Securities and Futures Act, the Companies Act or any statutory modification thereof and used in this Prospectus and the Application Forms shall have the meaning assigned to it under the Singapore Companies Act, the Singapore Securities and Futures Act, the Companies Act or such statutory modification, as the case may be.

Any reference in this Prospectus and the Application Forms to Shares being allotted to an applicant includes allotment to CDP for the account of that applicant.

Any reference to a time of day in this Prospectus is a reference to Singapore time.

GLOSSARY OF TECHNICAL TERMS

The glossary contains an explanation of certain terms used in this Prospectus in connection with our Group. The terms and their assigned meanings may not correspond to standard industry or common meanings, as the case may be, or usage of these terms.

| | | |
|----------------------------|---|--|
| <i>“ANSI”</i> | : | American National Standard |
| <i>“BS”</i> | : | British Standard |
| <i>“DIN”</i> | : | German Institute for Standardisation |
| <i>“ERP System”</i> | : | Enterprise Resources Planning System |
| <i>“Surface Treatment”</i> | : | Surface treatment is a process where a metallic object is immersed into a solution and undergoes a chemical reaction whereby the object is coated with another metal layer |
| <i>“Heading”</i> | : | The type of forming technology to produce fastener heads and shapes using rolled wires as raw material |
| <i>“ISO”</i> | : | International Standards Organisation |
| <i>“JIS”</i> | : | Japanese Industrial Standard |
| <i>“Rolling”</i> | : | The forming of fastener threads using two rolling die which roll against one another with the fastener shank in between |
| <i>“TQM”</i> | : | Total Quality Management |

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this Prospectus, statements made in press releases and oral statements that may be made by us or our officers, Directors or employees acting on our behalf, that are not statements of historical fact, constitute 'forward-looking statements'. You can identify some of these statements by forward-looking terms such as 'expect', 'believe', 'plan', 'intend', 'estimate', 'anticipate', 'may', 'will', 'would', and 'could' or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements. These forward-looking statements, including statements as to our revenue and profitability, cost measures, planned strategy and any other matters discussed in this Prospectus regarding matters that are not historical facts are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially different from that expected, expressed or implied by the forward-looking statements in this Prospectus, we advise you not to place undue reliance on those statements. We are not warranting or representing to you that our actual future results, performance or achievements will be as discussed in those statements.

PURCHASE BY THE COMPANY OF OUR OWN SHARES

Under the laws of Bermuda, a company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Our Company has such power to purchase our own shares according to Clause 7 of our memorandum of association. Such power of our Company to purchase our own shares shall, subject to the Bermuda Act and (if applicable) the rules and regulations of the SGX-ST and other competent regulatory authorities and our memorandum of association, be exercisable by the Directors upon such terms and subject to such conditions as they think fit, in accordance with Bye-Law 7(B).

Under the laws of Bermuda, such purchases may be effected out of the capital paid-up on the purchased shares or out of the funds of our Company otherwise available for dividend or distribution or out of proceeds of a fresh issue of shares made for that purpose. Any premium payable on such a purchase over the par value of the shares to be purchased must be provided for out of the funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account. Any amount due to a shareholder on a purchase of our own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of our company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Further, such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that our Company is, or after the purchase would be, unable to pay our liabilities as they become due. The shares so purchased will be treated as cancelled and our Company's issued, but not its authorised, capital will be diminished accordingly.

For further details, please see "*Purchase by the company of its own shares and warrants*" in paragraph (iv) of "*Appendix G — Summary of Bermuda Company Law*" on page G-2 of this Prospectus.

Our Company presently has no intention of purchasing its own shares after the listing. However, if we decide to do so later, we will seek board approval in accordance with the laws of Bermuda, the Bye-Laws of our Company and the rules of the SGX-ST. Our Company will make prompt public announcement of any such share purchase and has given an undertaking to the SGX-ST to comply with all requirements that the SGX-ST may impose in the event of any such share purchase.

ATTENDANCE AT GENERAL MEETINGS

Under the Companies Act, only those persons who agree to become a shareholder of a Bermuda company and whose names are entered on the register of members of such company may be shareholders, with rights to attend and vote at general meetings. Accordingly, depositors registered and holding shares through CDP would not be recognised as shareholders of our Company, and would not have the right to attend and to vote at general meetings of our Company. In the event that depositors wish to attend and vote at general meetings of our Company, they would have to do so through CDP appointing them as a proxy, pursuant to the Bye-Laws and the Companies Act. The proxy form appointing depositors as the proxies of CDP would be enclosed with the shareholders' circular which would contain a notice convening the relevant general meeting. The proxy form would need to be completed by CDP as shareholder and deposited within the specified time frame, to enable such depositor to attend and vote as a proxy at the relevant general meeting of our Company.

TAKE-OVERS

There are presently no requirements under any Bermuda laws or regulations on take-over offers for our Shares which would be applicable to us. In addition, Sections 138, 139 and 140 of the Singapore Securities and Futures Act, Section 215 of the Singapore Companies Act, and the Singapore Code on Take-overs and Mergers (collectively the “Singapore Take-over and Merger Laws and Regulations”) do not apply to companies incorporated outside Singapore. As our Company is incorporated in Bermuda, the Singapore Take-over and Merger Laws and Regulations do not apply to take-over offers for the Company.

Bye-Law 193 (as described below) will, due to its binding effect on our registered shareholders (our “Members”), require our Members who make take-over offers in respect of our Shares to comply with the Singapore Take-over and Merger Laws and Regulations. However, it is uncertain whether this can be implemented in practice. This is because Bye-Law 193 only binds our Members, and a person (including a corporation) who is not our Member will not be bound to comply with the Singapore Take-over and Merger Laws and Regulations. This may affect you because in the event that a person (not being one of our Members), whether alone or together with parties acting in concert with him, acquires or gains control of 30% or more of our Shares you may not be offered an opportunity to sell your Shares to such an acquiror at the price he had paid for those Shares. In addition, even if a take-over offer is made for our Shares, such a take-over may not be made in accordance with the procedure stipulated in the Singapore Take-over and Merger Laws and Regulations.

Bye-Law 193 provides that for so long as our Shares are listed on the Designated Stock Exchange (as defined in the Bye-Laws), the Singapore Take-over and Merger Laws and Regulations, including any amendments, modifications, revisions, variations or re-enactments thereof, shall apply, *mutatis mutandis*, to all take-over offers for our Company.

Our substantial shareholder, China Network Group Limited, has undertaken to the SGX-ST that, as long as it continues to be a substantial shareholder of our Company, it will endeavour to persuade potential offerors in connection with a take-over offer for our Company to comply with the requirements of the Singapore Take-over and Merger Laws and Regulations in the event of any take-over offers for our Company.

SELLING RESTRICTIONS

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for our Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal or regulatory authorities of, any jurisdiction, except for the filing and/or registration of this Prospectus in Singapore and Bermuda in order to permit a public offering of our Shares and the public distribution of this Prospectus in Singapore. The distribution of this Prospectus and the offering of our Shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by us, the Underwriters and the Joint Lead Placement Agents to inform themselves about, and to observe and comply with, any such restrictions.

Selling Restrictions In Hong Kong

This Prospectus does not constitute an offer to the public in Hong Kong to subscribe for or acquire the securities referred to herein. No steps have been taken to register this Prospectus with the Registrar of Companies in Hong Kong, and accordingly, except as mentioned below, no copy of this document may be issued, circulated or distributed in Hong Kong.

A copy of this document may, however, be issued by the Joint Lead Placement Agents or their respective designated sub-placement agents to a limited number of prospective applicants for the Placement Shares in Hong Kong in a manner which does not constitute an offer of the Placement Shares to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies Ordinance (Chapter 32) of the Laws of Hong Kong. The offer of the Placement Shares is personal to the person named in the accompanying Application Form, and application for the Placement Shares will only be accepted from such person. An application for the Placement Shares is not invited from any persons in Hong Kong other than a person to whom a copy of this Prospectus has been issued by the Joint Lead Placement Agents or their respective designated sub-placement agents, and if made, will not be accepted, unless the applicant satisfies the Joint Lead Placement Agents or their respective designated sub-placement agents that he is an exempt dealer under the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong.

No person to whom a copy of this Prospectus is issued may issue, circulate or distribute this Prospectus in Hong Kong or make or give a copy of this Prospectus to any other person, other than their legal, financial, tax or other appropriate advisers who are subject to a duty of confidentiality to such person.

The Joint Lead Placement Agents have agreed with our Company that they (and each of their respective designated sub-placement agents, if any) have not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any Shares other than to an exempt dealer under the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong, or in circumstances which do not constitute an offer of the Placement Shares to the public within the meaning of the Companies Ordinance (Chapter 32) of the Laws of Hong Kong.

This document may not be issued in Hong Kong by any person who is not an exempt dealer or a representative of an exempt dealer within the meaning of the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong.

DETAILS OF THE INVITATION

LISTING ON THE SGX-ST

Application has been made to the SGX-ST for permission to deal in and for quotation of all our Shares already issued as well as the New Shares and the new Shares which may be issued upon the exercise of options to be granted under the Superior Employee Share Option Scheme (the “Option Shares”). Such permission will be granted when our Company has been admitted to the Official List of the SGX-SESDAQ. Acceptance of applications will be conditional upon permission being granted to deal in and for quotation of all of our existing issued Shares, the New Shares and the Option Shares. Moneys paid in respect of any application accepted will be returned to you, without interest or any share of revenue or other benefit arising therefrom and at your own risk, if the said permission is not granted.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Prospectus. Admission to the Official List of the SGX-SESDAQ is not to be taken as an indication of the merits of the Invitation, our Company, our subsidiaries or our Shares.

A copy of this Prospectus has been lodged with and registered by the Authority. The Authority assumes no responsibility for the contents of the Prospectus. Registration of the Prospectus by the Authority does not imply that the Singapore Securities and Futures Act, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of the shares or units of shares, as the case may be, being offered or in respect of which an invitation is made, for investment.

Where the Authority issues a stop order pursuant to Section 242 of the Singapore Securities and Futures Act, and

- (a) in the case where the New Shares have not been issued to the applicants, the applications of the New Shares pursuant to the Invitation shall be deemed to have been withdrawn and cancelled and our Company shall, within 14 days from the date of the stop order, pay to the applicants all moneys the applicants have paid on account of their applications for the New Shares; or
- (b) in the case where the New Shares have been issued to the applicants, the issue of the New Shares pursuant to the Invitation shall be deemed to be void and our Company shall, within 14 days from the date of the stop order, pay to the applicants all moneys paid by them for the New Shares.

A copy of this Prospectus has been filed with the Registrar of Companies in Bermuda. The Bermuda Monetary Authority has given its consent to the issue of the New Shares pursuant to the Invitation on the terms referred to in this Prospectus. In accepting the Prospectus for filing and in granting such consent, the Registrar of Companies in Bermuda and the Bermuda Monetary Authority accept no responsibility for the financial soundness of our Group or any proposal or for the correctness of any of the statements made or opinions expressed herein or any of the other documents referred to in this Prospectus.

This Prospectus has been seen and approved by our Directors and they individually and collectively accept full responsibility for the accuracy of the information given in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed in this Prospectus are fair and accurate in all material respects as at the Latest Practicable Date and that there are no material facts the omission of which would make any statements in the Prospectus misleading, and that the profit forecast (if any) has been stated by the Directors after due and careful enquiry.

No person has been or is authorised to give any information or to make any representation not contained in this Prospectus in connection with the Invitation and, if given or made, such information or representation must not be relied upon as having been authorised by us or the Manager. Neither the delivery of this Prospectus and the Application Forms nor the Invitation shall, under any circumstances, constitute a continuing representation or create any suggestion or implication that there has been no change in our affairs or in the statements of fact or information contained in this

Prospectus since the Latest Practicable Date. Where such changes occur, we may make an announcement of the same to the SGX-ST and will comply with the requirements of the Singapore Securities and Futures Act. All applicants should take note of any such announcement and, upon release of such an announcement, shall be deemed to have notice of such changes. Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to our future performance or policies.

This Prospectus has been prepared solely for the purpose of the Invitation and may not be relied upon by any persons other than the applicants in connection with their application for the New Shares for any other purpose. **This Prospectus does not constitute an offer, solicitation or invitation to subscribe for the New Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation.**

Copies of this Prospectus and the Application Forms may be obtained on request, subject to availability, from:

SBI E2-Capital Securities Pte Ltd

5 Shenton Way
#09-08 UIC Building
Singapore 068808

UOB Kay Hian Private Limited

80 Raffles Place
#30-01 UOB Plaza 1
Singapore 048624

and from members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore. A copy of this Prospectus is also available on the SGX-ST website <http://www.sgx.com>.

The Application List will open at 10.00 a.m. on 10 December 2003 and will remain open until noon on the same day or for such further period or periods as our Directors may, in consultation with the Manager, in their absolute discretion decide, subject to any limitation under all applicable laws. In the event a supplementary prospectus or replacement prospectus is lodged, the Application List will remain open for at least 14 days after the lodgement of the supplementary or replacement prospectus.

Where applications have been made for the New Shares prior to the lodgement of the supplementary or replacement prospectus, we shall, within seven days from the date of lodgement of the supplementary or replacement prospectus, either

- (a) provide the applicants with a copy of the supplementary or replacement prospectus and provide the applicants with an option to withdraw their applications, or
- (b) treat the applications as withdrawn and cancelled and return all monies paid, without interest or any share of revenue or other benefit arising therefrom, in respect of any application accepted within seven days from the date of lodgement of the supplementary or replacement prospectus.

Any applicant who wishes to exercise his option to withdraw his application shall, within 14 days from the date of lodgement of the supplementary or replacement prospectus, notify us whereupon we shall, within seven days from the receipt of such notification, return the application monies without interest or any share of revenue or other benefit arising therefrom and at the applicant's risk.

INDICATIVE TIMETABLE FOR LISTING

In accordance with the SGX-ST News Release of May 28, 1993 on the trading of initial public offering shares on a “when issued” basis, an indicative timetable is set out below for your reference:

| Indicative date/time | Event |
|--------------------------------|---|
| 12.00 noon on 10 December 2003 | Close of Application List |
| 11 December 2003 | Balloting of applications, if necessary (in the event of over-subscription for the Offer Shares) |
| 9.00 a.m. on 12 December 2003 | Commence trading on a “when issued” basis |
| 19 December 2003 | Last day of trading on a “when issued” basis |
| 9.00 a.m. on 22 December 2003 | Commence trading on a “ready” basis |
| 26 December 2003 | Settlement date for all trades done on a “when issued” basis and for trades done on a “ready” basis on 22 December 2003 |

The above timetable is only indicative as it assumes that the date of closing of the Application List is 10 December 2003, the date of admission of our Company to the Official List of the SGX-SESDAQ is 12 December 2003, the SGX-ST’s shareholding spread requirement will be complied with and the New Shares will be issued and fully paid-up prior to 12 December 2003. The actual date on which our Shares will commence trading on a “when issued” basis will be announced when it is confirmed by the SGX-ST.

The Invitation will be open from 3 December 2003 to 10 December 2003.

The above timetable and procedure may be subject to such modifications as the SGX-ST may in its discretion decide, including the decision to permit trading on a “when issued” basis and the commencement date of such trading. All persons trading in the Shares on a “when issued” basis do so at their own risk. **In particular, persons trading in the Shares before their Securities Accounts with CDP are credited with the relevant number of Shares do so at the risk of selling Shares which neither they nor their nominees, as the case may be, have been allotted or are otherwise beneficially entitled to. Such persons are also exposed to the risk of having to cover their net sell positions earlier if “when issued” trading ends sooner than the indicative date mentioned above. Persons who have a net sell position traded on a “when issued” basis should close their position on or before the first day of “ready” basis trading.**

In the event of any changes in the closure of the Application List or the time period during which the Invitation is open, we will publicly announce the same:

- (i) through a MASNET announcement to be posted on the Internet at the SGX-ST website <http://www.sgx.com>; and
- (ii) in a local English newspaper, namely, The Straits Times.

Investors should consult the SGX-ST announcement of the “ready” listing date on the Internet (at the SGX-ST website <http://www.sgx.com>), INTV or newspapers, or check with their brokers on the date on which trading on a “ready” basis will commence.

We will provide details of the results of the Invitation through the channels in (i) and (ii) above.

PROSPECTUS SUMMARY

This summary highlights certain information found in greater detail elsewhere in this Prospectus. In addition to this summary, we urge you to read the entire Prospectus carefully, especially the discussion of risk of investing in our shares under “*Risk Factors*”, before deciding to buy our Shares. References in this Prospectus to “*Superior Fastening*”, “*Group*”, “*we*”, “*our*” and “*us*” refer to Superior Fastening Technology Limited and its subsidiaries.

OVERVIEW OF OUR GROUP

Our Company was incorporated on 12 March 2003 under the laws of Bermuda as an exempted company with limited liability, under the name of Superior Fastening Technology Limited. Pursuant to the Restructuring Exercise as described on pages 54 to 55 of this Prospectus, our Group was formed through a series of acquisitions.

We are manufacturers and suppliers of high quality fasteners and providers of surface treatment services to contract manufacturers for MNCs in various industries such as home consumer appliances, telecommunications products, computing, imaging and printing devices, and motor products. Our fastener products are widely applied in three main categories, namely:

- Home consumer appliances (such as hi-fi sets, VCD, DVD players, fans, and heating devices);
- Telecommunication products, computing, imaging and printing devices such as handphones, satellite radios, personal computers, handheld PDAs, printers and calculators; and
- Motor products such as micro motors and power tools.

As at 31 March 2003, our Group had 255 employees and an annual production capacity of approximately 3.7 billion units for our fastener division and 3,650 tons for our surface treatment division.

In FY2003, the manufacture and sale of fasteners, and the provision of surface treatment services contributed approximately 87.6% and 12.4% of our total revenue respectively. Approximately 77.7% of our customer base is located in Hong Kong and the PRC. Other Asian countries such as Singapore, Malaysia, Thailand and Taiwan form 17.1% of our customer base, while customers from Europe and the United States form the remaining 5.2%.

For more details on our business, please refer to “*Our Business*” on pages 59 to 65 of this Prospectus.

OUR COMPETITIVE STRENGTHS

Our competitive strengths are as follow:

(1) *We possess surface treatment capabilities*

We believe that our integrated manufacturing and surface treatment capability enables us to price our products more competitively than other manufacturers who outsource the process of surface treatment to third parties.

(2) *We have an experienced management team*

Our experienced management team, comprising Mr Lam Tak Shing, Mr Tang Yuk Fung, Ms Kwan Suk Yee and Mr Raymond Teo, have established a good track record in the fastener manufacturing industry and have developed strong customer rapport over the years.

(3) *We have a successful history of operating in the PRC*

Our established presence in the PRC since 1993 to date, as well as the customer base which we have built up in the PRC, gives us an advantage over other competitors who have yet to enter or have recently entered into the PRC market.

(4) *We have a production facility which is high-capacity and capable of manufacturing fasteners which require high precision*

Our production facility possesses a high capacity to manufacture over 3.7 billion units a year. This has enabled us to accept orders for large quantities of products, which can be manufactured in a shorter time than a factory with lower capacity. In addition, our production facility has the capacity to manufacture complex multi-stage fasteners requiring high precision.

(5) *We have a wide customer base and good working relationships with our customers*

Our customers are geographically wide-spread in countries such as the PRC, Hong Kong, Singapore, Malaysia, Thailand, Taiwan, the United States, Canada, Israel and the United Kingdom. Our ability to meet the requirements of the wide variety of customers in different industries is a testimony to our expertise in producing a wide variety of good quality fasteners.

For more details, please refer to “*Our Competitive Strengths*” on pages 71 and 72 of this Prospectus.

OUR FUTURE PLANS

Our future plans are as follows:

(1) *Expand our market reach regionally*

Our aim is to reach out to customers in Asia and to provide better and faster services to all of them. We believe that we will be able to achieve this by setting up sales offices in various locations in Asia.

(2) *Expand our range of capabilities*

We intend to develop and expand our range of capabilities beyond our core competencies of manufacturing and surface treatment so as to better meet the demands of worldwide markets. To this end, we intend to acquire heat treatment facilities to conduct heat treatment processes in-house as well as provide these services to other metal manufacturers for a fee.

(3) *Expand into the Japanese market*

We aim to penetrate the Japanese market by employing more Japanese-speaking personnel with fastener manufacturing experience who are familiar with Japanese product management, so as to increase the confidence of Japanese consumers in our ability to meet their requirements.

(4) *Set up a design and engineering team to assist our customers*

We intend to set up a team which will provide value-added services to our customers by providing design services, which will complement the efforts of our sales and marketing team which currently provides advice on the technical aspects of our products.

For more details, please refer to “*Our Future Plans*” on pages 73 and 74 of this Prospectus.

WHERE YOU CAN FIND US

We currently have operations in the PRC, Hong Kong and Singapore. Our registered office is at Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda and our business address is at Unit 2712-2715, 27/F, Metropole Square, 2 On Yiu Street, Siu Lek Yuen, Shatin, Hong Kong. Our telephone number is +852 2896 5255 and our facsimile number is +852 2889 0280. Our Internet address is www.superiorfastening.com. **Information contained on our website does not constitute part of this Prospectus.**

THE INVITATION

- Size : 25,000,000 New Shares comprising 2,000,000 Offer Shares and 23,000,000 Placement Shares. The New Shares will, upon issue and allotment, rank *pari passu* in all respects with the existing issued Shares.
- Issue Price : S\$0.23 for each Offer Share and each Placement Share.
- The Offer : The Offer comprises an invitation by our Company to the public in Singapore to subscribe for or acquire the 2,000,000 Offer Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus.
- The Placement : The Placement comprises a minimum of 21,000,000 Placement Shares and 2,000,000 Internet Placement Shares at the Issue Price.
- Purpose of the Invitation : The purpose of the Invitation is to secure admission of our Company to the Official List of the SGX-SESDAQ. Our Directors believe that the listing of our Company and the quotation of our Shares on the SGX-SESDAQ will enhance the public image of our Group locally and overseas and enable us to tap the capital markets for the expansion of our operations.
- The Invitation will also provide members of the public, our management, employees and business associates as well as those who have contributed to our success with an opportunity to participate in the equity of our Company.
- Listing Status : Our Shares will be quoted on the Official List of the SGX-SESDAQ in Singapore dollars, subject to admission of our Company to the Official List of the SGX-SESDAQ and permission for dealing in and for quotation of our Shares being granted by the SGX-ST.
- Use of Proceeds : The net proceeds from the issue of the New Shares (after deducting estimated issue expenses) is approximately S\$4.0 million, which we intend to use in the following manner:
- approximately S\$0.6 million to establish a heat treatment business and acquire new equipment and machinery in connection therewith;
 - approximately S\$1.0 million to expand our fasteners production capacity by acquiring new equipment for our Huizhou plant;
 - approximately S\$1.0 million to set up a new manufacturing plant in Shanghai; and
 - the balance for our general corporate and working capital requirements.
- Pending the deployment of the net proceeds from the issue of the New Shares as aforesaid, the funds may be used as working capital for our Group or be placed in short-term deposits with banks and financial institutions or invested in money markets or debt instruments as our Directors may deem fit.
- Risk Factors : Investing in our ordinary shares involves risks which are described in the “*Risk Factors*” section beginning on page 28 of this Prospectus.

PLAN OF DISTRIBUTION

The Issue Price is determined by us, after negotiations with the Manager, the Joint Lead Placement Agents and the Underwriters, based on market conditions and estimated market demand for our shares determined through a book-building process. The Issue Price is the same for all New Shares and is payable in full on application.

This section should be read in conjunction with, and is qualified in its entirety by reference to, the section entitled “*Appendix K — Terms and Conditions And Procedures For Application*” on pages K-1 to K-15 of this Prospectus.

Investors may apply to subscribe for any number of New Shares in integral multiples of 1,000 Shares. In order to ensure a reasonable spread of shareholders, we have the absolute discretion to prescribe a limit to the number of New Shares to be allotted to any single applicant and/or to allot New Shares above or under such prescribed limit as we shall deem fit.

Application for the New Shares may be made by one of the following methods:

(1) Public Offer

Pursuant to the terms and conditions contained in the Management and Underwriting Agreement signed between our Company, the Manager and the Underwriters dated 2 December 2003, the Underwriters have agreed to underwrite our Offer Shares.

In the event of an under-subscription for the Offer Shares as at the close of the Application List, that number of Offer Shares not subscribed for shall be made available to satisfy excess applications for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List.

In the event of an over-subscription for the Offer Shares as at the close of the Application List and/or the Placement Shares are fully subscribed as at the close of the Application List, the successful applications for the Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

Offer Shares

The Offer Shares are made available to members of the public in Singapore for subscription at the Issue Price. Investors may apply for New Shares pursuant to the Offer by way of printed Application Forms or IB websites or ATMs belonging to the Participating Banks.

An applicant (other than an approved nominee company) who has made an application for Offer Shares in his own name may not submit another separate application for Offer Shares whether by way of an Application Form or by way of an IB/ATM Application, for any other person. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for Offer Shares by way of an Offer Shares Application Form may not make another separate application for Offer Shares by way of an IB/ATM Application and *vice versa*. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for Offer Shares either by way of an Offer Shares Application Form or by way of an IB/ATM Application shall not make any separate application for Placement Shares by way of a Placement Shares Application Form or by way of application through the IPO website. Such separate applications shall be deemed to be multiple applications and shall be rejected.

Additional terms and conditions of and the procedures for the application for Offer Shares by way of Application Forms and IB/ATM Applications are set out in Appendix K of this Prospectus.

(2) Placement

Pursuant to the terms and conditions in the Placement Agreement signed between our Company and the Joint Lead Placement Agents dated 2 December 2003, the Joint Lead Placement Agents agreed to subscribe for and/or procure subscriptions for the Placement Shares at the Issue Price.

In the event of an under-subscription for the Placement Shares as at the close of the Application List, that number of Placement Shares not subscribed for shall be made available to satisfy excess applications for the Offer Shares to the extent that there is an over-subscription for the Offer Shares as at the close of the Application List.

In the event of an under-subscription for the Internet Placement Shares to be applied for through the IPO website as at the close of the Application List, that number of Internet Placement Shares not subscribed for shall be made available to satisfy excess applications for the Placement Shares by way of Placement Shares Application Forms to the extent there is an over-subscription for the Placement Shares as at the close of the Application List or to satisfy excess applications for the Offer Shares, to the extent there is an over-subscription for the Offer Shares as at the close of the Application List.

(a) Placement Shares

The Placement Shares are reserved for placement to members of the public and institutional investors in Singapore at the Issue Price.

Application for the Placement Shares pursuant to the Placement may only be made by way of Application Forms or through the IPO website.

An applicant who applies for the Placement Shares must complete a Placement Shares Application Form, and shall not make any separate application for the Placement Shares using another Placement Shares Application Form or for the Offer Shares (either using an Offer Share Application Form or by way of an IB/ATM Application). Such separate applications will be deemed to be multiple applications and shall be rejected.

Additional terms and conditions of and the procedures for the application for Placement Shares are set out in Appendix K of this Prospectus.

(b) Internet Placement Shares

The Internet Placement Shares are reserved for placement to Qualifying Internet Applicants. Qualifying Internet Applicants may apply for the Internet Placement Shares through the IPO website.

The placement of the Internet Placement Shares through the IPO website will be on a first-come-first-served basis, and is subject to availability at the time of application.

A Qualifying Internet Applicant who has made an application for Internet Placement Shares through the IPO website shall not make any separate application for Placement Shares by way of a Placement Shares Application Form or by way of another application through the IPO website, or for the Offer Shares (either using an Offer Share Application Form or by way of an IB/ATM Application). Such separate applications will be deemed to be multiple applications and shall be rejected.

Additional terms and conditions of and the procedures for the application of Internet Placement Shares through the IPO website are set out in Appendix K of this Prospectus.

None of the members of our Company's management or employees intend to subscribe for Shares in the Invitation amounting to more than 5% of the New Shares.

Subscribers of Placement Shares may be required to pay a brokerage of up to 1% of the Issue Price to the Joint Lead Placement Agents.

We are not aware of any person who intends to subscribe for Shares in the Invitation amounting to more than 5% of the New Shares.

Further, no Shares shall be allotted on the basis of this Prospectus later than six months after the date of registration of this Prospectus.

ISSUE STATISTICS

| | |
|---------------------------------------|---------|
| Issue Price for each New Share | S\$0.23 |
|---------------------------------------|---------|

Net Tangible Assets (“NTA”)

The NTA per Share based on the Group balance sheet as at 31 March 2003:

- | | |
|---|------------|
| (a) before adjusting for the estimated net proceeds of the Invitation and based on the pre-flotation share capital of 79,296,200 Shares | 3.87 cents |
| (b) after adjusting for the estimated net proceeds of the Invitation and based on the post-flotation enlarged share capital of 104,296,200 Shares | 6.78 cents |

Premium of Issue Price over the NTA per Share:

- | | |
|---|--------|
| (a) before adjusting for the estimated net proceeds of the Invitation and based on the pre-flotation share capital of 79,296,200 Shares | 494.3% |
| (b) after adjusting for the estimated net proceeds of the Invitation and based on the post-flotation enlarged share capital of 104,296,200 Shares | 239.2% |

Earnings

| | |
|--|------------|
| Historical net EPS of the Group for FY2003 based on the pre-flotation share capital of 79,296,200 Shares | 2.96 cents |
|--|------------|

| | |
|---|------------|
| Historical net EPS of the Group for FY2003 based on the pre-flotation share capital of 79,296,200 Shares, assuming that the Service Agreements (as set out on page 82 of this Prospectus) had been in place in FY2003 | 2.56 cents |
|---|------------|

Price Earnings Ratio (“PER”)

| | |
|--|------------|
| Historical net PER of the Group for FY2003 based on the pre-flotation share capital of 79,296,200 Shares | 7.77 times |
|--|------------|

| | |
|---|------------|
| Historical net PER of the Group for FY2003 based on the pre-flotation share capital of 79,296,200 Shares, assuming that the Service Agreements (as set out on page 82 of this Prospectus) had been in place in FY2003 | 8.98 times |
|---|------------|

Net Operating Cash Flow

| | |
|--|------------|
| Historical net operating cash flow per Share of the Group for FY2003 based on the pre-flotation share capital of 79,296,200 Shares | 1.63 cents |
|--|------------|

| | |
|---|------------|
| Adjusted historical net operating cash flow per Share of the Group for FY2003 had the Service Agreements (as set out on page 82 of this Prospectus) been in place in FY2003 and based on the pre-flotation share capital of 79,296,200 Shares | 1.15 cents |
|---|------------|

Price to Cash Flow Ratio

Historical price to net operating cash flow based on the historical net operating cash flow per Share for FY2003 14.11 times

Historical price to net operating cash flow based on the adjusted historical net operating cash flow per Share for FY2003 had the Service Agreements (as set out on page 82 of this Prospectus) been in place in FY2003 20.00 times

Market Capitalisation

Our market capitalisation based on the post-Invitation share capital of 104,296,200 Shares and the Issue Price \$24.0 million

Notes:

- (1) Net operating cash flow refers to cash generated from operating activities as defined on page A-6 of the Report on Examination of the Proforma Consolidated Financial Statements of the Group.
- (2) Had the Service Agreements set out on page 82 of this Prospectus been in place in FY2003, the estimated total remuneration for the Directors would have been approximately S\$574,000, instead of S\$172,000.
- (3) The above calculations are based on the FY2003 year end exchange rate of HK\$4.42: S\$1.00.

RISK FACTORS

Prospective investors should carefully consider and evaluate the following considerations and all the other information contained in this Prospectus before deciding to invest in our Shares. Some of the following risk factors relate principally to the industry in which our Group operates and the business of our Group in general. Other considerations relate principally to general economic and political conditions and the securities market and ownership of our Shares, including possible future sales of Shares.

If any of the following considerations and uncertainties develop into actual events, our business, results of operations and financial condition could be materially and adversely affected. In such cases, the trading price of our Shares could decline due to any of these considerations and uncertainties, and you may lose all or part of your investment in our Shares.

RISKS RELATING TO OUR BUSINESS

We are vulnerable to fluctuations in raw material prices

The main raw material used in the production of our products is steel which accounted for approximately 48% of our Group's total cost of goods sold for FY2003. Therefore, an increase in the price of steel will have a significant impact on our profit margins and hence our profitability.

There is no assurance that we will be able to pass on all the cost increase to our customers in order to maintain our profit margin. In the event that we are not in a position to do so, the results of our operations may be adversely affected. Also, in the event that we are unable to purchase steel as a result of the increase in price, we may not be able to fulfill the orders placed with us, thereby adversely affecting our operations and reputation. For more information, please refer to the section "Inventory Management — Raw Materials" on page 65 of this Prospectus.

We may not be able to compete successfully in our industry

We cannot assure you that we will be able to compete successfully in the future against our existing competitors or new participants in the industry, or that our business, financial condition and results of operations will not be adversely affected by increased competition.

We face substantial competition from a number of competitors. Please refer to the section "Competition" on page 71 of this Prospectus. All the major players in the industry have fundamentally similar capabilities. In order for us to retain the competitive edge, we have to continually improve our range of capabilities and efficiency in both the technical and management aspects.

Loss of key personnel will have an adverse impact on our business

Our success to date is largely attributable to our experienced management team. The continued success of our business is very much dependent on the goodwill and strong networks that our experienced management team, in particular, Mr Lam Tak Shing, Mr Tang Yuk Fung, Ms Kwan Suk Yee and Mr Raymond Teo, has developed with various customers over the past years.

Although all of our Executive Directors have entered into Service Agreements with our Company for an initial term of three years, they may terminate their services with six months' notice. Please see the section titled "Service Agreements" on page 82 of this Prospectus.

The loss of the services of our Executive Directors and Executive Officers without appropriate replacement may adversely impact our business. Please see the section titled "Directors, Management and Staff" beginning on page 75 of this Prospectus for details of the qualifications and working experience of our Directors and Executive Officers.

We are dependent on our major customers and any loss of business from our major customers will adversely affect our financial results

Our top 5 major customers, accounted for approximately 45.2% in aggregate of our total revenue for FY2003. As we place significant reliance on these major customers, any disruption to or termination of our existing business arrangements will have a material and adverse impact on our financial results. While our Directors are not aware of any conflict or disagreement which could possibly disrupt or terminate our current relationships with these major customers, there is no assurance that these major customers will, in the future, continue to maintain or increase their purchases from our Group. Please see the section titled “*Our Customers*” on pages 67 and 68 of this Prospectus for more information on our major customers.

Our fastener division is dependent on the home appliances market

Our fastener division manufactures and sells our fasteners to three main markets, namely home appliances, telecommunication and computing devices and motor-products. In FY2003, our fastener division contributed to 87.6% of our Group's total revenue, while the home appliances market contributed to 70% of the total revenue earned by our fastener division. Please refer to the section “Management's Discussion and Analysis of Financial Condition and Results of Operations” on page 38 of this Prospectus for more details. In the event that there is a downturn in the home appliances market, it will decrease the demand for our fasteners. Consequently, our financial results will be adversely affected.

We are exposed to credit risk and defaults in payment

We are subject to the credit risk of customer default and our profitability is dependant on our customers making payment on the goods delivered by us. Whilst our credit terms to customers are on average 30 to 90 days, collection from our customers may take substantially longer than the aforesaid periods. Our bad debts written off for FY2001 and FY2002 were approximately HK\$5,000 and HK\$278,000 respectively. Although we have not written off any bad debts in FY2003, there is no assurance that we will be able to collect all our trade receivables within the credit terms granted by us or at all and if so, our cash flow and financial performance will be affected. Moreover, it is difficult for us to anticipate or detect the risk of default by our customers. In an event of default, we may have to write off the entire amount owed, particularly, if our customers were to go into liquidation.

Some of our customers may face cash-flow problems or difficulty obtaining credit facilities and this may jeopardize our recovery process. We therefore have no assurance that we will be able to collect our trade debts fully or within a reasonable period of time and this could adversely affect our financial position and operating results. Please see the section titled “*Credit Control*” beginning on page 66 of this Prospectus.

We may be adversely affected by slow downs in the economy owing to unforeseen circumstances, such as an outbreak of infectious diseases

Our business is affected by the number of contracts we are able to secure from our customers. Unforeseen circumstances such as an outbreak of infectious diseases may lead to a decline in global and regional businesses, which may in turn lead to a decline in demand for our products and services. Our marketing efforts and sales-related activities may decline as a result of a reduction in inter-country travel. Should there be a prolonged decline in our marketing activities as a result of the abovementioned events, our results may be adversely affected.

In addition, the spread of any infectious diseases may also potentially affect our manufacturing operations. If any of the employees in our facility is infected with such infectious diseases, we may be required to shut down the facility. This would also have a negative impact on our business.

We may be subject to penalties for failing to continue making contributions to the social insurance schemes in the PRC

Superior Huizhou had, in the past, participated in a mandatory social insurance scheme, whereby contributions are made for all of its employees. Participation in this scheme is compulsory and calculations on the contribution amounts are based on a percentage of a standard salary determined

by the local government in Huizhou (the “Standard Salary”). In June 2003, the local Huizhou government raised the Standard Salary from RMB 500 to RMB 911. Superior Huizhou is in the process of negotiating with the local government to lower the Standard Salary and therefore has continued to make contributions to the social insurance scheme in respect of its employees based on the previous lower Standard Salary from July 2003.

Although the local government has not requested for Superior Huizhou to increase their contributions pending the negotiations, Superior Huizhou has technically violated the *Procedures for Collecting and Making Contributions to Social Insurance Schemes in Guangdong Province* (广东省社会保险费征缴办法) by not participating in the social insurance schemes based on the new Standard Salary. As a result, we may be exposed to a penalty amounting to 0.2% per day of the outstanding contribution from the date on which such contribution become due and payable as well as the additional outstanding contributions calculated based on the new Standard Salary. For illustration purposes, as at 31 August 2003 and based on an total employee headcount of 245 at Superior Huizhou, the outstanding contributions and penalty payable would be approximately RMB 54,000 and RMB 6,000 respectively. In the event that we are to pay the outstanding contributions and penalty, our profits may be affected.

We may be subject to tax claims

In the normal course of its business, the Group is subject to various income and sales related taxes both in Hong Kong and certain overseas tax jurisdictions where the Group operates. In the opinion of the Company’s directors, some of the past sales transactions of the Group met the conditions for exemptions from payment of the sales related tax. However, the Group had failed to maintain the relevant supporting documents that are required to substantiate its position in the event of a challenge or claim from the relevant tax authority.

In addition, the Group is exposed to potential tax penalty charges should we fail to withhold the individual income tax of our employees in an overseas tax jurisdiction.

In light of the above, the directors have accrued for the relevant taxes and an estimate of the relevant potential penalties in the financial statements as a measure of prudence. The amounts accrued in the Group’s financial statements as at 31 March 2003 in relation to the penalties payable by the Group for the individual income tax and sales related tax amount to approximately HK\$0.5 million and HK\$2.85 million respectively, while the amount accrued for sales related tax payable by the Group is approximately HK\$2.35 million. Based on the Directors’ best estimation, the Directors believe that the relevant provisions made by the Group are adequate.

If there is indeed a challenge or claim from the relevant tax authority, the directors believe that there should be no adverse effect on the profit or loss of the Group as the relevant liabilities have already been accrued in the financial statements. However, the actual payment of which, if any, may still result in a significant impact on the Group’s short term cash flows.

RISKS RELATING TO LEGAL UNCERTAINTY

In the event of a take-over, the protection afforded under the Singapore Take-over Laws and Regulations is limited.

There are presently no requirements under any Bermuda laws or regulations of general application requiring persons who acquire significant shareholdings in us to make take-over offers for our Shares. As our Company is incorporated in Bermuda, the Singapore Take-over Laws and Regulations will not apply to offers for our Shares.

Although Bye-Law 193 of the Company’s Bye-Laws will, due to its binding effect on our shareholders, require our shareholders who make take-over offers for our Shares to comply with the Singapore Take-over Laws and Regulations, it is uncertain whether this can be enforced in respect of persons who are not our shareholders.

In the event that a person (not being one of our shareholders), whether alone or together with parties acting in concert with him, acquires or gains control of 30% or more of our Shares, you may not be offered an opportunity to sell your Shares to such acquiror at the price he had paid for those Shares. In addition, even if any take-over offer is made for our Shares, such take-over offer may not be made in accordance with the procedure stipulated in the Singapore Take-over Laws and Regulations.

RISKS RELATING TO THE COUNTRIES IN WHICH WE OPERATE

The loss of regulatory licences in any of the jurisdictions in which we operate will adversely affect our business

To conduct our manufacturing activities in the PRC we are required to obtain special regulatory approvals. In particular, the Law of Prevention of Water Pollution of the PRC (the “EPL”), as well as other applicable laws, administrative rules and local legislation of the PRC require an enterprise to obtain approvals from the competent environmental protection department on assessment of the impact of its manufacturing process to the environment and inspection of pollution treatment facilities. A pollutant discharge permit must also be issued by the competent environmental protection department. These approvals are subject to renewal and periodic reviews and the respective governmental authorities or agencies may suspend or revoke our approvals. The suspension or revocation of any of these approvals may result in our inability to continue business in the jurisdictions in question. Accordingly, our revenue and operating results will be adversely affected. For more details, please see the section titled “*Government Regulations*” on pages 70 and 71 of this Prospectus.

Changes in the economic, social, legal and/or political conditions in countries and territories where our operations are conducted could adversely affect our business

With substantial business and assets outside of Singapore (in particular the PRC and Hong Kong), adverse changes in the economic, social, legal and/or political conditions in these countries and territories in which we operate may lead to a negative impact on our Group’s financial position and profitability. Some adverse changes include the introduction or modification of laws and regulations (e.g. tax changes, import /export regulations, tariffs, and custom restrictions) not in our favour.

We could be adversely affected by political and legal changes in the PRC

We have operations in the PRC and have plans for continued expansion there, as we believe in its market potential.

The PRC government has implemented measures aimed at liberalising trade and encouraging foreign direct investment. To tap on the market potential of China, we have established operations in China and have plans for continued expansion in various cities of China.

Since the adoption of the “open door policy” in 1978 and the “socialist market economy” in 1993, the PRC government has been reforming and is expected to continue to reform its economic and political systems. Any changes in the political and economic policy of the PRC government may lead to changes in the laws and regulations or the interpretation of the same, as well as changes in the foreign exchange regulations, taxation and import and export restrictions, which may in turn adversely affect our financial performance. While the current policy of the PRC government seems to be one of imposing economic reform policies to encourage foreign investments and greater economic decentralisation, there is no assurance that such a policy will continue to prevail in the future. In particular, the PRC has agreed to undertake a series of measures to liberalise its tariff regime as a result of its admission as a member to the WTO on 11 December 2001. This refinement and readjustment process may consequently have a material impact on our operations in the PRC or a material adverse impact on our financial performance.

Our operations in the PRC are subject to the laws and regulations promulgated by the PRC government. The PRC legal system is a codified legal system made up of written laws, regulations, circulars, administrative directives and internal guidelines. Unlike common law jurisdictions like the United Kingdom and Singapore, decided cases do not form part of the legal structure of the PRC and thus have no binding effect. As such, the administration of the PRC laws and regulations may be subject to a certain degree of discretion by the authorities. This has resulted in the outcome of dispute resolutions not having the level of consistency or predictability as in other countries with more developed legal systems.

Furthermore, in line with its transformation from a centrally planned economy to a more free market oriented economy, the PRC government is still in the process of developing a comprehensive set of laws and regulations. As the legal system in the PRC is still evolving, laws and regulations or the interpretation of the same may be subject to change. Such changes in the political or economic

landscape of PRC (e.g. a sudden reversal of measures and policies) is possible. This could present difficulties in our business undertakings and expansion plans in PRC.

We may be subjected to foreign exchange controls in certain countries and territories in which we operate

In some countries and territories where we operate, we are subject to foreign exchange controls or restrictions imposed by the government and relevant authorities. Such foreign exchange controls or restrictions may affect our operations, for example, our ability to convert these currencies as and when required to make payments. Furthermore, these foreign exchange controls or restrictions may impede the ability of subsidiaries to repatriate dividends and profits.

In the PRC, since the introduction of the unified floating rate system in 1994, movements in the exchange rate of the RMB against other currencies are, to an extent, subject to market forces. Nevertheless, the People's Bank of China continues to publish, on each bank business day, the RMB exchange rates against major foreign currencies. As such, the RMB is still not a freely convertible currency.

To date, we have not encountered any adverse experience, in particular, with regard to the repatriation of profits, dividends or interest from our overseas subsidiaries to us with respect to the exchange control requirements. However, any changes in the relevant regulations may affect our ability to receive funds *vis-à-vis* our investments in these overseas subsidiaries or to receive profits, interest or dividends from them. In such event, our earnings, cash flow and ability to pay dividends may be affected. Please also see “*Appendix I — Foreign Exchange Controls*” on pages I-1 and I-2 of this Prospectus.

Cessation of income tax exemption and/or reduction for Superior Huizhou will have an adverse impact on our net profit

In accordance with the “Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises”, Superior Huizhou and Superior Metal are required to pay an Enterprise Income Tax (“EIT”) equivalent to 24% of taxable profits. However, both Superior Huizhou and Superior Metal are entitled to full exemption from the EIT for the first two profit-making years followed by a 50% reduction in the EIT for the consecutive three years thereafter. The first profit making year for Superior Huizhou occurred in the calendar year ended 31st December 2001 whereas Superior Metal has not experienced its first profit making year as at the Latest Practicable Date.

As and when these tax exemptions and reductions expire in the future, Superior Huizhou will be subject to statutory income tax rate. Such higher tax rate will have an adverse impact on our cash flow and net profit after taxation.

RISKS RELATING TO AN INVESTMENT IN SHARES

Future sale of Shares could adversely affect the Share price

Any future sale or availability of Shares can have a downward pressure on our Share price. The sale of a significant amount of Shares in the public market after the Invitation, or the perception that such sales may occur, could materially affect the market price of Shares. These factors also affect our ability to sell additional equity securities. Except as otherwise described in “*Moratorium*” (see page 54 of this Prospectus), there will be no restriction on the ability of the substantial shareholders to sell their Shares either on the SGX-SESDAQ or otherwise.

Our share price may fluctuate following this Invitation

The market price of the Shares may fluctuate significantly and rapidly as a result of, among others, the following factors, some of which are beyond our control:

- variations of our operating results;
- changes in securities analysts' estimates of our financial performance;

- announcements by us of significant acquisitions, strategic alliances or joint ventures;
- additions or departures of key personnel;
- fluctuations in stock market prices and volume;
- involvement in litigation; and
- general economic and stock market conditions.

No prior market for the Shares

Prior to this Invitation, there has been no public market for the Shares. The Issue Price may not be indicative of the market price for the Shares after the completion of this Invitation. We have applied to the SGX-ST for the listing and quotation of the Shares on the Official List of the SGX-SESDAQ. However, no assurance can be given that an active trading market for the Shares will develop or, if developed, will be sustained.

Control by existing shareholders may limit your ability to influence the outcome of decisions requiring the approval of shareholders

Upon the completion of the Invitation, our Group's substantial shareholder, China Network Group Limited will beneficially own approximately 71.2 per cent. of the issued Shares. As a result, it will be able to exercise significant influence over all matters requiring shareholder approval, including the election of directors and the approval of significant corporate transactions. China Network Group Limited will also have veto power, with respect to any shareholder action or approval requiring a majority vote except where it is required by the rules of the SGX-ST Listing Manual to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of the Group which may benefit our Group's shareholders.

New investors will incur immediate dilution and may experience further dilution

Our Issue Price of S\$0.23 per Share is substantially higher than our Group's NTA per Share of S\$0.07 based on the post-Invitation issued share capital. If we were liquidated immediately following this Invitation, each investor subscribing to this Invitation would receive less than the price paid for their Shares. In addition, we intend to grant our employees share options to acquire our Shares under the Superior Employee Share Option Scheme. To the extent that such outstanding options are exercised, there will be further dilution to Investors in this Invitation. See "*Dilution*" on page 50 of this Prospectus.

USE OF PROCEEDS

The net proceeds from the issue of the New Shares (after deducting estimated issue expenses) is approximately S\$4.0 million, which we intend to use in the following manner:

- (a) approximately S\$0.6 million to establish a heat treatment business and acquire new equipment and machinery in connection therewith;
- (b) approximately S\$1.0 million to expand our fasteners production capacity by acquiring new equipment for our Huizhou plant;
- (c) approximately S\$1.0 million to set up a new manufacturing plant in Shanghai; and
- (d) the balance for our general corporate and working capital requirements.

Pending the deployment of the net proceeds from the issue of New Shares as aforesaid, the funds may be placed in short-term deposits with banks and financial institutions or invested in money markets or debt instruments or used for our working capital requirements as our Directors deem fit in their absolute discretion.

In the opinion of the Directors, no minimum amount must be raised by the Invitation.

SELECTED GROUP FINANCIAL INFORMATION

The following selected Group financial information should be read in conjunction with the full text of this Prospectus, including the Report on Examination of the Proforma Consolidated Financial Statements of the Group set out in Appendix A of this Prospectus.

PROFORMA STATEMENT OF GROUP RESULTS

The proforma statement of Group results for each of the 3 financial years ended 31 March 2003 is as follows:

| | Financial Years ended 31 March | | |
|--|--------------------------------|----------|----------|
| | 2001 | 2002 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Sales | 23,826 | 27,860 | 40,975 |
| Cost of sales | (18,463) | (16,754) | (21,628) |
| Gross profit | 5,363 | 11,106 | 19,347 |
| Selling and distribution expenses | (903) | (1,145) | (1,268) |
| General and administrative expenses | (4,037) | (6,796) | (6,498) |
| Operating profit | 423 | 3,165 | 11,581 |
| Finance costs, net | (131) | (374) | (397) |
| Profit before taxation | 292 | 2,791 | 11,184 |
| Taxation | (130) | (225) | (795) |
| Net profit attributable to shareholders | 162 | 2,566 | 10,389 |
| Basic earnings per share (HK cents) ⁽¹⁾ | 0.20 | 3.24 | 13.10 |

Notes:

- (1) For comparative purposes, earnings per Share has been calculated based on the profit after taxation and the pre-Invitation issued share capital of 79,296,200 Shares.

PROFORMA BALANCE SHEET**AS AT 31 MARCH 2003**

| | HK\$'000 |
|---|-----------------|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | 908 |
| Inventories | 2,614 |
| Trade receivables | 6,755 |
| Other receivables, deposits and prepayments | 2,489 |
| Due from related parties | |
| — trade | 4,622 |
| — non-trade | 1,752 |
| Due from directors | 1,094 |
| | <u>20,234</u> |
| Non-current asset | |
| Property, plant and equipment | <u>14,305</u> |
| TOTAL ASSETS | <u>34,539</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| Current liabilities | |
| Trade payables | 5,179 |
| Other payables and accruals | 7,746 |
| Due to related parties — non-trade | 1,870 |
| Bank overdrafts | 2,354 |
| Current portion of long-term bank loans | 585 |
| Current portion of finance lease liabilities | 1,571 |
| Taxes payable | 924 |
| | <u>20,229</u> |
| Non-current liabilities | |
| Long-term bank loans | 139 |
| Finance lease liabilities | 515 |
| Deferred taxation | 81 |
| | <u>735</u> |
| Total liabilities | <u>20,964</u> |
| Shareholders' equity | |
| Share capital | 94 |
| Reserves | 13,481 |
| | <u>13,575</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>34,539</u> |
| Total proforma shareholders' equity and non-current liabilities | <u>14,310</u> |
| NTA per share ⁽¹⁾ (HK cents) | <u>17</u> |

Note:

(1) The NTA per Share has been computed based on the net tangible assets of HK\$13,575,000 and the pre-Invitation issued share capital of 79,296,200 Shares.

EXCHANGE RATES

The exchange rates quoted under this section were extracted from published information by Bloomberg LP. The table below sets forth the high and low exchange rates between the Singapore dollar and the Hong Kong dollar for each month for the past six months prior to the Latest Practicable Date. The table indicates how many Hong Kong dollars it would take to buy one Singapore dollar.

| | HK\$/S\$ Rate | |
|----------------|---------------|------|
| | High | Low |
| April 2003 | 4.41 | 4.37 |
| May 2003 | 4.54 | 4.40 |
| June 2003 | 4.54 | 4.43 |
| July 2003 | 4.47 | 4.42 |
| August 2003 | 4.49 | 4.42 |
| September 2003 | 4.48 | 4.44 |

The following table sets forth, for financial periods indicated, how many Hong Kong dollars it would take to buy one Singapore dollar, based on the average of the exchange rates on the last day of each month during each financial period. Where applicable, the exchange rates in this table are used for our Company's financial accounts disclosed elsewhere in this Prospectus.

| | HK\$/S\$ Rate | |
|--------|---------------|---------|
| | Average | Closing |
| FY2003 | 4.41 | 4.42 |
| FY2002 | 4.30 | 4.23 |
| FY2001 | 4.49 | 4.32 |

The above rates should not be construed as representations that the HK\$ amounts actually represent such S\$ amounts or could be converted into S\$ at the rate indicated or any other rate.

As at the Latest Practicable Date, the exchange rate between the Singapore dollar and Hong Kong dollar was S\$1.00 to HK\$4.45.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion has been prepared by our Company's management and should be read in conjunction with the consolidated financial information included in the Report on Examination of the Proforma Consolidated Financial Statements of the Group set out in Appendix A of this Prospectus.

OVERVIEW

Revenue

Our revenue is derived from our two main business activities:

- (i) manufacture and sale of fasteners ("fastener division"); and
- (ii) the provision of surface treatment services ("surface treatment division").

Our fastener division has been the Group's major revenue contributor for the past three financial years, accounting for approximately 75.8%, 85.3% and 87.6% of our Group's total revenue in FY2001, FY2002 and FY2003 respectively. Under this division, we manufacture and sell fasteners which are used in a wide range of products that can be broadly classified into 3 main categories namely home appliances, telecommunication and computing devices and motor-products. Revenue attributable to these categories accounted for approximately 70%, 14% and 16% of revenue from this fastener division respectively for FY2003. We recognise revenue from the sales of our fasteners upon delivery.

Our surface treatment division contributed approximately 24.2%, 14.7% and 12.4% of our Group's total revenue in FY2001, FY2002 and FY2003 respectively. This division carries out surface treatment of fasteners manufactured by our fastener division, as well as metal parts manufactured by our third-party customers. We receive processing fees from our customers for surface treatment services rendered and recognise the revenue upon performance of services.

Our revenue is dependent on our ability to secure new contracts from existing customers as well as to secure new customers for our fastener products and surface treatment services. Factors affecting our ability to secure sales include price and product competitiveness, effectiveness of our marketing efforts and the quality of our customer service. Our fasteners business is dependent on the industries in which our customers are exposed to, namely the home appliances market, the telecommunication and computing devices market and the motor-products market. Most of our Group's customers are located in China and Hong Kong, while the rest are located in countries such as Singapore, Malaysia, Europe, United States and Canada. Our surface treatment business is not dependent on any particular industry as the metal parts which undergo our surface treatment process are commonly used in various different products.

Cost of Sales

Cost of sales, as a percentage of our Group revenue, was 77.5%, 60.1% and 52.8% for FY2001, FY2002 and FY2003 respectively. The main components of our cost of sales are raw materials, manufacturing accessories, labour cost and factory overheads.

Main factors that can affect our cost of sales include:

Fastener division

In FY2003, cost of raw materials and manufacturing accessories comprised approximately 57.0% and 21.4% of our cost of sales in this division respectively. Manufacturing accessories refers to tools and devices required for the shaping of the various fastener designs. The main raw material used in both the manufacture of fasteners and manufacturing accessories is steel. An increase in the price of steel will increase our cost of sales accordingly.

Surface Treatment division

Chemicals such as acidic solutions and plating materials that are used in the surface treatment process such as nickel, copper and chromate form the main components of raw materials used in this division and they collectively constitute approximately 45.6% of our cost of sales for FY2003. Any increase in prices of the above chemicals and plating materials will also increase our cost of sales correspondingly.

The other factors that will affect our cost of sales are labour costs and factory overheads. Labour costs include manpower costs in relation to salaries of our operators, technicians and those directly engaged in our fastener production and surface treatment process. Factory overheads comprise mainly depreciation of plant and machinery, utilities charges and factory rental expenses. Other factory overheads include consumables and supplies and staff accommodation expenses.

Labour costs and factory overheads collectively accounted for approximately 21.6% and 54.4% of our cost of sales for our fastener division and surface treatment division respectively for FY2003. The two reasons for a relatively higher percentage figure for the surface treatment division is as follows; (i) the surface treatment process uses significantly more electricity than the fastener manufacturing process, thereby resulting in higher factory overheads; (ii) the surface treatment process is relatively more labour intensive, thereby resulting in higher labour costs as a percentage of cost of sales.

Indirect costs

Indirect costs comprised approximately 21.5%, 33.2% and 27.4% of our total costs for FY2001, FY2002 and FY2003 respectively. The 3 components of indirect costs are selling and distribution expenses, general and administrative expenses, and finance costs.

| Percentage of Indirect Costs (%) | FY2001 | FY2002 | FY2003 |
|---|---------------|---------------|---------------|
| Selling and distribution expenses | 17.8 | 13.8 | 15.5 |
| General and administrative expenses | 79.6 | 81.7 | 79.6 |
| Finance costs, net | 2.6 | 4.5 | 4.9 |
| Total | 100.0 | 100.0 | 100.0 |

Selling and distribution expenses comprise mainly transportation expenses such as freight and delivery charges and advertising and promotional expenses relating to our distribution activities.

General and administrative expenses comprise mainly salaries and bonuses of management and administration staff, entertainment and travelling expenses. Other general and administrative expenses include rental and depreciation of office equipment, insurance and professional fees.

Finance costs comprise mainly interest expense paid to banks and financial institutions for our bank loans, overdrafts and finance leases.

REVIEW OF PAST PERFORMANCE

Breakdown of Past Performance by Activities

A breakdown of our revenue by activities for the past three financial years is provided below:

Revenue

| | FY2001 | | FY2002 | | FY2003 | |
|-------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Fastener | 18,065 | 75.8 | 23,763 | 85.3 | 35,911 | 87.6 |
| Surface Treatment | 5,761 | 24.2 | 4,097 | 14.7 | 5,064 | 12.4 |
| Total | 23,826 | 100.0 | 27,860 | 100.0 | 40,975 | 100.0 |

Profit before Tax

A breakdown of our profit before tax by activities for the last three financial years is provided below:

| | FY2001 | | FY2002 | | FY2003 | |
|-------------------|----------|-----|----------|-------|----------|-------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Fastener | 542 | N/A | 1,704 | 61.1 | 9,901 | 88.5 |
| Surface Treatment | (250) | N/A | 1,087 | 38.9 | 1,283 | 11.5 |
| Total | 292 | N/A | 2,791 | 100.0 | 11,184 | 100.0 |

Breakdown of Past Performance by Geographical Region

A breakdown of our Group's revenue by our geographical markets for the last three financial years is provided below:

Revenue

| | FY2001 | | FY2002 | | FY2003 | |
|--------------------------------|----------|-------|----------|-------|----------|-------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| HK and PRC | 19,463 | 81.7 | 23,094 | 82.9 | 31,836 | 77.7 |
| South East Asia ⁽¹⁾ | 2,370 | 9.9 | 3,476 | 12.5 | 6,995 | 17.1 |
| Other regions ⁽²⁾ | 1,993 | 8.4 | 1,290 | 4.6 | 2,144 | 5.2 |
| Total | 23,826 | 100.0 | 27,860 | 100.0 | 40,975 | 100.0 |

A breakdown of our profit before tax by geographical markets for the last three financial years is provided below:

Profit before Tax

| | FY2001 | | FY2002 | | FY2003 | |
|--------------------------------|----------|-------|----------|-------|----------|-------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| HK and PRC | 162 | 55.5 | 2,434 | 87.2 | 8,639 | 77.3 |
| South East Asia ⁽¹⁾ | 71 | 24.3 | 260 | 9.3 | 1,948 | 17.4 |
| Other regions ⁽²⁾ | 59 | 20.2 | 97 | 3.5 | 597 | 5.3 |
| Total | 292 | 100.0 | 2,791 | 100.0 | 11,184 | 100.0 |

Notes:

(1) Turnover from South East Asia means sales to Singapore, Malaysia and Indonesia.

(2) Turnover from other regions includes sales to Middle East, Europe, USA, Canada and South America.

REVIEW OF RESULTS OF OPERATIONS**FY2001 to FY2002****Revenue**

Revenue increased by HK\$4.1 million or approximately 17.2% from HK\$23.8 million in FY2001 to HK\$27.9 million in FY2002. Sales from our fastener division increased by HK\$5.7 million or approximately 31.5% from HK\$18.1 million in FY2001 to HK\$23.8 million in FY2002 as we managed to secure increased orders from existing customers such as Honeywell (from HK\$1.0 million in FY2001 to HK\$3.7 million in FY2002), as well as first time revenue contribution of approximately HK\$2.5 million from new customers secured in FY2002 such as Johnson Electric.

Our surface treatment division experienced a decrease in sales of HK\$1.7 million during the same review period. This decrease is attributable to the following two factors; (i) Prior to October 2000, our Group provided surface treatment services via a subcontracting agreement with a related party with facilities in Dongguan. In October 2000, as we commenced our in-house surface treatment operations in Huizhou, some of our previous customers in Dongguan discontinued their business due to the relocation. (ii) This division, which also performs surface treatment for certain of our fastener products in-house, became fully operational in FY2002. As we were then able to produce fasteners with better profit margins, our management thus decided to concentrate on growing our fastener division in FY2002 which resulted in less capacity for our third party surface treatment customers.

In FY2002, revenue from the Hong Kong and PRC region continued to contribute strongly to the Group's growth and increased by HK\$3.6 million from FY2001, representing approximately 82.9% of our total Group revenue as compared to 81.7% in FY2001. Our PRC operations benefited from the trend whereby many of our customers' shifted their manufacturing bases to China and placed more orders with us. These translated to higher revenue from this region.

Cost of sales

Cost of sales decreased by HK\$1.7 million from HK\$18.5 million in FY2001 to HK\$16.8 million in FY2002 despite an increase in Group revenue and accordingly, gross profit increased by HK\$5.7 million from HK\$5.4 million in FY2001 to HK\$11.1 million in FY2002.

During the year, we experienced cost savings as we were able to enjoy bulk discounts from our numerous purchases of steel wire and components, which are our main production raw materials, as we secured more orders for our fasteners, with revenue from this division increasing from HK\$18.1 million in FY2001 to HK\$23.8 million in FY2002. At the same time, we also discontinued a subcontracting arrangement for our fastener manufacturing and surface treatment services with a related party. Please refer to page 94 of this Prospectus under the section "*Interested Person Transactions*" for more details on the subcontracting arrangement. This resulted in a significant reduction in our cost of sales as we were able to better control our manufacturing costs through the commencement of our in-house surface treatment operations in late 2001. Cost savings resulting from our discontinued subcontracting arrangement amounted to approximately HK\$2.7 million.

Indirect costs

Indirect costs increased by HK\$3.2 million or 62.7% from HK\$5.1 million in FY2001 to HK\$8.3 million in FY2002. The increase was mainly due to increase of general and administrative expenses of HK\$2.8 million. The increase in general and administrative expenses comprised mainly higher salary expenses and entertainment expenses incurred as we expanded our headcount (2 additional sales personnel and 1 additional administrative staff) and increased our marketing and promotion activities in China and the South East Asia region.

Profit before tax

Profit before tax increased by HK\$2.5 million from HK\$0.3 million in FY2001 to HK\$2.8 million in FY2002. The increase was mainly a result of an overall decrease in cost of sales combined with an increase in revenue. Our surface treatment division experienced a turnaround from a loss of HK\$0.25 million in FY2001 to a profit before tax of HK\$1.1 million in FY2002. We discontinued the surface treatment services subcontracting agreement in late FY2001 and was able to reap significant cost savings by offering these services in-house. Our fastener division experienced an increase in profit before tax by HK\$1.2 million from HK\$0.5 million in FY2001 to HK\$1.7 million in FY2002. This was mainly due to the greater increase in revenue for the fastener division by HK\$5.7 million, compared to the smaller increase in cost of sales for the fastener division by HK\$2.0 million. Overall, Group profit before tax margins increased significantly from 1.2% to 10.0%.

Taxation

The Group's taxation increased in line with the increased profitability from FY2001 to FY2002. In FY 2001, our Hong Kong operations recorded a profit of HK\$0.7 million and incurred a tax charge of HK\$0.1 million. Our PRC operations recorded a loss of HK\$0.4 million and no tax was charged. Hence, on an overall basis, the Group recorded a profit of HK\$0.3 million with tax charge of HK\$0.1 million, ie effective tax rate of 44.5%.

In FY 2002, our Hong Kong operations recorded a profit of HK\$580,000 with a tax charge of HK\$225,000. This resulted in an effective tax rate of approximately 38%. This effective tax rate was due to certain payments and provisions for accounting purposes which are not deductible for tax purposes. Such non-deductible payments and provisions include tax penalty provisions, unrealised foreign exchange losses, interest and other provisions. Our PRC operations recorded a profit of HK\$2.2 million. However, there was no tax charge in respect of our PRC operation as it enjoyed tax exemption for its first two profitable years. Hence, on an overall basis, the Group recorded a profit of HK\$2.8 million with tax charge of HK\$0.2 million, ie effective tax rate of 8.1%.

For more details on the tax-exemption periods, please refer to page 32 under the section "*Risk Factors*" of the Prospectus.

FY2002 to FY2003

Revenue

Revenue increased by HK\$13.1 million or 47.0% from HK\$27.9 million in FY2002 to HK\$41.0 million in FY2003. This increase in revenue was contributed largely by our fastener division. Sales from our fastener division increased by HK\$12.1 million or approximately 50.8% from HK\$23.8 million in FY2002 to HK\$35.9 million in FY2003. This was due to our fastener division experiencing increased orders from both existing customers (such as Johnson Electric) and new customers (such as Polytex Asia). In addition, the average selling price of our products in the fastener division had also increased as we manufactured more complex and customised products. We continued to secure more orders from our customers in the motor-products category such as Johnson Electric. Sales to Johnson Electric increased by HK\$3.2 million from HK\$2.5 million in FY2002 to HK\$5.7 million in FY2003. At the same time, we experienced strong revenue growth from sales to our end-customers in South East Asia such as Hewlett Packard and Flextronics through a related party from HK\$1.6 million in FY2002 to HK\$5.9 million in FY2003. For more details, please refer to page 95 under the section "*Interested Person Transactions*" of the Prospectus. Revenue from our surface treatment division also increased by HK\$1.0 million or approximately 24.4% in FY2003 mainly due to increased usage of our surface treatment services from Eagle San-Kyou (HK) Ltd, a surface treatment division customer also in the fastener manufacturing industry. In addition, our surface treatment division had also increased our rates charged for our surface treatment services in FY2003.

As a result of increased sales orders from our major customers in Hong Kong and the PRC such as Johnson Electric and Eagle San-Kyou (HK) Ltd, our revenue for the Hong Kong and PRC region increased by HK\$8.7 million from HK\$23.1 million to HK\$31.8 million.

Cost of sales

Cost of sales increased by HK\$4.8 million or 28.6% from HK\$16.8 million in FY2002 to HK\$21.6 million in FY2003. The increase was in line with our increased sales. Overall gross profit increased by HK\$8.2 million or approximately 73.9% from HK\$11.1 million in FY2002 to HK\$19.3 million in FY2003 accordingly. As we gained experience in the management of our PRC manufacturing operations, we were better able to control our costs, both from the manufacturing side by reducing production wastage through more efficient production management and from the purchase side by securing bulk discounts from our raw material suppliers, resulting in the improvement in our gross profit margins for the review period.

Indirect costs

Indirect expenses decreased marginally from HK\$8.3 million in FY2002 to HK\$8.2 million in FY2003, despite an increase of HK\$13.1 million in Group revenue. We managed to maintain our selling and distribution expenses as well as our general and administrative expenses, even with the higher

business volume. This was the result of our successful marketing and promotion efforts in penetrating new markets and effective management control in our indirect expenses during FY2002.

Profit before tax

Profit before tax increased by HK\$8.4 million from HK\$2.8 million in FY2002 to HK\$11.2 million in FY2003. This was a result of our increased gross profits and the ability to maintain our indirect expenses even though our business volume increased. The fastener division contributed HK\$8.2 million to the increase in profit before tax from FY2002 to FY2003. This was attributed mainly to an increase in sales to Johnson Electric (HK\$3.2 million), NABS Europe Ltd. (HK\$0.8 million), Allied Technologies Celestica and Flextronics through a related party (HK\$4.3 million) and from other existing and new customers (HK\$3.9 million). The surface treatment division contributed HK\$0.2 million to the increase in profit before tax from FY2002 to FY2003. The increase was attributed mainly to increased usage of our surface treatment services from Eagle San-Kyou (HK) Ltd.

From FY2002 to FY2003, the profit before tax for the HK and PRC region increased by HK\$6.2 million from HK\$2.4 million in FY2002 to HK\$8.6 million in FY2003. This increase was attributed mainly to increased contribution from the fastener division, particularly from Johnson Electric. Another reason for the increase was due to a higher gross margin resulting from lower production wastage and bulk discount for purchases of raw material.

Taxation

The Group's taxation increased in line with the increased profitability from FY2002 to FY2003. The Group's effective tax rate for FY2002 and FY2003 were 8.1% and 7.1% respectively. These differed from the statutory tax rates of the Group mainly because we continued to enjoy a tax holiday for our profitable PRC operations in both financial years. For more details on the tax holiday periods, please refer to page 32 under the section "*Risk Factors*" of the Prospectus.

REVIEW OF PAST FINANCIAL POSITION AS AT 31 MARCH 2003

A review of our Group financial position is set out below:

CURRENT ASSETS

Current assets consisted mainly of cash and cash equivalents, inventories, trade receivables, other receivables, deposits and prepayments, amount due from a related party (trade), amounts due from related parties (non-trade) and directors. Total current assets increased by HK\$8.0 million from HK\$12.2 million or 65.6% in FY2002 to HK\$20.2 million in FY2003.

As at 31 March 2003, trade receivables accounted for HK\$6.8 million or 33.7% of the total current assets whilst inventories accounted for HK\$2.6 million or 12.9% of the total current assets. Other receivables, deposits and prepayments and the amount due from a related party (trade) accounted for HK\$2.5 million or 12.3% of the total current assets and HK\$4.6 million or 22.8% of total current assets respectively. Amounts due from related parties (non-trade) and amounts due from directors accounted for HK\$1.8 million or 8.9% of total current assets and HK\$1.1 million or 5.4% of total current assets respectively. Cash and cash equivalents amounted to HK\$0.9 million.

Cash and cash equivalents

Cash and cash equivalents maintained at HK\$0.9 million in FY2002 and FY2003.

Inventories

Our inventories increased by HK\$1.4 million from HK\$1.2 million in FY2002 to HK\$2.6 million in FY2003. This increase was in line with our higher business volume as we maintained higher inventory levels to cope with the requirements of our customers.

Trade receivables

Our trade receivables decreased by HK\$1.0 million from HK\$7.8 million in FY2002 to HK\$6.8 million in FY2003. Most of our sales were on credit periods ranging from 30 to 90 days. We experienced a decrease in debtors' turnover days as our management adopted a more stringent credit policy in FY2003 compared to FY2002.

Other receivables, deposits and prepayments

Other receivables, deposits and prepayments increased by HK\$2.3 million from HK\$0.2 million in FY2002 to HK\$2.5 million in FY2003. The increase in other receivables, deposits and prepayments in FY2003 was mainly attributed to deposits paid to acquire new machinery, leasehold improvements at our Huizhou factory and steel wire for HK\$1.3 million and prepayments of HK\$0.9 million pertaining to our listing expenses.

Amount due from a related party (trade)

Amount due from a related party increased by HK\$2.6 million from HK\$2.0 million in FY2002 to HK\$4.6 million in FY2003 as a result of the increase in transactions with the related party in the year.

Amounts due from related parties (non-trade)

Amounts due from related parties increased by HK\$1.8 million comprising the disposal of a property for HK\$0.8 million to a related party in March 2003 and cash advanced to related parties of HK\$1.0 million.

NON-CURRENT ASSET

Property, plant and equipment

The net book value of property, plant and equipment amounting to HK\$14.3 million comprise leasehold improvement in Huizhou of HK\$6.7 million, machinery and equipment of HK\$6.3 million, furniture, fixtures and computer of HK\$0.7 million and motor vehicles of HK\$0.6 million.

In FY2003, we had carried out some leasehold improvements amounting to HK\$2.3 million at our Huizhou factory as part of our expansion plans. We also purchased fastener manufacturing machinery and computer software amounting to HK\$2.3 million and disposed of a property at a consideration of HK\$0.8 million.

CURRENT LIABILITIES

Current liabilities comprised mainly trade payables, other payables and accruals, amounts due to related parties (non-trade), bank overdrafts, current portion of long-term bank loans, current portion of finance leases liabilities as well as taxes payable. Our total current liabilities increased by HK\$1.2 million or 6.3% from HK\$19.0 million in FY2002 to HK\$20.2 million in FY2003.

Trade payables, other payables and accruals

Our trade payables accounted for HK\$5.2 million or approximately 25.7% of total current liabilities and other payables and accruals accounted for HK\$7.7 million or approximately 38.1% of total current liabilities. Trade payables relate mainly to our purchase of raw materials and manufacturing accessories. Other payables and accruals relate mainly to accrued operating expenses.

The increase in trade payables, other payables and accruals from HK\$10.5 million in FY2002 to HK\$12.9 million in FY2003 was due to an increase in accrued manufacturing expenses and factory overhead of HK\$2.2 million which was in line with our higher business volume.

Amounts due to related parties (non-trade)

Amounts due to related parties (non-trade) decreased by HK\$1.7 million from HK\$3.6 million in FY2002 to HK\$1.9 million in FY2003 which was a result of repayments made to a related party within the year.

Bank overdrafts

Our bank overdrafts accounted for HK\$2.4 million or approximately 11.9% of total current liabilities and increased by HK\$0.2 million from HK\$2.2 million in FY2002 to HK\$2.4 million FY2003. The purpose of the bank overdrafts is for the Group's day-to-day operational and working capital purposes.

Current portion of long-term bank loans and current portion of finance lease liabilities

Current portion of long-term bank loans and current portion of finance lease liabilities accounted for HK\$0.6 million and HK\$1.6 million or approximately 3.0% and 7.9% of total current liabilities respectively. Current portion of long-term bank loans and current portion of finance lease liabilities were used to finance our expansion, which included the acquisition of machinery and leasehold improvement works at our Huizhou factory.

The decrease in current portion of long-term bank loans and current portion of finance lease liabilities from HK\$2.4 million in FY2002 to HK\$2.2 million in FY2003 was due to repayment of finance lease obligations and business loans.

Taxes payable

Taxes payable for FY2002 and FY2003 were HK\$0.2 million and HK\$0.9 million respectively. These provisions relate to tax provided by our subsidiaries incorporated in Hong Kong at the rate of 16% and Foreign Enterprises Income Tax provided by our subsidiary incorporated in China at rate of 12% on the estimated assessable profit.

NON-CURRENT LIABILITIES

Non-current liabilities comprise non-current portion of long-term bank loans, non-current portion of finance lease liabilities and deferred taxation amounting to HK\$0.1 million, HK\$0.5 million and HK\$0.1 million respectively.

SHAREHOLDERS' EQUITY

Our shareholders' equity as at 31 March 2003 was HK\$13.6 million comprising share capital of HK\$0.1 million and reserves of HK\$13.5 million.

Foreign Currency Exchange Exposure

The reporting currency of our Group is Hong Kong Dollars ("HK\$"). Companies within our Group maintain their books and records in their respective functional currencies. The functional currency of our subsidiary established in the PRC is RMB.

Transactions in currencies other than the functional currencies during the period are translated into the respective functional currencies at exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currencies at the balance sheet date are translated into the respective functional currencies at the rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss accounts of the individual companies.

Upon consolidation, the financial statements of our subsidiaries whose functional currencies are currencies other than HK\$ are translated into HK\$. Assets and liabilities of our subsidiaries are translated into HK\$ at the exchange rates in effect at the balance sheet date. The income statements are translated using average exchange rates for the period. Share capital is translated at historical rates and the exchange differences arising on translation are included in the foreign currency translation reserve.

More than 90% of our sales are mainly denominated in HK\$ whilst the balance is denominated in US\$ and RMB. Our purchases and expenses are denominated mainly in HK\$ and RMB. To a large extent, there is a natural hedge between our revenue and purchases. The HK\$ is pegged to the US\$ at a fixed

rate of HK\$7.80 to US\$1.00 whilst the exchange rate between the US\$ and RMB has remained relatively stable for the past 3 financial years. Hence we have not experienced any major impact in our Group's results due to fluctuations in the exchange rates of US\$, HK\$ and RMB.

Presently, we do not have any formal hedging policy with respect to our foreign exchange exposure. We will monitor our foreign currency exposure and may hedge our position if our exposure becomes significant. The impact of foreign exchange fluctuations on our financial performance over the past three financial years was as follows:

| | FY2001 | FY2002 | FY2003 |
|------------------------|-------------------|-------------------|-------------------|
| | (HK\$'000) | (HK\$'000) | (HK\$'000) |
| Foreign exchange gains | 15 | 13 | 44 |

LIQUIDITY AND CAPITAL RESOURCES

The growth of our Group has been financed through a combination of shareholders' equity, retained earnings and bank borrowings, directors' and shareholders' loans.

Our Group has secured adequate banking facilities at commercial rates to meet our business requirements. Based on our Group's consolidated balance sheet as at 31 March 2003, the total bank borrowings outstanding, comprising bank overdrafts, long-term bank loans and finance lease liabilities, amounted to approximately HK\$5.2 million.

As at 31 March 2003, we had outstanding bankers' guarantees amounting to approximately HK\$3.4 million secured by (i) personal guarantees of the directors; (ii) unlimited joint and several guarantees of the directors; and (iii) several properties owned by the directors. Save as disclosed above and in the Report on Examination of the Proforma Consolidated Financial Statements of the Group set out in Appendix A of this Prospectus, we have not provided any guarantees to any other party and have no other material contingent liabilities.

As at the Latest Practicable Date, we have cash in bank amounting to HK\$0.9 million and our aggregate banking facilities were HK\$4.3 million of which HK\$1.9 million were unused.

The following table is a condensed summary of our proforma consolidated cash flow statement for the financial year ended 31 March 2003:

| | FY2003 (HK\$'000) |
|---|------------------------------------|
| Net cash generated from operating activities | 5,714 |
| Net cash used in investing activities | (3,447) |
| Net cash used in financing activities | (2,484) |
| Net decrease in cash and cash equivalents | (217) |
| Cash and cash equivalents ¹ at beginning of financial year | (1,229) |
| Cash and cash equivalents ¹ at end of financial year | (1,446) |

Net cash generated from operating activities

In FY2003, we generated net cash from operating activities before changes in working capital requirements of approximately HK\$13.0 million. This was offset by changes in working capital of approximately HK\$6.7 million. This was due to an increase in inventories of HK\$1.4 million, other receivables, deposits and prepayments of HK\$1.4 million and net amounts due from/to related parties and directors of HK\$7.4 million. In addition, we had a decrease in trade receivables of HK\$1.1 million. We also experienced an increase of HK\$2.4 million in trade and other payables and accruals. These resulted in a net cash inflow from operating activities of HK\$5.7 million after interest charges and taxation of HK\$0.6 million.

Net cash used in investing activities

Cash used in investing activities was mainly for the acquisition of property, plant and equipment.

In FY2003, net cash used in investing activities of approximately HK\$3.4 million was mainly attributed to leasehold improvement works and purchase of new machinery to increase the capacity of our Huizhou factory. This approximate amount of HK\$3.4 million factors in the cash inflow from the disposal of a property at a consideration of HK\$0.8 million.

¹ For the purpose of the cash flow summary, cash and cash equivalents are presented net of bank overdrafts.

Net cash used in financing activities

Cash generated from financing activities was mainly from proceeds from draw down of interest-bearing bank loans. Cash used in financing activities was mainly for repayment of long-term bank loans and finance lease principal payments.

In FY2003, proceeds from drawdown of long-term bank loans was HK\$0.7 million and the net cash used in financing activities for repayment of hire-purchase payments and long-term bank loans were HK\$2.6 million and HK\$0.6 million respectively, resulting in net cash used in financing activities, amounting to HK\$2.5 million.

Our Directors are of the opinion that, after taking into account the present banking facilities and our internal resources, we have adequate working capital for our present business operations.

CAPITALISATION AND INDEBTEDNESS

You should read this table in conjunction with the Report on Examination of the Proforma Consolidated Financial Statements of the Group set out in Appendix A of this Prospectus and the section entitled “*Management Discussion and Analysis of Results of Operations and Financial Condition*” on pages 38 to 45 of this Prospectus.

The following table shows the cash and cash equivalents, debt and capitalisation of our Group as at 30 September 2003:

- (i) based on our unaudited Group consolidated balance sheet; and
- (ii) as adjusted after taking into account the Restructuring Exercise referred to on pages 54 and 55 of this Prospectus, the allotment and issue of New Shares pursuant to the Invitation and the net proceeds, based on an Issue Price of S\$0.23 per Share, after deducting estimated expenses.

| | As at 30 September 2003 (HK\$'000) | As adjusted for the Invitation (HK\$'000) |
|---|---------------------------------------|---|
| <i>Cash and cash equivalents</i> ¹ | <u>1,138</u> | <u>18,818</u> |
| Indebtedness | | |
| <i>Short-Term Debt</i> | | |
| Bank overdrafts | 419 | 419 |
| Bank loans | 974 | 974 |
| Finance lease liabilities (secured) | <u>954</u> | <u>954</u> |
| | <u>2,347</u> | <u>2,347</u> |
| <i>Long-Term Debt</i> | | |
| Bank loans | 894 | 894 |
| Finance lease liabilities (secured) | <u>673</u> | <u>673</u> |
| | <u>1,567</u> | <u>1,567</u> |
| Total Indebtedness | <u>3,914</u> | <u>3,914</u> |
| Proforma shareholders' equity ¹ | <u>19,382</u> | <u>37,062</u> |
| Total capitalisation and indebtedness | <u>23,296</u> | <u>40,976</u> |

As at 30 September 2003, we had total borrowings of approximately HK\$3.9 million comprising approximately HK\$2.3 million of bank overdrafts, current portion of long-term bank loans and current portion of finance lease liabilities, and HK\$1.6 million of non-current portion of long-term bank loans and non-current portion of finance lease liabilities. Our aggregate banking facilities as at 30 September 2003 were approximately HK\$4.3 million of which HK\$2.1 million were unused. The repayment period of our bank loans is up to September 2004. The interest rates applicable to our borrowings range from 7% to 10%. Based on our proforma shareholders' equity of approximately HK\$19.4 million as at 30 September 2003 before the Invitation, our gearing, defined by total indebtedness divided by shareholders equity, was 0.20 times. We have been able to service our loan repayments on a timely basis. The Group's total indebtedness of approximately HK\$3.9 million are all secured and personally guaranteed by the Directors.

Save as disclosed above and on page A-21 under “*Appendix A — Report on Examination of the Proforma Consolidated Financial Statements of the Group*”, our Group has no borrowings or indebtedness or other material contingent liabilities.

¹ The above calculations are based on the FY2003 year end exchange rate of HK\$4.42:S\$1.00.

CAPITAL EXPENDITURE, DIVESTMENT OR COMMITMENT

We entered into a letter of intention dated 1 October 2002 for the renovation of our factory building in Huizhou, PRC for a total sum of HK\$5,660,000. As at 31 March 2003, we had paid 10% of the consideration sum as deposit. The formal construction agreement has not been signed as of the Latest Practicable Date. We intend to fund such renovations from bank loans. The Directors are confident of obtaining the relevant funding required for the renovations, and that such additional funding, if and when obtained, will not impose restrictive covenants on the Company. We intend to secure additional bank loans of approximately 70% of the consideration sum of HK\$5,660,000, which amounts to approximately HK\$4 million.

Our Group had entered into two lease agreements with Huizhou Chengda Plastic Tube Products Co., Ltd. (惠州市成达胶管制品有限公司) for terms of 20 years each. The aggregate total rental that we have committed to pay under these lease agreements amounts to HK\$11,908,000. We intend to fund the monthly rental payments from our working capital.

Other than the above, we have not made any material capital expenditure on or divestment of capital investment for the last three financial years and up to the Latest Practicable Date.

EXCHANGE CONTROL

Bermuda

Please refer to the section “*Appendix G — Summary of Bermuda Company Law*” on pages G-5 and G-6 of this Prospectus for more details on the exchange controls in relation to Bermuda.

Hong Kong

There are no governmental laws, decrees or regulatory requirements in Hong Kong which may impose any restriction on the repatriation of capital and remittance of profits by our Hong Kong subsidiaries to our Company.

PRC

Please refer to the section “*Appendix I — Foreign Exchange Controls*” on pages I-1 and I-2 of this Prospectus for more details on the foreign exchange controls in the PRC.

Singapore

There are no governmental laws, decrees or regulatory requirements in Singapore which may impose any restriction on the repatriation of capital and remittance of profits by our Singapore subsidiary to our Company.

DIVIDEND POLICY

Our Company has not distributed any cash dividend on our Shares since incorporation.

We currently do not have a formal dividend policy. The form, frequency and amount of future dividends on our Shares will depend on our earnings and financial position, our results of operations, our capital needs, our plans for expansion and other factors as our Directors may deem appropriate.

The declaration of payment of dividends will be determined at the sole discretion of our Directors, subject to the approval of our shareholders and Section 54 of the Bermuda Act. Our Directors may also declare an interim dividend. Future dividends will be paid by us as and when approved by our shareholders and Directors.

Information relating to taxes payable on dividends are set out on page E-2 of this Prospectus under “*Appendix E — Taxation*”.

We will pay cash dividends, if any, in HK\$. Shareholders whose Shares are held through CDP will receive their dividends in S\$. CDP will make the necessary arrangements to convert the dividends received from the Company in HK\$ into S\$ equivalent at such foreign exchange rate as CDP may determine for onward distribution to such shareholder entitled thereto. Neither our Company nor CDP will be liable for any loss howsoever arising from the conversion of the dividend entitlement of shareholders holding their Shares through CDP from HK\$ into S\$ equivalent.

DILUTION

Dilution is the amount by which the Issue Price paid by subscribers of our Shares in this Invitation exceeds our NTA per Share after the Invitation. The proforma NTA of our Group as of 31 March 2003 was 3.87 cents per Share. NTA per Share is determined by dividing our NTA (total tangible assets less total liabilities) as of 31 March 2003 by the 79,296,200 Shares prior to the Invitation.

Based on the issue of 25,000,000 New Shares at an Issue Price of 23 cents per Share pursuant to the Invitation and after deducting estimated issue expenses, the NTA of our Group would have been 6.78 cents per Share. This represents an immediate increase in NTA of 2.91 cents per Share to our existing shareholders and an immediate dilution in NTA of 16.22 cents per Share to our new investors. The following table illustrates this per Share dilution:

| | cents |
|--|--------------|
| Issue Price per Share | 23.0 |
| NTA per Share as of 31 March 2003, before adjusting for the Invitation | 3.87 |
| Increase in NTA per Share attributable to the Invitation | 2.91 |
| NTA per Share after the Invitation | 6.78 |
| Dilution in NTA per Share to new investors | 16.22 |

The following table summarises the total number of Shares held by our existing shareholders, the new investors and the total number of Shares issued by us, the total consideration paid to us and the average price paid per Share by our existing shareholders and our new investors pursuant to the Invitation.

| | Shares | | Amount | | Average Price Per Share |
|-----------------------|---------------|----------|----------------|----------|------------------------------------|
| | Number | % | S\$'000 | % | Cents |
| Existing shareholders | 79,296,200 | 76.0 | 3,069 | 34.8 | 3.87 |
| New investors | 25,000,000 | 24.0 | 5,750 | 65.2 | 23.0 |
| Total | 104,296,200 | 100.0 | 8,819 | 100.0 | |

GENERAL INFORMATION ON OUR GROUP

SHARE CAPITAL

Our Company (Registration No. 33437) was incorporated in Bermuda on 12 March 2003 under the Bermuda Act as an exempted company with limited liability. As at the date of incorporation, we had an authorised share capital of US\$12,000 comprising 12,000 ordinary shares of US\$1.00 each, of which 6,000 nil-paid shares were held by Mr Lam Tak Shing and 6,000 nil-paid shares were held by Mr Tang Yuk Fung. Our authorised share capital was subsequently altered to become HK\$93,600 comprising 93,600 ordinary shares of HK\$1.00 each, of which 46,800 nil-paid shares were held by Mr Lam Tak Shing and 46,800 nil-paid shares were held by Mr Tang Yuk Fung.

Pursuant to written resolutions in lieu of a Special General Meeting dated 27 October 2003, the sole shareholder of our Company approved, *inter alia*, the following:

- (a) the increase in the authorised share capital of our Company from HK\$93,600 divided into 93,600 ordinary shares of HK\$1.00 each to HK\$99,999,984 divided into 99,999,984 ordinary shares of HK\$1.00 each;
- (b) the allotment and issue of 13,386,754 new ordinary shares of HK\$1.00 each and the crediting as fully-paid the 93,600 existing issued but nil-paid ordinary shares of HK\$1.00 each in the Company in connection with the Restructuring Exercise, the details of which are set out on pages 54 and 55 of this Prospectus;
- (c) the consolidation of 17 ordinary shares of HK\$1.00 each in the authorised and issued share capital of our Company into one ordinary share of HK\$17.00 each (“Consolidation”);
- (d) the sub-division of every one ordinary share of HK\$17.00 each in the authorised and issued share capital of our Company into 100 ordinary shares of HK\$0.17 each (the “Sub-Division”);
- (e) the adoption of a new set of Bye-Laws of our Company;
- (f) the allotment and issue of the New Shares which are the subject of the Invitation. The New Shares, when issued and fully paid-up, will rank *pari passu* in all respects with the existing issued and fully paid-up Shares;
- (g) the adoption of the ESOS; and
- (h) that authority be given to our Directors to allot and issue shares in our Company (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as our Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares to be issued pursuant to such authority shall not exceed 50 per cent. of the Post-Invitation Issued Share Capital of our Company for the time being and that the aggregate number of shares to be issued other than on a pro-rata basis to the then existing shareholders of our Company shall not exceed 20 per cent. of the Post-Invitation Issued Share Capital of our Company for the time being, and, unless revoked or varied by our Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of our Company or the date by which the next Annual General Meeting is required by law or by our Bye-Laws to be held, whichever is earlier.

For the purposes of the above and pursuant to Rules 806(3) and Rules 806(4) of the Listing Manual, the “Post-Invitation Issued Share Capital” shall mean the enlarged issued and paid-up share capital of our Company after the Invitation, after adjusting for any subsequent consolidation or subdivision of shares.

As at the Latest Practicable Date, our Company has only one class of shares, being ordinary shares of HK\$0.17 each. The rights and privileges of our Shares are stated in our Bye-Laws. There are no founder, management, deferred or unissued shares reserved for the issuance for any purpose.

The present issued and paid-up capital of our Company is HK\$13,480,354 comprising 79,296,200 Shares. Upon the allotment of the New Shares, the resultant issued and paid-up share capital of our Company will be increased to HK\$17,730,354 comprising 104,296,200 Shares.

Details of the changes in the issued and paid-up share capital of our Company since incorporation and the resultant issued and paid-up share capital immediately after the Invitation are as follows:

| | Purpose of Issue | Par Value | Issue Price/ Consideration | Number of Shares | Resultant issued Share capital |
|-----------------|--|------------------|---------------------------------------|-----------------------------|---|
| 12 March 2003 | Issued ordinary shares of US\$1.00 each | US\$1.00 | Nil | 12,000 | US\$12,000 |
| 14 August 2003 | Alteration of currency denomination of share capital | HK\$1.00 | Nil | 93,600 | HK\$93,600 |
| 27 October 2003 | Credited as fully paid, the 93,600 ordinary shares of HK\$1.00 each that were issued nil-paid at 12 March 2003 | HK\$1.00 | HK\$93,600 | 93,600 | HK\$93,600 |
| 3 November 2003 | Issued and fully paid-up ordinary shares of 13,386,754 each upon the completion of the Restructuring Exercise | HK\$1.00 | HK\$13,386,754 | 13,386,754 | HK\$13,480,354 |
| 3 November 2003 | Consolidation | HK\$17.00 | Nil | 792,962 | HK\$13,480,354 |
| 3 November 2003 | Sub-division | HK\$0.17 | Nil | 79,296,200 | HK\$13,480,354 |
| | New Shares to be issued pursuant to the Invitation ¹ | HK\$0.17 | HK\$25,415,000 | 25,000,000 | HK\$17,730,354 |
| | Issued and paid-up share capital after the Invitation | HK\$0.17 | — | 104,296,200 | HK\$17,730,354 |

The authorised share capital and the shareholders' funds of our Company immediately prior to and after the Invitation are set forth below.

| | After the Restructuring and Prior to the Invitation (HK\$) | After the Invitation (HK\$) |
|--|---|--|
| AUTHORISED SHARE CAPITAL | | |
| Ordinary shares of HK\$0.17 each | 99,999,984 | 99,999,984 |
| SHAREHOLDERS' FUNDS | | |
| Issued and fully paid-up share capital | 13,480,354 | 17,730,354 |
| Share premium ¹ | — | 13,430,000 |
| | <u>13,480,354</u> | <u>31,160,354</u> |

¹ The above calculations are based on FY2003 year end exchange rate of HK\$4.42:S\$1.00.

SHAREHOLDERS

The shareholders of our Company and their respective shareholdings immediately before the Invitation and immediately after the Invitation are set out as follows:

| | Before the Invitation | | | | After the Invitation | | | |
|--|-----------------------|-------|------------------|------|----------------------|-------|------------------|------|
| | Direct Interest | | Deemed Interest | | Direct Interest | | Deemed Interest | |
| | Number of Shares | % | Number of Shares | % | Number of Shares | % | Number of Shares | % |
| Directors | | | | | | | | |
| Lam Tak Shing ⁽¹⁾ | — | — | 74,221,200 | 93.6 | — | — | 74,221,200 | 71.2 |
| Tang Yuk Fung ⁽¹⁾ | — | — | 74,221,200 | 93.6 | — | — | 74,221,200 | 71.2 |
| Kwan Suk Yee ⁽¹⁾ | — | — | 74,221,200 | 93.6 | — | — | 74,221,200 | 71.2 |
| Chan Kam Fuk | — | — | — | — | — | — | — | — |
| Goh Boon Huat | — | — | — | — | — | — | — | — |
| Tan Chong Huat | — | — | — | — | — | — | — | — |
| Holders of 5% or more | | | | | | | | |
| China Network Group Limited ⁽¹⁾ | 74,221,200 | 93.6 | — | — | 74,221,200 | 71.2 | — | — |
| Others | | | | | | | | |
| Employees ⁽²⁾ | 3,964,800 | 5.0 | — | — | 3,964,800 | 3.8 | — | — |
| Chinarise Capital (Hong Kong) Ltd ⁽³⁾ | 1,110,200 | 1.4 | — | — | 1,110,200 | 1.0 | — | — |
| Public | — | — | — | — | 25,000,000 | 24.0 | — | — |
| TOTAL | 79,296,200 | 100.0 | | | 104,296,200 | 100.0 | | |

Notes:

- (1) Mr Lam Tak Shing and Mr Tang Yuk Fung are deemed to be interested in the Shares held by China Network Group Limited as they own more than 20.0% of the issued and paid-up share capital of China Network Group Limited each. As Ms Kwan Suk Yee is the wife of Mr Lam Tak Shing, she is deemed to have an interest in the shares which Mr Lam Tak Shing is deemed to be interested in.
- (2) Employees comprise Choi Wai, Ip Chan Man and Yu Wing Cheung. Choi Wai is the accountant in charge of our Hong Kong operations and Ip Chan Man is the chief engineer for our Group's surface treatment operations. None of these employees are related to each other, our Directors or substantial Shareholders.
- (3) The beneficial owners of Chinarise Capital (Hong Kong) Ltd are Messrs Hui Yan Sui William (50%) and Hui Yan Moon (50%).

The Shares held by our Directors and substantial Shareholders do not carry different voting rights from the New Shares which are the subject of the Invitation.

The significant changes in the percentage of ownership of our Company held by our Directors and substantial Shareholders since the date of incorporation are as follow:

| Name | As at the date of incorporation | | After the Restructuring Exercise, Consolidation and Subdivision | |
|------------------------------|--|------|---|------|
| | Number of ordinary shares of US\$1.00 each | % | Number of ordinary shares of HK\$0.17 each | % |
| Directors | | | | |
| Lam Tak Shing | 6,000 | 50.0 | — | — |
| Tang Yuk Fung | 6,000 | 50.0 | — | — |
| Kwan Suk Yee | — | — | — | — |
| Chan Kam Fuk | — | — | — | — |
| Goh Boon Huat | — | — | — | — |
| Tan Chong Huat | — | — | — | — |
| Holders of 5% or more | | | | |
| China Network Group Limited | — | — | 74,221,200 | 93.6 |

Save as disclosed above, there have been no further changes in the percentage of ownership of the Company held by the Directors and substantial Shareholders.

MORATORIUM

To demonstrate their commitment to our Group, our controlling shareholder, China Network Group Limited, which holds 74,221,200 Shares representing 71.2% of our Company's issued and paid-up share capital after the Invitation, has undertaken not to transfer or realise any part of their shareholdings in our Company for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-SESDAQ and in the six months thereafter not to sell, transfer or otherwise dispose of more than 50 per cent. of its interests in the Company immediately after the Invitation.

Messrs Lam Tak Shing, Tang Yuk Fung and Kwan Suk Yee, who own 41.25%, 41.25% and 17.5% of the share capital of China Network Group Limited respectively, have undertaken not to sell, transfer or otherwise dispose of any part of their respective shareholding in China Network Group Limited for a period of 12 months commencing from the date of admission of our Company to the Official List of the SGX-SESDAQ.

GROUP STRUCTURE

Restructuring Exercise

Our Company implemented the Restructuring Exercise in preparation for our listing on the SGX-SESDAQ.

The purpose of the Restructuring Exercise as set out below was to rationalise the corporate structure of the Group. The following steps were taken in the Restructuring Exercise:

(a) Incorporation of our Company

On 12 March 2003, our Company was incorporated in Bermuda as an investment holding company for our Group.

(b) Incorporation of intermediate holding companies

On 6 March 2003, Genstar, was incorporated in the BVI for the purpose of forming an intermediate holding company to hold the existing companies forming part of our Group.

Newsy was incorporated on 6 March 2003, and Billion East and Sportmax were incorporated on 13 March 2003 in the BVI for the purpose of forming intermediate holding companies to hold the existing companies forming part of our Group.

(c) Acquisition of Chain Dragon, Silver Star and Superior HK

Pursuant to a Sale and Purchase Agreement dated 31 October 2003, our Company acquired the entire issued share capital of Chain Dragon, Silver Star and Superior HK from Mr Lam Tak Shing and Mr Tang Yuk Fung for a total consideration of HK\$13,480,354, based on the aggregate of the audited NTA value of Chain Dragon and its subsidiary, Silver Star and Superior HK of HK\$9,030,142, HK\$695,824, HK\$3,754,388 respectively as at 31 March 2003.

Our Company directed Messrs Lam Tak Shing and Tang Yuk Fung to transfer their shares in the following companies to the respective intermediate holding companies:

| Name of company acquired | Intermediate holding company to hold shares in company acquired |
|---------------------------------|--|
| Chain Dragon | Billion East |
| Silver Star | Sportmax |
| Superior HK | Newsy |

The consideration for Chain Dragon, Silver Star and Superior HK was satisfied by: (i) the allotment and issue of a total of 13,386,754 ordinary shares of HK\$1.00 each in our Company to Mr Lam and Mr Tang in aggregate; and (ii) the crediting as fully-paid of the existing 93,600 ordinary shares of HK\$1.00 in our Company registered in the name of China Network Group Limited.

Mr Lam and Mr Tang subsequently transferred an aggregate of 13,386,754 ordinary shares of HK\$1.00 each in the following manner:

| | No. of shares of HK\$1.00 in the Company allotted and issued in consideration | No. of shares transferred to China Network Group Limited | No. of shares transferred to Employees | No. of shares transferred to Chinarise Capital (Hong Kong) Ltd. |
|-------------------------|--|---|---|--|
| Mr Lam Tak Shing | 6,693,377 | 6,262,002 | 337,008 | 94,367 |
| Mr Tang Yuk Fung | 6,693,377 | 6,262,002 | 337,008 | 94,367 |

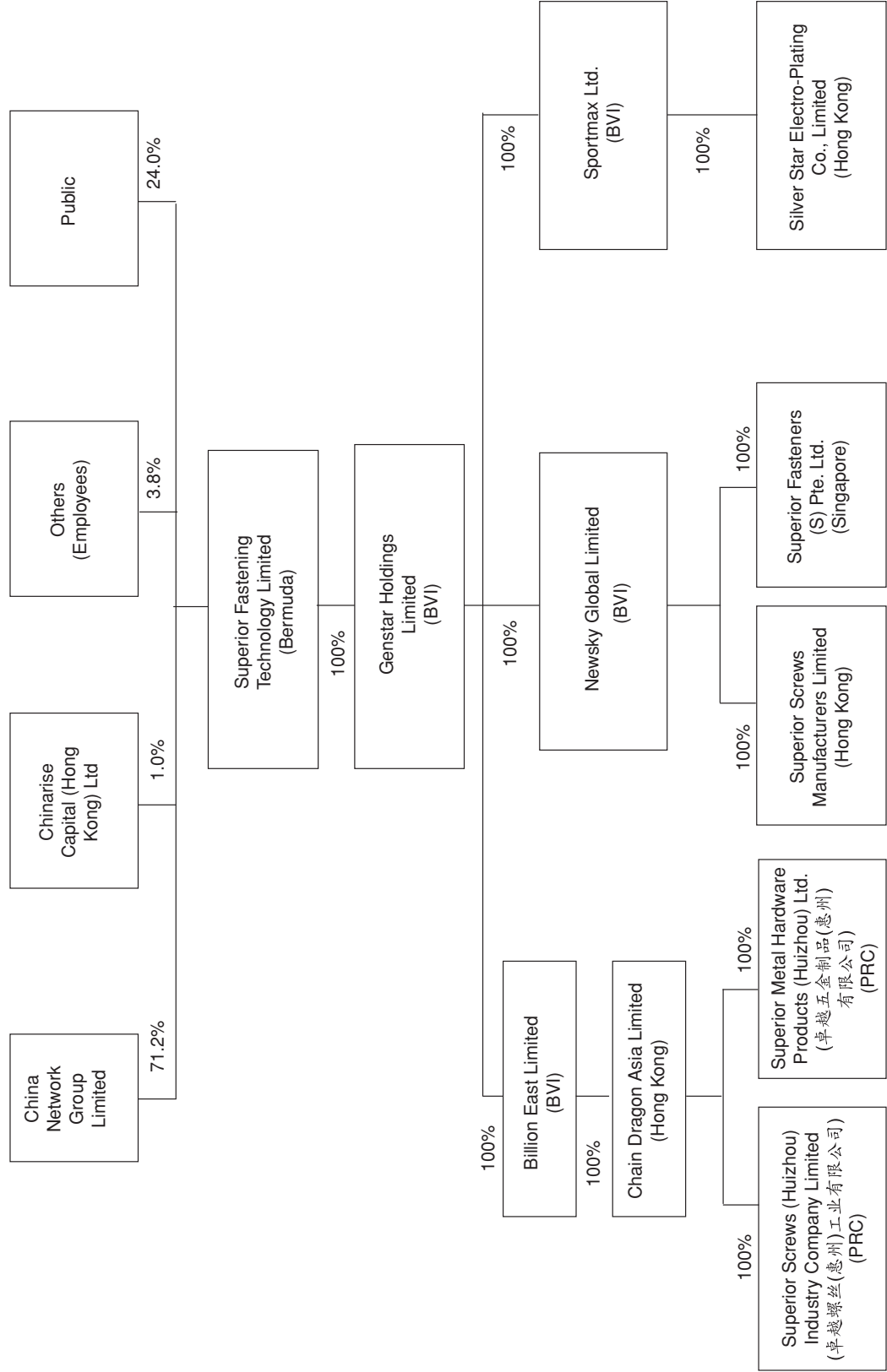
The transfer of shares to the Employees is a gesture of goodwill to reward them for their past contributions to the Group's success.

The transfer of shares to Chinarise Capital (Hong Kong) Ltd is in consideration of consultancy services rendered to Mr Lam Tak Shing and Mr Tang Yuk Fung in relation to the Invitation under the Consultancy Agreement dated 1 September 2002 between Superior HK and Chinarise Capital (Hong Kong) Ltd. and supplemented by an Amendment Agreement between Superior HK, Chinarise Capital (Hong Kong) Ltd., Mr Lam Tak Shing and Mr Tang Yuk Fung dated 31 August 2003.

(d) Acquisition of Superior Singapore

On 31 October 2003, our Company acquired the entire issued share capital of Superior Singapore from Mr Lam Tak Shing and Mr Tang Yuk Fung for a total consideration of S\$2.00, based on the par value of the shares acquired. The consideration for Superior Singapore was satisfied in cash. The entire issued share capital of Superior Singapore was subsequently transferred from Mr Lam Tak Shing and Mr Tang Yuk Fung to the Company's nominee, Newsy Global Limited.

Our Group structure after the Invitation is shown as follows:



We do not have any associated companies and the following companies are wholly-owned subsidiaries of our Company:

| Name | Place of Incorporation | Principal Place(s) of Business |
|---|-------------------------------|---------------------------------------|
| Billion East Limited | BVI | BVI |
| Chain Dragon Asia Limited | Hong Kong | Hong Kong |
| Genstar Holdings Limited | BVI | BVI |
| Newsy Global Limited | BVI | BVI |
| Silver Star Electro-Plating Co., Limited | Hong Kong | Hong Kong |
| Sportmax Ltd. | BVI | BVI |
| Superior Screws (Huizhou) Industry Company Limited (卓越螺丝(惠州)工业有限公司) | PRC | PRC |
| Superior Metal Hardware Products (Huizhou) Ltd. (卓越五金制品(惠州)有限公司) | PRC | PRC |
| Superior Screws Manufacturers Limited | Hong Kong | Hong Kong |
| Superior Fasteners (S) Pte. Ltd. | Singapore | Singapore |

HISTORY AND BUSINESS

OUR HISTORY

Our Company was incorporated on 12 March 2003 under the laws of Bermuda as an exempted company with limited liability. Pursuant to the Restructuring Exercise as described on pages 54 and 55 of this Prospectus, our Group was formed through a series of acquisitions.

In 1988, our founders and Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung started a partnership in Hong Kong called Superior Screws Manufacturers to produce fasteners for audio and video cassettes. As the business expanded, they decided to adopt a corporate vehicle to carry on the business. As a result, Superior Cassette Screws Ltd was incorporated in Hong Kong in 1993 to take over the business of Superior Screws Manufacturers. In the same year, we moved our factory and production base from Hong Kong (Chaiwan) to Shenzhen as the labour and operating costs were more competitive there as compared to Hong Kong. Most of our customers then were OEM manufacturers of audio and video cassette tape companies such as TDK, Philips and Sony.

In 1995, our Directors recognised the need to better control the quality of the surface treatment process, an integral part of our fastener manufacturing which was previously outsourced. At the same time, there was also market demand for third party provision of such services. Hence Silver Star was incorporated to fulfil these requirements. As we obtained government approval to carry out surface treatment services in Dongguan, we then relocated our factory and production base there so as to carry out all our business activities in the same premises. Our manufacturing capacity in Dongguan increased by approximately 30% as a result of this relocation to larger premises.

In 1999, as demand for audio and cassette tapes started to decline as the industry began to mature, our Directors decided to diversify into faster growing industries. In light of the Internet boom, technological advances and the increasingly affordable prices of electrical, telecommunication and computer products, demand for such products soared, leading to a corresponding increase in demand for our fasteners, which are commonly used in these consumer products. As a result, we decided to tap such demand by increasing the range and quality of fasteners we offer to include fasteners for electrical, telecommunication and computer products. Superior Screws Manufacturers Ltd was incorporated as a vehicle to undertake these new business activities.

In 2000, we set up a wholly-owned foreign enterprise, Superior Screws (Huizhou) Industry Company Limited (卓越螺丝(惠州)工业有限公司), in the PRC to consolidate our manufacturing and surface treatment activities. We shifted our production base to a newly-built factory premise in Huizhou with a total production area of approximately 100,000 square feet.

In November 2000, we achieved a significant milestone in our business when we obtained ISO9001 certification for our fasteners manufacturing division as well as our surface treatment division. These certifications have reaffirmed our commitment to provide high quality products under strict quality control. In one way or another, these ISO certifications have also helped in our marketing efforts in penetrating the MNC markets, as MNCs are now more comfortable and assured of our quality. This was evidenced by our appointment as an approved manufacturer for Honeywell.

We reached another corporate milestone in 2001 when we were approved as suppliers to Johnson Electric. In 2001 and 2002, we were recognised by Johnson Electric as one of its quality suppliers. In 2002, we secured approval from Hewlett Packard to become one of its qualified vendors in Singapore and we started supplying our products to its contract manufacturers, such as Flextronics and Celestica, through Superior Screws (S) Pte Ltd, a company set up by Mr Lam Tak Shing, Ms Kwan Suk Yee and another unrelated third party to market our products.

In order to reach out and tap the demand of the South-East Asian markets, Superior Singapore was incorporated in 2003 as a sales and marketing office for the South-East Asian region. Singapore was chosen due to its strategic location within South-East Asia and we believe that this will enable us to better service our customers in this region. Another reason is that regional headquarters of many MNCs in the electronics, telecommunication and computer industries are located in Singapore and purchasing decisions are normally made from these offices.

In August 2003, we set up another wholly-owned foreign enterprise, Superior Metal Hardware Products (Huizhou) Ltd. (卓越五金制品(惠州)有限公司), in the PRC, to carry out domestic sales to our customers in the PRC directly.

We have grown from a small fastener manufacturer for the audio and video cassettes industry to become suppliers of fasteners to companies such as Johnson Electric, Honeywell, Flextronics, Celestica and Allied Technologies, to name a few and surface treatment services to Honeywell. As at 31 March 2003, our Group had 255 employees and an annual production capacity of approximately 3.7 billion units for our manufacturing division and 3,650 tons for our surface treatment division.

OUR BUSINESS

We are manufacturers and suppliers of high quality fasteners and providers of surface treatment services. Our customers are typically contract manufacturers for MNCs in various industries such as home consumer appliances, telecommunication products, computing, imaging and printing devices, and motor products.

Our fasteners are used in a wide range of products which can be classified into 3 main categories, namely:

- Home consumer appliances such as hi-fi sets, VCD, DVD players, fans and heating devices. Our customers in this category include KAZ (Far East) Ltd. (an OEM manufacturer for Honeywell products) and Allen Industrial Limited (an OEM manufacturer for Kenwood products).
- Telecommunication products, computing, imaging and printing devices such as handphones, satellite radios, personal computers, handheld PDAs, printers and calculators. Customers in this category include TCL (a PRC handphone manufacturer), Flextronics Technology (Singapore) Pte Ltd, Hewlett-Packard Singapore (Private) Limited (a manufacturer of large-format printers), Celestica Ltd (an OEM manufacturer for OLYMPUS imaging products), and ATI Technologies Limited (which manufactures ATI display cards for personal computers).
- Motor products. Our main customer in this category is Johnson Electric Holdings Limited, a listed company on the Hong Kong Stock Exchange, which is a worldwide provider of micro motors and integrated motor systems to global customers in the automotive, power tools, home appliances, business equipment, audio-video and personal care sectors.

As at end of FY2003, the manufacture and sale of fasteners, and the provision of surface treatment services contributed approximately 87.6% and 12.4% of our total revenue respectively. For FY2003, approximately 77.7% of our customer base is located in Hong Kong and the PRC. Other Asian countries such as Singapore, Malaysia, Thailand and Taiwan form 17.1% of our customer base, while customers from other regions such as Europe and the United States form the remaining 5.2%.

Fastener Division

Our fastener division manufactures fasteners based on our customers' specifications and in accordance with international standards such as JIS, ANSI and DIN. We carry out the manufacturing of our fasteners at our manufacturing facility in Huizhou, PRC.

We offer a wide variety of fasteners manufactured using both automated and manual equipment. Our fasteners are used in various product categories, including home consumer appliances, telecommunication products, computing, imaging and printing devices, and motor products. Our fasteners are differentiated by size, thread types, head types, drive insert types and material.

The following are the range of fasteners we offer depending on customers' specifications:

(1) Size

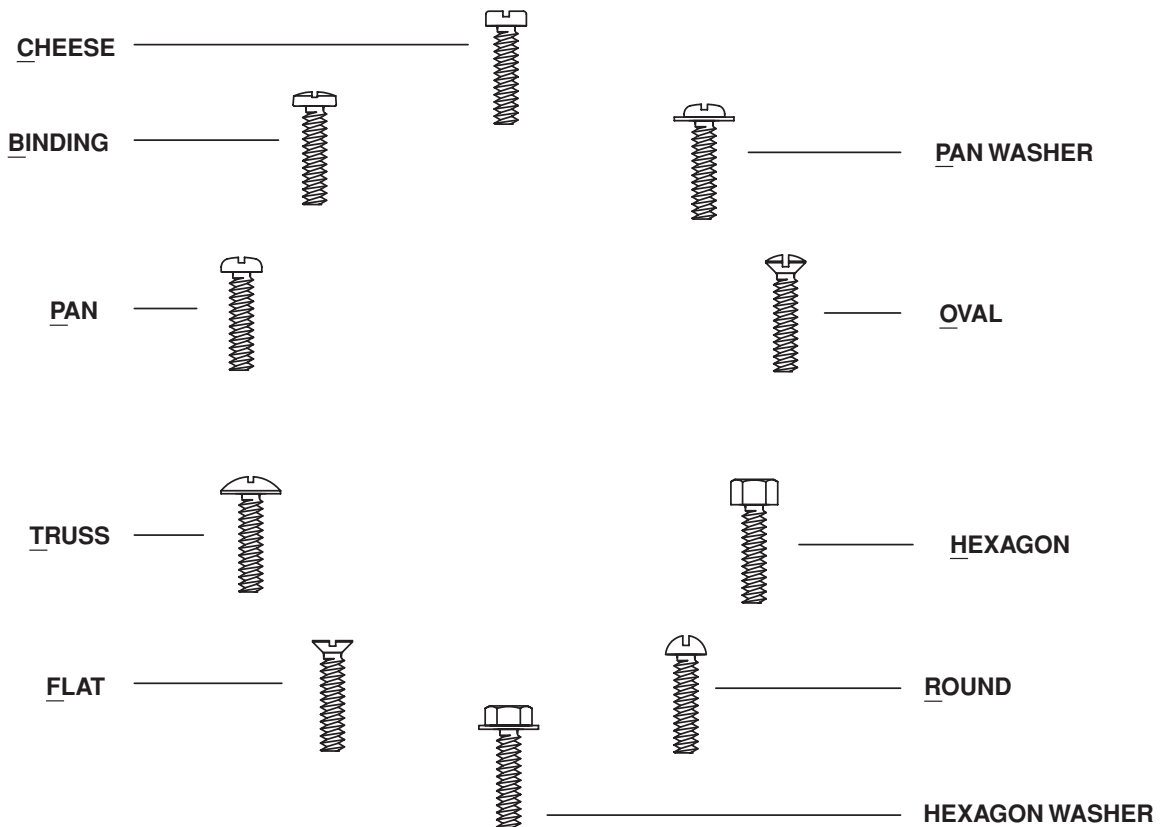
The size of a fastener refers to the diameter of the fastener thread. We possess the capability to manufacture fasteners with sizes ranging from 1 mm to 8 mm. Fasteners with smaller diameters are applied in micro-electronic products such as mobile phones, optical products and watches. The larger ones used in other products such home consumer appliances, telecommunication products, computing, imaging and printing devices, and motor products.

(2) Thread Types

The fasteners we manufacture can also be differentiated by their threads, either machine or self-tapping fasteners. Machine fasteners typically have threaded ends that can screw into a corresponding mating part or nut while self-tapping fasteners have threads that do not require such corresponding parts and can be fastened into pre-formed holes in a material.

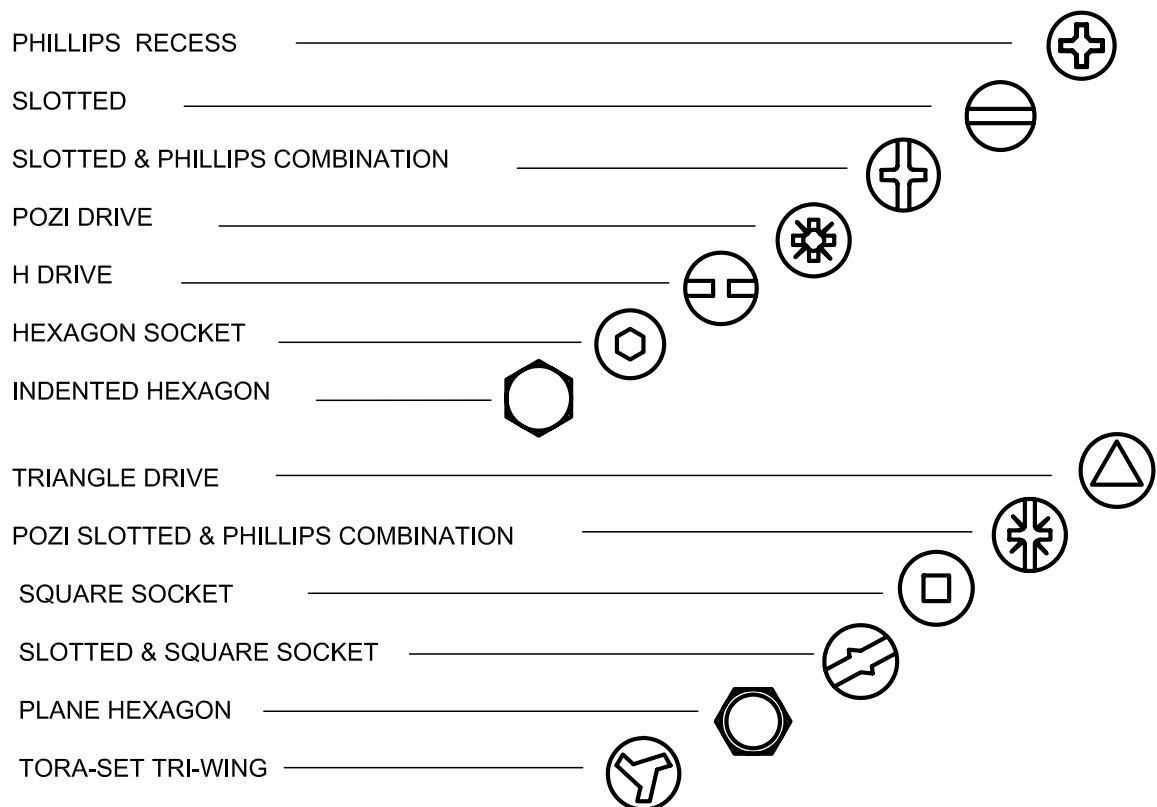
(3) Head Types

We are able to manufacture fasteners with different types of head designs. The following are some common types of fastener heads that we produce.



(4) Drive Insert Types

We are able to manufacture fasteners with various different drive insert designs. The following are some common types of drive insert fasteners that we produce.

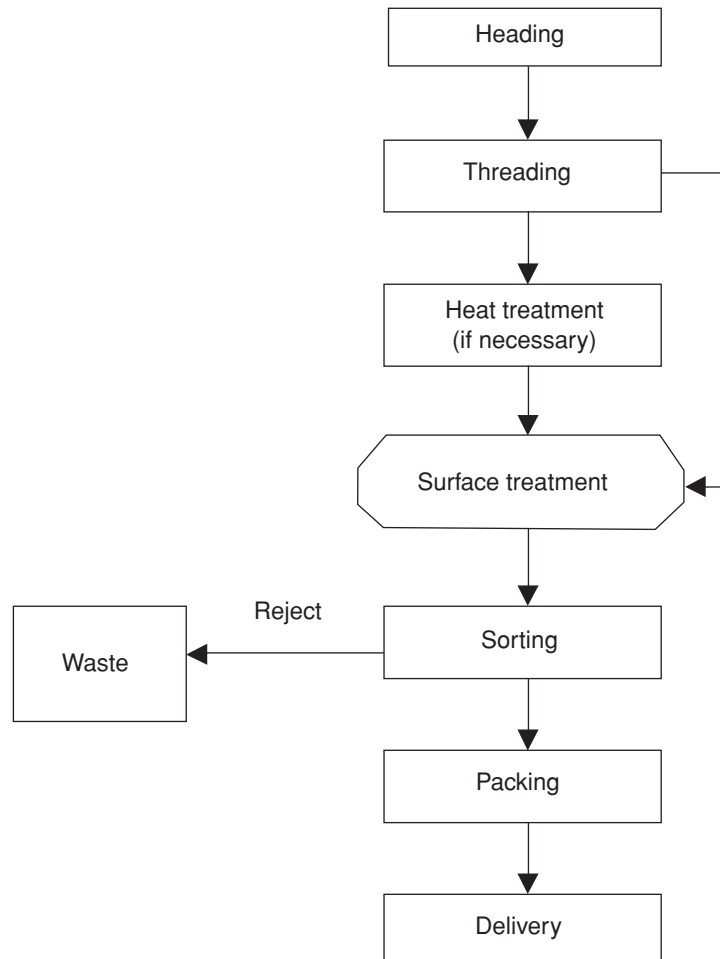


(5) Materials

Our fasteners may be made from different grades of stainless steel, carbon steel, aluminium and brass. Carbon steel is most commonly used as it costs less than the other types of material. Stainless steel fasteners are more commonly used in optical products and watches. Aluminium and brass fasteners are more commonly used in motors.

Manufacturing process

When we receive an order from a customer, we determine the type of tools which are required to be fitted to our machines to achieve the customer's specifications. We then produce a pre-production sample for our customer's approval before mass production of the order commences. Once our customer approves the pre-production sample, we initiate the start of our manufacturing process, which is represented in a schematic diagram below:



Our manufacturing process essentially comprises the following stages:

(1) Heading

Heading is the process of cutting and forming the raw material wire into desired shapes. A pre-determined length is first cut from a coil of wire and transferred to the die. The wire is then inserted into the die, where it is subject to blows to achieve the product.

(2) Threading

After heading, the shaped units will then undergo threading. This is a process of forming threads on the fastener. Threads are either rolled or cut — the former increases the major diameter of the thread over the diameter of the unthreaded shank; the latter, the unthreaded portion of the shank is equal to the major diameter of the thread.

(3) Heat treatment (if necessary)

After threading, the fasteners are sent for heat treatment to improve their strength and ductility, a process which is optional and dependent on customers' requirements. A typical heat treatment process refers to one or more of the following operations such as the heating of the parts in appropriate furnaces, often with controlled atmosphere, and the subsequent cooling at controlled rates.

As we do not possess in-house heat treatment facilities, we currently outsource the heat treatment of our fasteners to a third-party with such facilities. After heat-treatment, the fasteners are sent back to our plant where we will carry out quality checks to determine whether their strength and ductility meet our customers' requirements.

(4) Surface treatment

Our fasteners undergo a surface treatment process according to the customers' specifications. This process is carried out at our surface treatment division, which is also housed in our Huizhou plant.

For an elaboration on our surface treating processes, please refer to the section under "*Surface Treatment Division*" on pages 63 to 65 of this Prospectus.

(5) Sorting and packing

Our finished products are subject to a final round of sorting to ensure that there are no defective units. The sorted fasteners are then packed in cartons for delivery to our customers.

Surface Treatment Division

Our surface treatment division carries out surface treatment of fasteners manufactured by our manufacturing division as well as metal parts manufactured by other companies. All our surface treatment activities are carried out in our Huizhou plant.

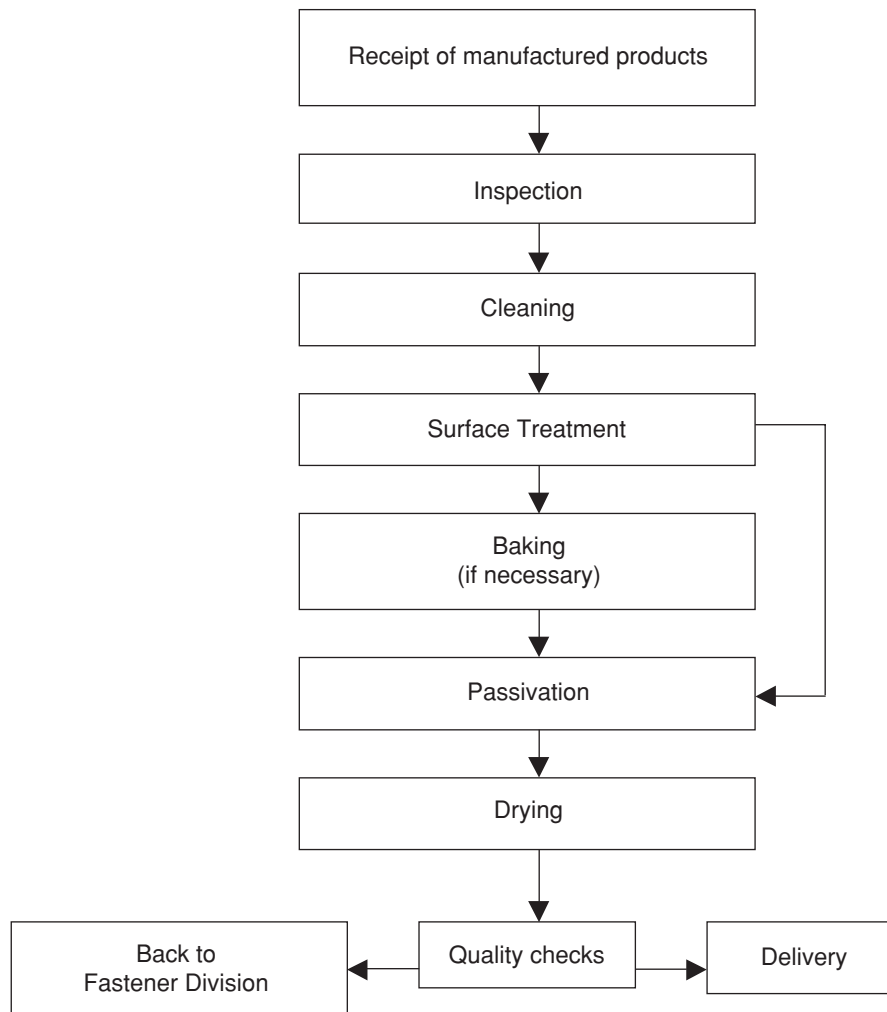
Our surface treatment capabilities

Our surface treatment capabilities include electroplating using a variety of plating materials such as nickel, copper and chromate. The choice of plating material depends on our customers' specifications and their requirements as to the corrosion resistance and conductivity of the product. Fasteners and metal parts that have undergone surface treatment processes are more resistant to corrosion and factors that may reduce the usefulness of the fasteners or metal parts.

One of our plating capabilities includes the trivalent chromate plating technique. Trivalent chromate plating is considered to be more environmentally friendly and therefore there appears to be an increase in the demand for such plating especially in the Japanese, European and American markets.

Surface treatment process

Our surface treatment process is represented in a schematic diagram below:



Our surface treatment process comprises the following stages:

(1) Cleaning

Before the products are cleaned, they undergo one round of internal visual quality checks to eliminate deformed products.

The cleaning process removes grease and oil from metal surfaces in preparation for surface treatment. Typically, the metal is immersed in a heated chemical solution to remove and dissolve the grease and oil from the surfaces.

(2) Surface Treatment

After removal of grease, the products undergo surface treatment. This process produces a thin, metallic coating on the surface of the products. The materials used for the surface treatment coat are typically zinc and nickel.

(3) Baking (if necessary)

For heat-treated fasteners which have undergone surface treatment, they are required to be put through an additional stage of baking. After plating, the products may absorb hydrogen which may cause them to become brittle. The process of baking removes hydrogen to prevent brittleness in the fasteners.

(4) Passivation

Passivation is a chemical process for improving the corrosion resistance of fasteners.

(5) Drying

After the passivation process, the products are put through dryers to ensure efficient drying of the products.

INVENTORY MANAGEMENT

We maintain an inventory of raw materials required for the manufacture of our fasteners as well as an inventory of finished products. Our recently implemented Enterprise Resource Planning (“ERP”) System will help us to improve efficiency as well as minimize cost incurred due to stock obsolescence. To complement the ERP system, we have instituted the following policies with regards to our raw materials and finished goods.

Raw Materials

It is our policy to typically carry approximately three weeks’ worth of raw material inventory. We adopt the first-in-first-out method of inventory control. This is done by labeling our inventory according to the date they are received.

For the past 3 financial years, we have not written off nor made any provisions for stock obsolescence for raw materials.

Finished products

It is our general policy to maintain our manufacturing at appropriate levels to meet all our customers’ orders. However, for our long-standing and regular customers, we may keep stocks of the manufactured fasteners in anticipation of subsequent orders by these customers. This is to ensure that we are able to meet their orders in a timely fashion.

For our finished products, we also adopt the first-in-first-out method of inventory control by labeling the products according to the date of manufacture.

For the past 3 financial years, we have not written off nor made any provisions for stock obsolescence for finished products. The following table illustrates the inventory turnover of our finished products:

| | FY2001 | FY2002 | FY2003 |
|----------------------------------|---------------|---------------|---------------|
| Inventory Turnover (Days) | 13 | 16 | 22 |

OUR SALES AND MARKETING

Our marketing strategy comprises the following:

(1) ***Carrying out direct sales through our sales team***

As at the Latest Practicable Date, we have a network of 3 sales offices in Hong Kong, Singapore and Shanghai, with a total of 7 persons forming our sales and marketing team. Our sales and marketing team is led by our Executive Director (Sales and Administration), Ms Kwan Suk Yee, who identifies business opportunities and formulates business strategies with a view to securing

potential customers. Our sales and marketing team also provides value-added services, such as advising on technical aspects of the product requirements.

(2) Advertising in trade magazines

We place advertisements in various trade magazines, including Global Sources and Tradeeasy.Com. We have also placed advertisements in the online version of Global Sources at www.globalsources.com. Such trade magazines are very much relied on by potential customers as a source of contacts for their sourcing of products and materials. Therefore, advertising in such magazines increases our visibility to potential customers.

(3) Attendance at trade exhibitions

Trade exhibitions are a useful avenue for us to network with the potential customers as well as to show-case our products. Some of the exhibitions that we have attended in the past include the Cologne Hardware Show held in Germany and the National Hardware Show in the United States of America. The other advantage of attending such exhibitions is that we are able to see the products of other players in the industry, hence enhancing our market knowledge. We would continue to participate in trade exhibitions, either through attendance or setting up booths, as and when such opportunities arise.

(4) Maintaining a presence on the Internet

We maintain a web-site at www.superiorfastening.com containing information on our Company as a platform to reach out to potential customers all over the world. The web-site provides an introduction to our capabilities as well as the products we offer. As the Internet is a far-reaching tool, we believe that maintaining such a web-site increases our exposure to potential customers.

CREDIT CONTROL

Sales to our existing customers are usually made on credit terms ranging from 30 to 90 days. For new customers, we will assess their creditworthiness by reviewing their financial position, profitability and cash flow position through publicly available records or through feedback received from our business associates. Credit terms, which are approved by our CEO, Mr Lam Tak Shing, are periodically reviewed after assessing all these information.

Our management team monitors and reviews all outstanding debts on a monthly basis and works with our sales and accounting personnel to recover all due debts. We do not have a policy of making general provision for doubtful debts. We will write off outstanding debts which are deemed irrecoverable by our management on a discretionary basis. We experienced a significant improvement in our debtors' turnover days for FY2003 as our management adopted a more stringent credit policy. In addition, we experienced an increase in business from large customers which typically repay outstanding amounts within a shorter period.

Our average debtors' turnover and bad debts written off for the past three financial years ended 31 March 2001, 2002 and 2003 were as follows:

| | FY2001 | FY2002 | FY2003 |
|--|---------------|---------------|---------------|
| Debtors' turnover (days) | 101 | 108 | 94 |
| Bad debts written off (HK\$'000) | 5 | 278 | — |
| Bad debts written off as a percentage of revenue (%) | 0.02 | 1.00 | — |
| Bad debts written off as a percentage of profit before tax (%) | 1.7 | 10.0 | — |

In FY2002, one of our customers in the audio industry discontinued its business due to the worsening economic conditions. As a result, we were unable to recover outstanding amounts due from them. This amount constituted approximately 70% of the bad debts written off in FY2002.

QUALITY CONTROL

We are committed to providing our customers with high quality products which are delivered on a timely basis. Our emphasis on quality control can be seen from the ISO 9001 certifications in Quality Management for both our manufacturing division as well as our surface treatment division.

We monitor and audit the path, progress and quality of our products. We perform quality control checks (either physical or visual) between every stage of our manufacturing process.

Because of our strict quality control, customer rejection rates are very low and we have not experienced any major cancellation of orders from our customers since our business began. For FY2003, our customer rejection rates range from 0.5% to 1.59% of our total sales.

OUR SUPPLIERS

The main raw materials used in our Fastener Division are tooling equipment and steel wire. As for our Surface Treatment Division, the main raw materials used are the metal accessories which are to be surface treated and the chemicals required for carrying out the surface treatment.

The following are the suppliers that supplied 5% or more of our total purchases in the last three financial years:

| | Type of Products Supplied | Percentage of total purchases (%) | | |
|--|---|-----------------------------------|--------|--------|
| | | FY2001 | FY2002 | FY2003 |
| Union Success Metal Ltd | Steel wire | 4.2 | 18.4 | 22.1 |
| Great Wall Metal (HK) Products Factory | Metal accessories | 2.1 | 5.2 | 11.6 |
| Lee Sing Materials Co Ltd | Electroplating chemicals | 14.6 | 11.0 | 8.4 |
| Essence Industrial Company | Steel wire | 9.9 | 13.6 | 6.1 |
| Wing Tat Metal Manufactory | Metal accessories | 0.1 | 3.4 | 6.0 |
| KAZ (Far East) Ltd. (formerly known as Honeywell Consumer Products (HK) Ltd) | Metal accessories to be surface treated | 6.7 | 14.4 | 5.5 |
| Fu Ye Precision Industrial Co. Ltd. | Tooling products | 6.0 | 4.5 | 2.7 |

None of our Directors or substantial shareholders has any interest, direct or indirect, in any of our major suppliers mentioned above.

OUR CUSTOMERS

The following are the customers whose purchases constituted 5% or more of our total sales in the last three financial years:

| | Type of Products/ Services Purchased | Percentage of total sales (%) | | |
|--|--------------------------------------|-------------------------------|--------|--------|
| | | FY2001 | FY2002 | FY2003 |
| Superior Screws (S) Pte Ltd | Fasteners | — | 5.6 | 14.0 |
| Johnson Electric Industrial Manufacturing Ltd. | Fasteners | — | 8.5 | 13.5 |
| KAZ (Far East) Ltd. (formerly known as Honeywell Consumer Products (HK) Ltd) | Fasteners and Surface treatment | 4.3 | 13.0 | 7.6 |
| Eagle San-Kyou (HK) Ltd. | Surface treatment | 9.4 | 9.1 | 7.5 |
| 4A Electronics Co. Ltd | Fasteners | 5.1 | 4.4 | 2.6 |
| Metropole Metal Co. Ltd | Fasteners | 9.1 | — | — |

Johnson Electric Industrial Manufacturing Ltd., which accounted for 13.5% of our total sales in FY2003, is a manufacturer for Johnson Electric, which is one of the world's leading manufacturers of motors.

KAZ (Far East) Ltd., which accounted for 7.6% of our total sales in FY2003, is a contract manufacturer for Honeywell, a MNC in the manufacture of aerospace and automotive products and power generation systems.

Some of our other major customers do not manufacture for specific brands. These include 4A Electronic Co. Ltd, which is a manufacturer of general audio and video products, Eagle San-Kyo (HK) Ltd., which is a supplier of fasteners, and Metropole Metal Co. Ltd, which is a trading company.

Superior Screws (S) Pte Ltd was previously set up in 2002 by our Directors, Mr Lam Tak Shing, Ms Kwan Suk Yee and another unrelated third party to market and sell our products to our end-customers such as Flextronics and Celestica in South-east Asia via Singapore. This function was subsequently subsumed by one of the companies in our Group, Superior Singapore.

Our Executive Directors, Mr Lam Tak Shing and Ms Kwan Suk Yee were directors and shareholders holding in aggregate of approximately 66.6% of the share capital of Superior Screws (S) Pte Ltd. Please refer to the section "*Interested Person Transactions*" on page 95 of the Prospectus for more details. Save for the above, none of our Directors or substantial shareholders has any interest, direct or indirect, in any of our customers mentioned above.

SEASONALITY

We generally do not experience any significant seasonality patterns in our business. We only experience a slight decrease in the number of orders placed around Chinese New Year as our customers in the PRC and Hong Kong generally suspend their operations for up to two weeks during this major holiday.

RESEARCH AND DEVELOPMENT

We currently do not engage in any research and development activities.

TRADE MARKS

As at the Latest Practicable Date, our Group has applied for registration of the following trade marks:

| Trade Mark | Place of Application | Class | Application Number | Application Date | Status |
|------------|----------------------|-------|--------------------|------------------|---------|
| "Superior" | PRC | 6 | 3667757 | 11 August 2003 | Pending |



| | | | | | |
|------------|-----------|----------|-----------|----------------|---------|
| "Superior" | Hong Kong | 6 and 17 | 300064935 | 19 August 2003 | Pending |
|------------|-----------|----------|-----------|----------------|---------|



| | | | | | |
|------------|-----------|---|------------|----------------|---------|
| "Superior" | Singapore | 6 | T03/12778B | 21 August 2003 | Pending |
|------------|-----------|---|------------|----------------|---------|



We are not materially dependent on any of the above trade marks being applied for registration.

PROPERTIES AND FIXED ASSETS

Rented properties

We do not own any real property. The following are the leased premises used for our operations:

| Location | Use of Property | Site Area | Tenure | Annual rent | Lessor |
|--|---|----------------------|-------------------------------------|--|---------------|
| (1) 7 Industrial District, Ru Hu Town, Hui Zhou City, Guangdong Province 516021, PRC | Manufacturing and Surface Treatment plant | 17,897 square metres | 20 years commencing 13 January 2000 | Approximately RMB 226,068 (subject to annual increments) | 惠州市成达胶管制品有限公司 |
| (2) 7 Industrial District, Ru Hu Town, Hui Zhou City, Guangdong Province 516021, PRC | Employees' quarters | 1,707 square metres | 20 years commencing 1 May 2000 | Approximately RMB 114,708 (subject to annual increments) | 惠州市成达胶管制品有限公司 |
| (3) Unit 2712-2715, 27/F, Metropole Square, 2 On Yiu Street, Siu Lek Yuen, Shatin, Hong Kong | Office | 2,242 square feet | 2 years commencing 8 February 2003 | HK\$153,348 | Jaco Limited |
| (4) Unit 2716, 27/F, Metropole Square, 2 On Yiu Street, Siu Lek Yuen, Shatin, Hong Kong ⁽¹⁾ | Warehouse | 955 square feet | 2 years commencing 1 November 2003 | HK\$65,328 | Jaco Limited |
| (5) No. 2 Kallang Pudding Rd Mactech Industrial Bldg. #06-15 Singapore 349307 | Office | 1,195 square feet | 1 year commencing 1 October 2003 | S\$22,944 (subject to GST) | Loy Sai Suan |

Note:

(1) Lease agreement was signed on 17 November 2003 and took effect from 1 November 2003.

Production facility and capacity

The manufacturing and surface treatment plant located at 7 Industrial District, Ru Hu Town, Hui Zhou City, Guangdong Province 516021, PRC, is where we manufacture our entire range of products as well as carry out all our surface treatment services.

The details of the production capacity of this plant are as follows:

A. For manufacturing

| | FY2001 | FY2002 | FY2003 |
|--|---------------------|---------------------|---------------------|
| Annual Production Capacity (units — 'billion) | 1.65 ⁽¹⁾ | 3.50 ⁽²⁾ | 3.70 ⁽²⁾ |
| Annual Production Output (units — 'billion) | 1.50 | 3.20 | 3.20 |
| Rate of Utilisation of Production Facility (%) | 90.9 | 91.4 | 86.5 |

Notes:

- (1) Our manufacturing plant was only in operation for 6 months in FY2001. Capacity calculated based on 2,700 hours for 6 months.
- (2) Capacity calculated based on 5,400 hours per year.

B. For surface treatment

| | FY2001 | FY2002 | FY2003 |
|--|----------------------|----------------------|----------------------|
| Annual Production Capacity (Tons) (based on 5,400 hours per year) | 3,285 ⁽¹⁾ | 3,650 ⁽¹⁾ | 3,650 ⁽¹⁾ |
| Annual Production Output (Tons) | 2,806 | 3,031 | 2,933 |
| Rate of Utilisation of Production Facility (%) | 85.4 | 83.0 | 80.4 |

Notes:

(1) Capacity calculated based on 5,400 hours per year.

INSURANCE

We have taken out insurance coverage in respect of the following:

- (i) Industrial and commercial property insurance;
- (ii) Workmen's compensation; and
- (iii) Fire and perils insurance for computers and software.

Our Directors believe that we have adequate insurance coverage for the purpose of our business operations.

GOVERNMENT REGULATIONS

Save as disclosed below, as at the Latest Practicable Date, our business operations in Hong Kong, the PRC and Singapore are not subject to any special legislation or regulatory controls other than those generally applicable to companies and businesses operating in those jurisdictions.

PRC Regulations

The main applicable laws, administrative rules and local legislation of the PRC relating to the regulation of environmental protection include (without limitation) the following:-

- (i) The Law of Prevention of Water Pollution of the PRC as effective from 1 November 1984 and amended on 15 May 1996;
- (ii) The Laws of the PRC on Environment Protection as effective from 26 December 1989;
- (iii) The Laws of the PRC on Environment Impact Assessment as effective from 1 September 2003;
- (iv) The Regulation of Guangdong Province for Administration on Environment Protection for Construction Projects as effective from 1 September 1994 and amended on 22 September 1997;
- (v) The Law of the PRC on Prevention of Water Pollution as effective from 22 September 1984 and amended on 15 May 1996;
- (vi) The Detailed Implementing Rules of the Law of the PRC on Prevention of Water Pollution as effective from 20 March 2000;
- (vii) The Law of the PRC on Prevention of Air Pollution promulgated on 5 September 1987, amended on 29 April 2000 and effective from 1 September 2000; and
- (viii) The Laws of the PRC on Prevention of Environment Pollution by Solid Waste as effective from 1 April 1996.

Under such applicable laws, administrative rules and local legislation of the PRC, an enterprise shall be required to comply with the following:

- obtain approvals from the competent environmental protection departments on assessment of impact of its manufacturing process to the environments and inspection of pollution treatment facilities;
- obtain a pollutants discharge permit issued by the competent environmental protection departments; and

- pay a pollutant discharge fee provided by the national or local government for discharging pollutants. In the event that the pollutants discharged surpasses the standards set by the national or local governments, the enterprise must pay an excess pollutant discharge fee and rectify the situation within the time limit as required by the competent environmental protection departments.

The Environment Protection Bureau of Guangdong Province, Huizhou City (the “Huizhou EPB”) has respectively granted to us the Approval regarding Environmental Impact Report of Superior Huizhou dated 10 January 2000, the approval regarding acceptance and inspection of the pollution treatment facilities of Superior Huizhou dated 18 January 2002 and the approval regarding Environmental Impact Report of Superior Metal dated 15 August 2003. There are no expiry dates for these approvals and they shall remain effective unless there is a material change to the nature, scale or location to the manufacturing process or the pollution treatment facilities.

The Huizhou EPB has granted to us the Pollutants Discharge Permit in Guangdong Province dated 12 March 2002. This permit took effect on 12 March 2002 and will expire on 30 December 2004. An application for renewal is required to be made before this permit expires. In addition, this permit will be subject to annual review by the Huizhou EPB.

To date, we believe we have complied with all applicable environmental laws and regulations of the PRC. In addition, we believe that our existing facilities and measures undertaken are sufficient to comply with the existing national and local environmental protection regulations.

COMPETITION

To the best of our Directors’ knowledge, we have identified the following to be our closest competitors:

| Territory | Name of competitor |
|-------------------|--|
| PRC and Hong Kong | <ul style="list-style-type: none"> • The Top Industrial Company • On Tat Screws Industrial Company |
| South East Asia | <ul style="list-style-type: none"> • Lee Yuen Screws Limited • Shing Hing Industrial |

Even though we operate in a highly competitive environment, we believe that our competitive advantages will distinguish us from our competition.

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

(1) *We possess surface treatment capabilities*

We believe that our surface treatment capabilities set us apart from many of our competitors. From our knowledge of the market, we believe that there are not many fasteners manufacturers which offer an integrated manufacturing and surface treatment capability. As surface treatment costs are high, manufacturers who outsource the surface treatment stage of the manufacturing process to third-parties may incur higher costs of manufacturing, and may therefore not be able to price their products as competitively as we do.

(2) *We have an experienced management team*

We have a management team which is experienced in the fastener manufacturing industry. Both our founders, Mr Lam Tak Shing and Mr Tang Yuk Fung, have over 20 years' experience in this industry each. They are persons who are strong in their technical knowledge of the products and who are instrumental in building up the technical capability and production capacity of our Company. In addition, our Executive Director in charge of Sales and Administration, Ms Kwan Suk Yee, has over 13 years' experience in this industry. They are supported by Mr Raymond Teo, our Sales General Manager, who has good sales contacts with contract manufacturers in South-east Asia. Together, they have established a good track record in the industry and have developed a strong rapport with many of our customers over the years.

(3) *We have a successful history of operating in the PRC*

We believe that the PRC market has good potential for growth. We have established our presence in the PRC since 1993. As a result, we believe that the length of our presence and the customer base which we have built up in the PRC gives us an advantage over other competitors who have yet to enter or have recently entered the PRC market.

Our plant in Huizhou and our sales office in Hong Kong gives us proximity to our customers in the PRC and we are hence able to provide responsive customer service and fast delivery of our products to them. We believe that such factors provide opportunities to further expand our customer base in the PRC.

(4) *We have a production facility which is high-capacity and capable of manufacturing fasteners which require high precision*

We believe that our capacity in manufacturing our products gives us an edge over our competitors. As at end FY2003, we have the capacity to manufacture over 3.7 billion units a year (based on 5,400 hours per year) and this enables us to accept orders for large quantities. Because of our high capacity, we are also able to manufacture more products in a shorter time compared to another factory with a lower capacity. According to feedback from some customers, this has been a crucial point of consideration when awarding business to us. We also have the capacity to manufacture complex multi-stage fasteners which require high precision. We believe that this ability sets us apart from some of our competitors.

(5) *We have a wide customer base and good working relationships with our customers*

We have developed a wide customer base and established good working relationships with our customers over the years. We have customers that are geographically well-spread throughout the world in countries such as the PRC, Hong Kong, Singapore, Malaysia, Thailand, Taiwan, the United States, Canada, Israel and the United Kingdom. Our ability to meet the requirements of the wide variety of customers in different industries is a testimony to our expertise in producing a wide variety of good quality fasteners.

OUR PROSPECTS AND FUTURE PLANS

Our Prospects

Our Directors believe that there will continue to be a healthy demand for our products. This is because fasteners are one of the most basic and vital components for all kinds of mechanical, electrical and electronic products that are manufactured for industrial, commercial and household use. Fastener applications are so versatile across varied consumer groups that their demand is continually growing, notably in the home consumer appliances, telecommunication products, computing, imaging and printing devices, and motor products industries.

Currently, we are mainly supplying fasteners to manufacturers of home consumer appliances, telecommunication products, computing, imaging and printing devices, and motor products. As such, our prospects are tied very closely to and largely dependent on the growth of these industries, especially in the PRC and Hong Kong, where the majority of our customers are based.

We are likely to benefit from the trend of MNCs and equipment manufacturers from America and Europe relocating their operations to Asia, especially the PRC. At the same time, the same trend is emerging within Asia, as evidenced by the relocation of major manufacturing bases from Japan, Taiwan and Korea to the PRC. The PRC, with its low costs, is emerging as the largest manufacturing hub in the world, especially in manufacturing areas such as Shenzhen, Dongguan, Suzhou and Shanghai. We believe that such a trend will present increased business opportunities for us as these manufacturers will require a constant supply of fasteners for their products.

Trend Information

In the first quarter of FY2004, our raw materials costs have been stable. As the prices of our products are dependent on raw materials prices, our selling prices have also remained relatively stable for the first quarter of FY2004. We do not have long-term supply orders and we therefore do not keep order books. However, we have experienced an increase in our sales for the first quarter of FY2004 as compared to the last quarter of FY2003. We believe this trend of increasing sales is due to an increasing demand for our products and services. For the reasons given above and barring any unforeseen circumstances, we are confident of our Group's long-term growth prospects.

To remain competitive and to seize the opportunities presented in our prospects, we have the following future plans:

Our Future Plans

We plan to grow and expand our business in the following ways:

(1) *Expand our market reach regionally*

We believe that Asia is a fast growing market and we intend to reach out to customers in this region by providing better and faster services. We believe that we will be able to achieve this by setting up sales offices at various locations in Asia. This will provide our customers with easier access to our products and we will be able to respond to our customers' orders and requests in a shorter time because of the proximity of our sales staff to our customers.

In addition to our sales offices in Hong Kong and Singapore, we have also recently set up a representative office in Shanghai to service customers in the northern China region. We also intend to set up a plant in Shanghai, PRC, to cater to and expand our business in the PRC market. At a later date, we also intend to set up a sales office in Thailand to service the Indo-China region.

(2) *Expand our range of capabilities*

We intend to develop and expand our range of capabilities so as to better meet the demands of worldwide markets.

In addition to our core competencies of manufacturing and surface treatment, we intend to acquire heat treatment facilities which will allow us to conduct heat treatment processes in-house as well as provide these services to other metal manufacturers for a fee. We currently outsource heat treatment of our fasteners to other service providers. Heat treatment costs comprise a significant part of the total cost of manufacturing fasteners. By acquiring this capability, we are better able to control the heat treatment process, thereby improving the quality of our products and reducing manufacturing costs. We are also able to improve efficiency by reducing time required to transport the products to and from the third-party manufacturers. To this end, we have identified S\$0.6 million out of the net IPO proceeds of approximately S\$4.0 million for the acquisition of heat treatment facilities.

(3) *Expand into the Japanese market*

We aim to penetrate the Japanese market by employing more personnel who will specialise in the Japanese market. To this end, we intend to build up our sales and marketing team by hiring Japanese-speaking personnel with fastener manufacturing experience who are familiar with Japanese production management. We believe that the application of Japanese production management to our factory will increase the confidence of Japanese customers in our ability to meet their requirements.

We are of the view that the Japanese outsourcing market presents a potentially lucrative market for us. A substantial percentage of Japanese manufacturers of consumer products outsources the production of the various parts (such as fasteners) to third-party manufacturers. Therefore, we believe that we may be able to tap into the Japanese market if we are able to gain their confidence with our quality service and high production standards.

(4) *Set up a design and engineering team to assist our customers*

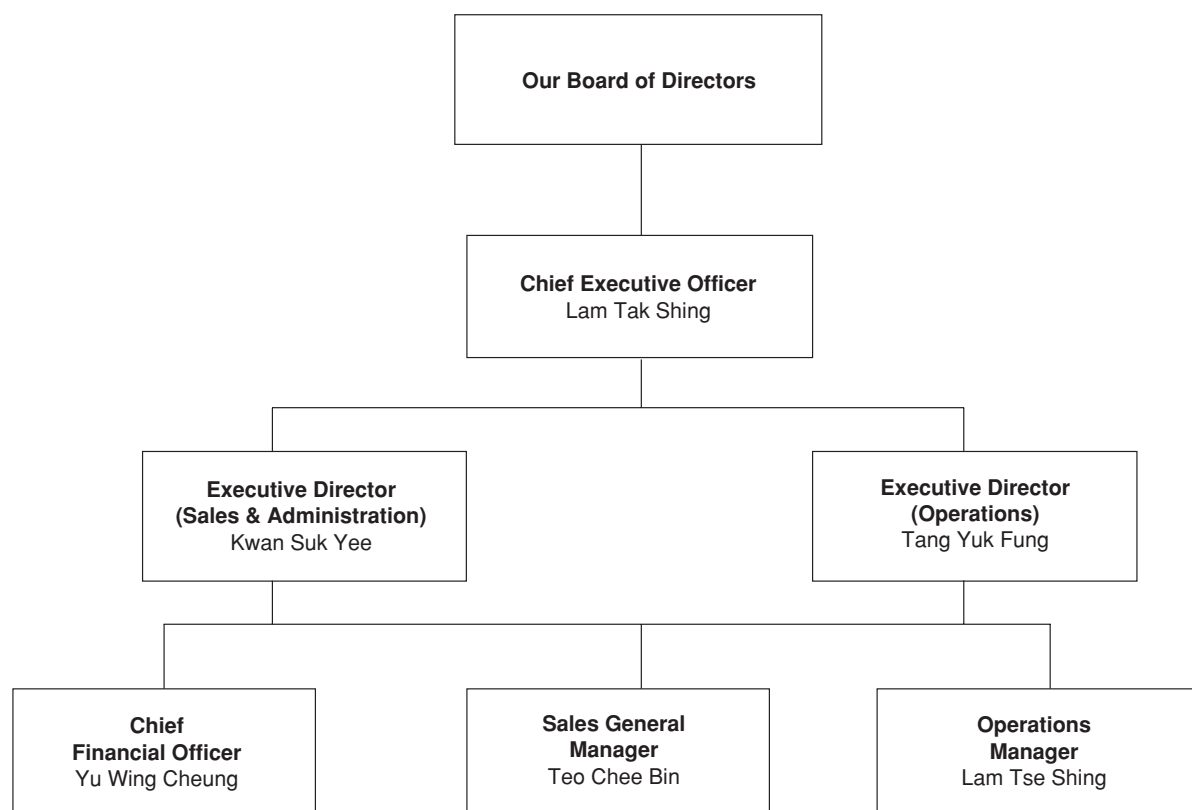
We intend to set up a team which will provide value-added services to our customers by providing design services. Currently, our services to our customers commence only after our customers have designed the fasteners they require. With a design and engineering team, we would be able to engage our customers at an earlier stage by jointly participating in the design of the new fasteners products. This will complement the efforts of our sales and marketing team which currently provides advice on the technical aspects of our products.

As technology advances, we anticipate that our customers would require more participation from the manufacturers during the design stage so as to ensure a better transition from the design stage to the manufacturing stage. Therefore, we believe that by offering design services to our customers, our added value will be much higher and this, we believe, will further set us apart from other fastener manufacturers.

DIRECTORS, MANAGEMENT AND STAFF

Our Management Structure

The chart below sets out our management structure:



DIRECTORS

Our Board of Directors is entrusted with the responsibility for the overall management of our Group. Our Directors' particulars are listed below:

| Name | Age | Address | Occupation |
|---------------|-----|--|--|
| Lam Tak Shing | 40 | Flat A, 6/F Block 8 Villa Rhapsody Symphony Bay, No. 533 Sai Sha Road, New Territories, Hong Kong | Chief Executive Officer |
| Tang Yuk Fung | 43 | Room 604 Block 40, Heng Fa Chuen Hong Kong | Executive Director (Operations) |
| Kwan Suk Yee | 34 | Flat A, 6/F Block 8, Villa Rhapsody Symphony Bay, No. 533 Sai Sha Road, New Territories, Hong Kong | Executive Director (Sales & Administration) |
| Chan Kam Fuk | 38 | 3/F, 6 Kiangsu Street, To Kwa Wan, Kowloon, Hong Kong | Non-executive Director |

| Name | Age | Address | Occupation |
|----------------|------------|--|----------------------|
| Goh Boon Huat | 52 | 3 Fulton Avenue, Singapore 578975 | Independent Director |
| Tan Chong Huat | 40 | 5B Adam Road, #05-01, Singapore 289882 | Independent Director |

Information on the business and working experience of our Directors is set out below:

Lam Tak Shing is the founder and Chief Executive Officer of our Group. He was appointed to our Board on 7 April 2003. Mr Lam is responsible for the overall strategic planning, management and business development of our Group. Mr Lam has extensive technical experience in the industry, having been in the business of fastener manufacturing for 20 years. He first joined the industry in 1983 as a production engineer with Tecko Screws Industrial Ltd. In 1986, he joined Dololo Cassette Screws Manufacturers Ltd., another fastener manufacturer, as its Production Manager, and was in charge of overseeing its manufacturing division. Mr Lam founded our Group's business together with Mr Tang Yuk Fung in 1988. Mr Lam holds a Certificate in Basic Science for Electroplaters from Hong Kong Productivity Centre.

Tang Yuk Fung is the co-founder and Executive Director (Operations) of our Group. He was appointed to our Board on 7 April 2003. Mr Tang is responsible for the overall production, factory management, and all other manufacturing aspects of our Group. Mr Tang has been in this industry for over 20 years, and possesses extensive technical know-how in the production of fasteners. For the period between 1978 to 1988, he was the factory manager in Tecko Screws Industrial Ltd. and was in charge of its overall factory management and production planning. Mr Tang then founded our present Group together with our CEO, Mr Lam Tak Shing in 1988. Mr Tang holds a Certificate in Basic Science for Electroplaters from Hong Kong Productivity Centre.

Kwan Suk Yee is the Executive Director (Sales and Administration) of our Group. She was appointed to our Board on 28 October 2003. Ms Kwan is responsible for our Group's overall administration, sales and marketing functions. Ms Kwan has over 13 years' experience and has established extensive contacts in the fastener manufacturing industry. Prior to joining our Group, Ms Kwan was the personal assistant to the managing director of Yuen Shing Art & Craft Manufacturer Ltd between 1989 and 1990. Her duties included sales and marketing and liaising with clients. She joined our Group in 1990 as our Sales and Marketing Manager. Ms Kwan graduated with a Diploma in Secretary from the Hong Kong School of Commerce.

Chan Kam Fuk was appointed as a Non-executive Director of our Company on 28 October 2003. Mr Chan worked for Sunic Company Limited as a finance and administration manager between February 1994 to December 1996. Between January 1997 to September 2000, he was the financial controller of CBM-Sanwa International Limited and between October 2000 to June 2001, Mr Chan worked as an executive director and company secretary of Ecopro Hi-Tech Holdings Ltd, a listed company on the Stock Exchange of Hong Kong Limited. Mr Chan joined Swing Media Technology Group Limited in August 2001 as their Chief Financial Officer and was subsequently appointed as a Director in May 2003. He is also the sole-proprietor of Dominic K.F. Chan & Co. Certified Public Accountants. Mr Chan holds a Bachelor of Science degree in Engineering from the University of Hong Kong and also holds a Master of Science degree in Finance and a Master in Accounting degree from the City University of Hong Kong and the University of Southern Queensland, Australia respectively. Mr Chan is also a member of CPA Australia and Hong Kong Society of Accountants.

Goh Boon Huat was appointed as an Independent Director of our Company on 28 October 2003. Mr Goh has over 20 years of financial and general management experience, having worked as a Chief Financial Officer in the petroleum industry and as Regional Director of a computer hardware and software distribution business in Asia. For the period between 1973 to 1977, he was an auditor with Pricewaterhouse & Co. From 1977 to 1988, he was with Caltex (Asia) Ltd, where he held various positions, including that of a Chief Financial Officer of Caltex Malaysia. In 1989, he joined Tech Pacific (Asia) as its Regional Finance Director. From 1994 to 2001, he was the Chief Financial Officer and a General Manager of Ong Asia Ltd. He is currently Senior Director, Finance of Ingram Micro Asia

Ltd. He holds a Bachelor degree in Laws (Honours) from the University of London. He is also an Associate of the Chartered Institute of Management Accountants (UK) and Fellow of the Association of Chartered Certified Accountants (UK).

Tan Chong Huat was appointed as an Independent Director of our Company on 28 October 2003. Currently, Mr Tan is a Director of Stamford Law Corporation. He graduated with a degree in law from the National University of Singapore in 1989. He is an advocate and solicitor of the Supreme Court of Singapore, and a Commissioner for Oaths. He is also admitted as a solicitor in England and Wales. Mr Tan is a member of the Singapore Institute of Arbitration, and an accredited arbitrator with the China International Economic & Trade Arbitration Commission. He is also a member of the Economic Committee, Singapore Chinese Chambers of Commerce & Industry. Mr Tan is an ad-hoc lecturer for several post-graduate degree programs conducted by the National Technological University.

Ms Kwan Suk Yee is the spouse of our CEO, Mr Lam Tak Shing. Save as disclosed, none of our Directors are related to each other.

The list of present and past directorships of each Director over the last 5 years excluding those held in the Company, is set out below:

| Name | Present Directorships | Past Directorships |
|---------------|--|---|
| Lam Tak Shing | <p><i>Group Companies</i></p> <p>Superior Fastening Technology Limited</p> <p>Superior Screws (Huizhou) Industry Company Limited (卓越螺丝(惠州)工业有限公司)</p> <p>Superior Metal Hardware Products (Huizhou) Ltd. (卓越五金制品(惠州)有限公司)</p> <p>Superior Fasteners (S) Pte. Ltd.</p> <p>Superior Screws Manufacturers Limited</p> <p>Silver Star Electro-Plating Co., Limited</p> <p>Chain Dragon Asia Limited</p> <p>Billion East Limited</p> <p>Genstar Holdings Limited</p> <p>Sportmax Ltd.</p> <p>Newsy Global Limited</p> <p><i>Other Companies</i></p> <p>China Network Group Limited</p> <p>Synetcom (HK) Co. Ltd.</p> <p>Total Rich Enterprises Ltd.</p> <p>Superior Screws (S) Pte Ltd</p> <p>Superior Cassette Screws Manufacturers Ltd (in the process of deregistration)</p> <p>Worldsburg Ltd</p> | <p><i>Group Companies</i></p> <p>Nil</p> <p><i>Other Companies</i></p> <p>Telgine Limited</p> |

| Name | Present Directorships | Past Directorships |
|---------------|--|---|
| Tang Yuk Fung | <p><i>Group Companies</i></p> <p>Superior Fastening Technology Limited</p> <p>Superior Screws (Huizhou) Industry Company Limited (卓越螺丝(惠州)工业有限公司)</p> <p>Superior Metal Hardware Products (Huizhou) Ltd. (卓越五金制品(惠州)有限公司)</p> <p>Superior Screws Manufacturers Limited</p> <p>Superior Fasteners (S) Pte. Ltd.</p> <p>Silver Star Electro-Plating Co., Limited</p> <p>Chain Dragon Asia Limited</p> <p>Billion East Limited</p> <p>Genstar Holdings Limited</p> <p>Sportmax Ltd.</p> <p>Newsy Global Limited</p> <p><i>Other Companies</i></p> <p>China Network Group Limited</p> <p>Superior Cassette Screws Manufacturers Ltd (in the process of deregistration)</p> <p>Worldsburg Ltd</p> | <p><i>Group Companies</i></p> <p>Nil</p> <p><i>Other Companies</i></p> <p>Nil</p> |
| Kwan Suk Yee | <p><i>Group Companies</i></p> <p>Superior Fastening Technology Limited</p> <p>Superior Fasteners (S) Pte. Ltd.</p> <p><i>Other Companies</i></p> <p>China Network Group Limited</p> <p>Total Rich Enterprises Ltd.</p> <p>Superior Screws (S) Pte Ltd</p> <p>Worldsburg Ltd</p> | <p><i>Group Companies</i></p> <p>Chain Dragon Asia Limited</p> <p><i>Other Companies</i></p> <p>Telgine Limited</p> |
| Chan Kam Fuk | <p><i>Group Companies</i></p> <p>Superior Fastening Technology Limited</p> | <p><i>Group Companies</i></p> <p>Nil</p> |

| Name | Present Directorships | Past Directorships |
|----------------|---|---|
| Chan Kam Fuk | <p><i>Other Companies</i></p> <p>West Lake Enterprises Ltd Complex Shipping Co., Ltd Swing Media Technology Group Limited</p> | <p><i>Other Companies</i></p> <p>Pan Talent Ltd Easy Access Finance Ltd Easy Choice Investment Ltd Fast Point Ltd Well Glory Ltd Winner Max Ltd Chance Link Ltd Winfair Asia Trading Ltd Ecopro Hi-Tech Ltd PC-Web (HK) Ltd Ecopro Hi-Tech Holdings Ltd Glory Sunny Ltd Info-Mission Technology Inc. Ltd Merway Ltd PC-Web Technology Ltd Recor Enterprises China Ltd Recor International Ltd Jun Ye International Ltd Lobelia International Ltd Profit Promise Enterprises Ltd Quality First Development Ltd Recor (RCR) Ltd Asian Eagle Company Ltd Golden Best International Ltd</p> |
| Goh Boon Huat | <p><i>Group Companies</i></p> <p>Superior Fastening Technology Limited</p> <p><i>Other Companies</i></p> <p>Nil</p> | <p><i>Group Companies</i></p> <p>Nil</p> <p><i>Other Companies</i></p> <p>Nil</p> |
| Tan Chong Huat | <p><i>Group Companies</i></p> <p>Superior Fastening Technology Limited</p> <p><i>Other Companies</i></p> <p>Asia Environment Holdings Ltd Hitchins Group Ltd Quattro Media Pte Ltd (Alternate Director to Vincent Wee Wen Sheng) Redchip Investment Pte Ltd</p> | <p><i>Group Companies</i></p> <p>Nil</p> <p><i>Other Companies</i></p> <p>Amgen International Pte Ltd Chinasean Investments (Holding) Pte Ltd Eyedeal Pte Ltd Hauppauge Digital Asia Pte Ltd Singapore Garden City Pte Ltd T & S Network Technology Pte Ltd</p> |

MANAGEMENT

The day-to-day operations are entrusted to our Executive Officers. An experienced and qualified team of Executive Officers is responsible for the different functions of our Group. The particulars of our Executive Officers are set out below:

| Name | Age | Address | Occupation |
|----------------|-----|--|-------------------------|
| Yu Wing Cheung | 44 | B2 11/F Man On House, 151-163 Wanchai Road Hong Kong | Chief Financial Officer |
| Teo Chee Bin | 57 | No. 1 Chepstow Close, Serangoon Garden Way, Singapore 558675 | Sales General Manager |
| Lam Tse Shing | 42 | Flat B 18/F, 127 Shaukiwan Road, Hong Kong | Operations Manager |

Information on the business and working experience of our Executive Officers is set out below:

Yu Wing Cheung is the Chief Financial Officer and is responsible for the overall organisation and management of the financial systems of our Group. He is also in charge of reviewing the financial reports of all the companies within our Group. Mr Yu joined our Group in November 2002. For the period between 1982 and 1984, he was engaged as an accountant in China Port & Harbour Engineering Services (International) Ltd.. For the period between 1984 to 1988, he joined Acceptor Enterprises Ltd as its accountant. For the period between 1988 to 2002, he was the accountant of Western Navigation (Global) Ltd., Winko Container Services Ltd., Asia East Engineering Co. Ltd. and Starbow Holdings Limited, where his last-held position was that of Financial Controller. Mr Yu is currently an associate member of the Hong Kong Society of Accountants. He holds a Bachelor of Business Administration from the Open University of Hong Kong.

Teo Chee Bin is our Group's Sales General Manager and is responsible for developing the Group's sales in Asia and managing the regional offices. Mr Teo joined our Group in January 2003. He served in the Singapore Armed Forces from 1966 to 1996 and had risen through the ranks in that period. Mr Teo's last held rank in the Singapore Armed Forces was that of Colonel. In 1997, he was engaged by JIT Holdings Limited as Production Manager. In the subsequent four years, Mr Teo took on additional positions in JIT Holdings Limited as Program Manager and Operations Manager. In 2000, he joined Flextronics International Limited as Operations Manager and was subsequently promoted to become the Business Unit Director. Mr Teo holds a Diploma in Management Studies from the Singapore Institute of Management. He also graduated from the Singapore Command & Staff College Course, the Australian Joint Services Staff College Course and the United States Landing Force Staff Planning Course.

Lam Tse Shing is the Operations Manager of our Group and is responsible for the sales, marketing and planning of the Group's surface treatment division. Mr Lam joined our Group in 1995. For the period between 1985 to 1995, he was employed as Manager of Derico Glass Blasting & Engraving Co. Ltd., where he was responsible for overseeing the sale and marketing of engraved decorative glass products. His duties also included managing the technical aspects of production. Mr Lam graduated from a secondary school in Hong Kong.

Mr Lam Tse Shing is the brother of Mr Lam Tak Shing and the brother-in-law of our Executive Director Ms Kwan Suk Yee. Save for the above, none of our Directors and Executive Officers are related to each other or the substantial Shareholders. To the best of our knowledge and belief, there are no arrangements or undertakings with any substantial shareholders, customers, suppliers or others, pursuant to which any of our Directors and Executive Officers was appointed.

None of the Executive Officers has any present and past directorships over the past five years.

REMUNERATION

The compensation paid to our Directors and our Executive Officers for services rendered to us and our subsidiaries on an individual basis for FY2002, FY2003, as well as the estimated amount of such compensation for current FY2004 all range between S\$0 and S\$249,999. The estimated amount of such compensation for FY2004 includes bonuses resulting from the profit sharing scheme in the Service Agreement.

Except for the contributions which are mandated by the relevant laws of the countries in which our employees are employed, we have not set aside or accrued any amounts for our employees to provide for pension, retirement or similar benefits.

Mr Lam Tse Shing, one of our Executive Officers, is the brother of Lam Tak Shing, our Executive Director.

The basis for determining Mr Lam Tse Shing's remuneration is the same as those for unrelated employees. In FY2003, the annual remuneration of Mr Lam Tse Shing was HK\$214,500. This represented approximately 1.92% of our profit before tax.

Adjustments to the remuneration package of Mr Lam Tse Shing will be reviewed annually by the Remuneration Committee to ensure that it is in line with our staff remuneration policy and commensurate with his job scope and level of responsibility.

The total remuneration paid to the Directors as well as Executive Officers and employees who are related to the Directors and Substantial Shareholders will be disclosed in our annual report.

EMPLOYEES

As at 31 March 2003, we had a workforce of approximately 255 full-time employees. Our employees are not unionised. The relationship and cooperation between the management and staff have been good and are expected to continue to be good in the future. There has not been any incidence of work stoppages or labour disputes which affected our operations.

The functional distribution of our full-time employees as at 31 March 2001, 2002 and 2003 were as follows:

| | As at 31 March 2001 | As at 31 March 2002 | As at 31 March 2003 |
|----------------------------|---------------------|---------------------|---------------------|
| Function | | | |
| Management | 4 | 4 | 6 |
| Administration and Finance | 23 | 26 | 32 |
| Marketing and Sales | 5 | 5 | 5 |
| Technical | 135 | 152 | 212 |
| Total | 167 | 187 | 255 |

The geographical breakdown of our full-time employees as at 31 March 2001, 2002 and 2003 were as follows:

| | As at 31 March 2001 | As at 31 March 2002 | As at 31 March 2003 |
|------------------|---------------------|---------------------|---------------------|
| Hong Kong | 7 | 7 | 10 |
| PRC | 160 | 180 | 245 |
| Total | 167 | 187 | 255 |

SERVICE AGREEMENTS

Save as disclosed below, none of our Directors or Executive Officers has entered into service agreements with us.

Our Company has entered into separate service agreements (the “Service Agreements”) with our Executive Directors, namely, Mr Lam Tak Shing, Mr Tang Yuk Fung and Ms Kwan Suk Yee, for a period of three (3) years with effect from 1 December 2003 respectively (unless otherwise terminated by either party giving not less than six (6) months’ notice to the other). We may also terminate their respective Service Agreements if any of these Executive Directors are guilty of dishonesty or serious or persistent misconduct, becomes bankrupt or otherwise acts to the prejudice of our Company. None of these Executive Directors will be entitled to any benefits upon termination of their respective Service Agreements. The Service Agreements cover the terms of employment, specifically salaries and bonuses.

Mr Lam Tak Shing, Mr Tang Yuk Fung and Ms Kwan Suk Yee are entitled to a monthly salary of HK\$65,000 each, and a 13th month bonus in respect of each completed year of service.

As a performance incentive, each of our Executive Directors is entitled to a bonus equivalent to a percentage of our Group’s audited consolidated profit before taxation and before profit sharing in a financial year excluding gains on exceptional items and extraordinary items but after minority interests of the Group for the relevant year.

| Consolidated Profit Before Tax | Percentage of Consolidated Profit Before Tax that each Executive Director is entitled to as Bonus |
|---------------------------------------|--|
| Less than HK\$12 million | — |
| From HK\$12 million to HK\$14 million | 1.3% |
| More than HK\$14 million | 1.7% |

All travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by the Executive Directors in the process of discharging their duties on behalf of the Group will be borne by our Company.

Had the Service Agreements been in existence from 1 April 2002, the aggregate remuneration paid to the Executive Directors in FY2003 would have been approximately HK\$2.5 million instead of HK\$0.8 million and our Proforma profit before tax for the Group would have been HK\$9.5 million instead of HK\$11.2 million respectively.

Directors’ fees do not form part of the terms of the Service Agreements as these require the approval of shareholders in the Company’s annual general meeting.

CORPORATE GOVERNANCE

Our Bye-Laws provide that our board of Directors will consist of not less than two Directors. None of our Directors are appointed for any fixed terms, but one-third of our Directors is required to retire at every annual general meeting of our Company. Hence, the maximum term for each Director is three years. Directors who retire are eligible to stand for re-election.

The Directors recognise the importance of corporate governance and the offering of high standards of accountability to the shareholders of our Company.

Nominating Committee

Our Nominating Committee comprises Mr Lam Tak Shing, Mr Goh Boon Huat and Mr Tan Chong Huat. The Chairman of the Nominating Committee is Mr Lam Tak Shing. Our Nominating Committee will be responsible for (i) re-nomination of our Directors having regard to the Director's contribution and performance, (ii) determining annually whether or not a Director is independent and (iii) deciding whether or not a Director is able to and has been adequately carrying out his duties as a director. The Nominating Committee will decide how the Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of the Board, which address how the Board has enhanced long term shareholders' value. The performance evaluation will also include consideration of the Company's share price performance over a 5-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers. The Board will also implement a process to be carried out by the Nominating Committee for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual Director to the effectiveness of the Board. Each member of the Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as director.

Remuneration Committee

Our Remuneration Committee comprises Mr Lam Tak Shing, Mr Goh Boon Huat and Mr Tan Chong Huat. The Chairman of the Remuneration Committee is Mr Tan Chong Huat. Our Remuneration Committee will recommend to our Board a framework of remuneration for the Directors and key executives, and determine specific remuneration packages for each Executive Director. The recommendations of our Remuneration Committee should be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options issued under our ESOS and benefits in kind shall be covered by our Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting any resolutions in respect of his remuneration package.

Audit Committee

Our Audit Committee comprises Mr Chan Kam Fuk, Mr Goh Boon Huat and Mr Tan Chong Huat. The Chairman of the Audit Committee is Mr Goh Boon Huat. Our Directors recognise the importance of corporate governance and the offering of high standards of accountability to the shareholders of our Company. Our Audit Committee shall meet periodically to perform the following functions:

- (a) review the audit plans of our Company's external auditors;
- (b) review the external auditors' reports;
- (c) review the co-operation given by our Company's officers to the external auditors;
- (d) review the financial statements of our Company and the Group before their submission to the Board;

- (e) nominate external auditors for re-appointment; and
- (f) review interested person transactions, if any.

Apart from the duties listed above, the Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position. Each member of the Audit Committee shall abstain from voting on any resolutions in respect of matters in which he is interested.

SUPERIOR EMPLOYEE SHARE OPTION SCHEME

On 27 October 2003, our sole shareholder at that time approved a share option scheme known as the Superior Employee Share Option Scheme (the “ESOS”), the rules of which are set out in Appendix J of this Prospectus. The ESOS complies with the relevant rules as set out in Chapter 8 of the SGX-ST Listing Manual. The ESOS will provide eligible participants with an opportunity to participate in the equity of our Company and to motivate them towards better performance through increased dedication and loyalty. The ESOS, which forms an integral and important component of a compensation plan, is designed to primarily reward and retain Executive Directors, Non-executive Directors and employees whose services are vital to our well being and success.

As at the Latest Practicable Date, no options have been granted under the ESOS.

Objectives of the ESOS

The objectives of the ESOS are as follows:

- (a) to motivate participants to optimise their performance standards and efficiency and to maintain a high level of contribution to our Group;
- (b) to retain key employees and Executive Directors whose contributions are essential to the long-term growth and prosperity of our Group;
- (c) to instill loyalty to, and a stronger identification by participants with the long-term prosperity of, our Company;
- (d) to attract potential employees with relevant skills to contribute to our Group and to create value for the shareholders of our Company; and
- (e) to align the interests of participants with the interests of the shareholders of our Company.

Summary of the ESOS

A summary of the rules of the ESOS is set out as follows:

(1) Participants

Under the rules of the ESOS, Executive and Non-executive Directors and employees of our Company, our subsidiaries and associated companies (as they may exist from time to time), who are not controlling shareholders or their associates (as defined in the Listing Manual), except for Mr Lam Tse Shing, are eligible to participate in the ESOS.

(2) Scheme administration

The ESOS shall be administered by a committee comprising of Directors (including Directors who may be participants of the ESOS) (the “Committee”), with powers to determine, *inter alia*, the following:

- (a) persons to be granted options;
- (b) number of options to be offered; and
- (c) recommendations for modifications to the ESOS.

As at the Latest Practicable Date, the Committee comprises Mr Lam Tak Shing, Mr Goh Boon Huat and Mr Tan Chong Huat. The Committee will consist of Directors (including Directors who may be participants of the ESOS). A member of the Committee who is also a participant of the ESOS must not be involved in its deliberation in respect of options granted or to be granted to him.

(3) Size of the ESOS

The aggregate number of shares over which the Committee may grant options on any date, when aggregated with the number of shares issued and issuable in respect of all options granted under the ESOS and any other share option schemes of our Company, shall not exceed fifteen per cent. (15%) of the issued Shares of our Company on the day preceding the date of the relevant grant.

Our Company believes that this fifteen per cent. (15%) limit set by the SGX-ST gives our Company sufficient flexibility to decide upon the number of Option Shares to offer to its existing and new employees. Fifteen per cent. (15%) of the post-Invitation issued share capital of our Company constitutes approximately 15,644,430 Shares. As at the Latest Practicable Date, there are about 255 eligible participants of the ESOS. As it is intended that the Scheme shall last for ten (10) years, assuming that there is no change in the total issued share capital of the Company, the number shares that are the subject of Options that may be granted in a year will average approximately 1,564,443 Shares. The number of eligible participants is expected to grow over the years. Our Company, in line with its goals of ensuring sustainable growth, is constantly reviewing its position and considering the expansion of its talent pool which may involve employing new employees. The employee base, and thus the number of eligible participants will increase as a result. If the number of Options available under the ESOS is limited, our Company may only be able to grant a small number of Options to each eligible participant which may not be a sufficiently attractive incentive. Our Company is of the opinion that it should have sufficient number of Options to offer to new employees as well as to existing ones. The number of Options offered must also be significant enough to serve as a meaningful reward for contribution to our Group. However, it does not indicate that the Committee will definitely issue Option Shares up to the prescribed limit. The Committee shall exercise its discretion in deciding the number of Option Shares to be granted to each employee which will depend on the performance and value of the employee to our Group.

(4) Maximum entitlements

The number of shares comprised in any options to be offered to a participant in the ESOS shall be determined at the absolute discretion of the Committee, who shall take into account criteria such as rank, past performance, years of service and potential for future development of that participant.

(5) Options, exercise period and exercise price

The options that are granted under the ESOS may have exercise prices that are, at the Committee's discretion, set at a discount to a price (the "Market Price") equal to the average of the last dealt prices for the shares on the Official List of the SGX-SESDAQ for the five (5) consecutive market days immediately preceding the relevant date of grant of the relevant option of a Share (subject to a maximum discount of twenty per cent. (20%)) ("Incentive Option"), or fixed at the Market Price ("Market Price Option"). In no circumstances shall the exercise price be less than the par value of a Share.

Each eligible participant who has been granted Market Price Options shall be entitled to exercise at any time after the first anniversary of the date of grant of up to 50 per cent. (50%) of the Shares in respect of which the option is granted and the balance of the Shares in respect of such option shall be exercisable by that eligible participant at any time after the second anniversary of the date of grant provided always that such option shall be exercised before the tenth anniversary of the relevant offer date, failing which all unexercised options shall immediately lapse and become null and void.

Each eligible participant who has been granted Incentive Options shall be entitled to exercise at any time after the second anniversary of the date of grant of up to 50 per cent. (50%) of the Shares in respect of which the option is granted and the balance of the Shares in respect of such option shall be exercisable by that eligible participant at any time after the third anniversary of the date of grant provided always that such option shall be exercised before the tenth anniversary of the relevant offer date, failing which all unexercised options shall immediately lapse and become null and void.

(6) Grant of options

Under the rules of the ESOS, there are no fixed periods for the grant of options. As such, offers of the grant of options may be made at any time from time to time at the discretion of the Committee.

However, in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is imminent, offers may only be made after the second market day from the date on which the aforesaid announcement is made.

(7) Termination of options

Special provisions in the rules of the ESOS deal with the lapse or earlier exercise of options in circumstances which include the termination of the participant employment in our Group, the bankruptcy of the participant, the death of the participant; a take-over of our Company; and the winding-up of our Company.

(8) Acceptance of options

The grant of options shall be accepted within 30 days from the date of the offer. Offers of options made to grantees, if not accepted before the closing date, will lapse. Upon acceptance of the offer, the grantee must pay our Company a consideration of S\$1.00.

(9) Rights of shares arising

Shares arising from the exercise of options are subject to the provisions of the Memorandum of Association and Bye-Laws of our Company. The shares so allotted will upon issue rank *pari passu* in all respects with the then existing issued shares, save for any dividend, rights, allotments or distributions, the record date ("Record Date") for which falls on or before the relevant exercise date of the option. "Record Date" means the date as at the close of business on which the shareholders must be registered in order to participate in any dividends, rights, allotments or other distributions.

(10) Duration of the ESOS

The ESOS shall continue in operation for a maximum duration of ten (10) years and may be continued for any further period thereafter with the approval of our shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

(11) Abstention from voting

Participants who are shareholders are to abstain from voting on any shareholders' resolution relating to the ESOS.

Grant of options with a discounted exercise price

The ability to offer options to participants of the ESOS with exercise prices set at a discount to the prevailing market prices of the Shares will operate as a means to recognise the performance of participants as well as to motivate them to continue to excel while encouraging them to focus more on improving the profitability and return of our Group above a certain level which will benefit all Shareholders when these are eventually reflected through share price appreciation. Discounted Options would be perceived in a more positive light by the participants, inspiring them to work hard and produce results in order to be offered Options at a discount as only employees who have made outstanding contributions to the success and development of the Group would be granted Options at a discount.

The flexibility to grant options with discounted prices is also intended to cater to situations where the stock market performance has overrun the general market conditions. In such events, the Committee will have absolute discretion to:

- (i) grant options set at a discount to Market Price of a share (subject to a maximum limit of twenty per cent. (20%)); and
- (ii) determine the participants to whom, and the options to which, such reduction in exercise prices will apply.

In determining whether to give a discount and the quantum of the discount, the Committee shall be at liberty to take into consideration factors including the performance of our Company, our Group, the performance of the participant concerned, the contribution of the participant to the success and development of our Group and the prevailing market conditions.

It is envisaged that our Company may consider granting the options with exercise prices set at a discount to the Market Price of the shares prevailing at the time of grant under circumstances including (but not limited to) the following:

- (a) where, due to speculative forces in the stock market resulting in an overrun of the market, the market price of the shares at the time of the grant of options is not a true reflection of the financial performance of our Company;
- (b) to enable our Company to offer competitive remuneration packages in the event that the practice of granting options with exercise prices that have a discount element becomes a general market norm. As share options become more significant components of executive remuneration packages, a discretion to grant options with discounted prices will provide our Company with a means to maintain the competitiveness of our Group compensation strategy; and/or
- (c) where our Group needs to provide more compelling motivation for specific business units to improve their performance, grants of share options with discounted exercise prices will help to align the interests of employees to those of the shareholders by encouraging them to focus more on improving the profitability and return of our Group above a certain level which will benefit all Shareholders when these are eventually reflected through share price appreciation, as such the options granted at a discount would be perceived more positively by the employees who receive such options.

The Committee will determine on a case-by-case basis whether a discount will be given, and if so, the quantum of the discount, taking into account the objective that is desired to be achieved by our Company and the prevailing market conditions. As the actual discount given will depend on the relevant circumstances, the extent of the discount may vary from one case to another, subject to a maximum discount of twenty per cent. (20%) of the Market Price of a Share, as described in paragraph (5) above.

The discretion to grant options to subscribe for shares at an exercise price set at a discount to the market price will, however, be used judiciously. The amount of the discount may vary from one offer to another, and from time to time, subject to a limit of twenty per cent. (20%) on the quantum of discount in respect of options granted under the ESOS.

Such flexibility in determining the quantum of discount would enable the Committee to tailor the incentives in the grant of options to be commensurate with the performance and contribution of each individual participant. By individually recognising the degree of performance and contribution of each participant, the granting of options at a commensurate discount would enable the Committee to provide incentives for better performance, greater dedication and loyalty of the participants.

Our Company may also grant options without any discount to the market price. Additionally, our Company may, if it deems fit, impose conditions on the exercise of the options (whether such options are granted at the market price or at a discount to the market price), such as restricting the number of shares for which the option may be exercised during the initial years following its vesting.

Participation of executive and non-executive directors and employees of our Group in the ESOS

The extension of the ESOS to executive and non-executive directors and employees of our Group (excluding controlling shareholders or their associates (as defined in the Listing Manual)), allows us to have a fair and equitable system to reward directors and employees who have made and who continue to make significant contributions to the long-term growth of our Group.

In deciding whether to grant Options to the Non-executive Directors, the Remuneration Committee will take into consideration, among other things, the services and contributions made to the growth, development and success of our Group and the years of service of a particular non-executive director. The Remuneration Committee may also, where it considers relevant, take into account other factors such as the economic conditions and our Company's performance.

In order to minimise any potential conflict of interests and not to compromise the independence of the Non-executive Directors, the Company intends to grant only a nominal number of Options granted under the ESOS to such Non-executive Directors. In addition, in the event that any conflict of interests arises in any matter to be decided by the Board, the Company shall procure that the relevant Non-executive Director abstain from voting on such matter at the Board meeting.

We believe that the ESOS will also enable us to attract, retain and provide incentives to its participants to produce higher standards of performance as well as encourage greater dedication and loyalty by enabling our Company to give recognition to past contributions and services as well as motivating participants generally to contribute towards the long-term growth of our Group.

Rationale for participation by employees of Associated Companies ("Associated Company Employees")

Our Company does not currently have any Associated Companies. Should our Group in the future acquire Associated Companies or incorporate Associated Companies with strategic partners, the extension of the ESOS to Associated Company Employees will serve to motivate these individuals to contribute to the growth of their companies. The contribution of the Associated Company Employees to the success and development of their companies will in turn benefit our Group from the equity accounting of the higher profits of the Associated Companies. Therefore it is in the interests of our Company to motivate the Associated Company Employees by allowing them to participate in the ESOS.

Should our Company decide to grant share options to Associated Company Employees in the future, our Company will consider, *inter alia*, the contribution of such individuals to the success and development of our Company and/or Group before selecting them for participation in the ESOS. For the purposes of assessing their contributions, the Remuneration Committee may adopt a performance framework which incorporates financial and/or non-financial criteria. These criteria include the contribution of the relevant Associated Company to the net profit after tax and business growth of our Group as well as the years of service of the relevant Associated Company Employee and the extent to which he achieves his performance targets. Although our Company does not have such a framework, it may at the appropriate time, adopt one.

Rationale for participation by Mr Lam Tse Shing

Mr Lam Tse Shing is an Executive Officer of our Company. He is the brother of our Chief Executive Officer, Mr Lam Tak Shing.

Mr Lam Tse Shing is the Operations Manager of our Group and is responsible for the sales, marketing and planning of the Group's surface treatment division. Mr Lam joined our Group in 1995 and is one of the key members in the development of our surface treatment business. He has played an important role in our Group's development and growth in the PRC.

We believe Mr Lam Tse Shing will continue to make a vital contribution towards the future development and further success of our Group. We are of the view that the remuneration package (including share options which he will be granted under this ESOS) of Mr Lam Tse Shing is fair. The extension of the ESOS to him is consistent with our objectives to motivate our employees to achieve and maintain a high level of performance and contribution which is vital to the success of our Group. Pursuant to the Invitation, Mr Lam Tse Shing will not have any direct or indirect shareholding interest in our Company. Although Mr Lam Tse Shing is related to our Chief Executive Officer, Mr Lam Tak Shing, they are financially independent and Mr Lam Tse Shing does not have any beneficial interest in the shareholding interests of Mr Lam Tak Shing. The extension of the ESOS to him will ensure that he is equally entitled, with the other employees who are not controlling shareholders to take part in and benefit from this system of remuneration, thereby enhancing his long-term commitment to the Group.

For the aforesaid reasons, our Directors believe that Mr Lam Tse Shing deserves to and should be allowed to participate in the ESOS.

Mr Lam Tse Shing's maximum participation in the entire ESOS is 10% of the Shares available under the ESOS. In the event that our Directors decide to grant Options to Mr Lam Tse Shing, our Directors will disclose the rationale and justification for his participation, the actual number of Options and the terms of the Options to our independent shareholders and will seek the approval of such independent shareholders at a general meeting in a separate resolution. Details of the number of Options granted, the number of Options exercised and the subscription price (including any discount) will be disclosed in the annual report of our Company.

Cost of Options granted under the ESOS to our Company

Any Options granted under the ESOS would have a fair value. In the event that such Options are granted at prices below the fair value of the Options, there will be a cost to our Company. The amounts of such costs may be more significant in the case of Incentive Options, where such Options are granted with exercise prices set at a discount to the prevailing market price of the Shares. The cost to our Company of granting Options under the ESOS would be as follows:

- (i) the exercise of an Option at the exercise price would translate into a reduction of the proceeds from the exercise of such Option, as compared to the proceeds that our Company would have received from such exercise had the exercise been made at the prevailing market price of the Shares. Such reduction of the exercise proceeds would represent the monetary cost to our Company;
- (ii) as the monetary cost of granting Options with a discounted exercise price is borne by our Company, the earnings of our Company would effectively be reduced by an amount corresponding to the reduced interest earnings that our Company would have received from the difference in proceeds from exercise price with no discount versus the discounted exercise price. Such reduction would, accordingly, result in the dilution of our Company's EPS; and
- (iii) the effect of the issue of new Shares upon the exercise of Options, is that the Company's NTA per Share will increase if the exercise price is above the NTA per Share and decrease, if the exercise price is below the NTA per Share.

The costs as discussed above would only materialise upon the exercise of the relevant options. Currently, the International Financial Reporting Standards ("IFRS") does not require companies to account for share-based awards granted to their employees. Accordingly, companies have not recognised any compensation expenses relating to share options granted to their employees in their financial statements. However, share options have value because the option to buy a company's share for a fixed price during an extended future time period is a valuable right, even if there are restrictions attached to such an option. If the IFRS is revised such that our Company is required to account for share-based awards granted to our employees, the cost of granting Options will affect our financial results as this cost to our Company would be required to be charged to our Company's profit and loss account at the time Options are granted. Even if the Options are not granted at a discount, there would be a cost to the Company though this cost is not required to be charged to the Company's profit and loss account under the IFRS.

Subject as aforesaid, as and when Options are exercised, the cash inflow will add to the net tangible assets of our Company and its share capital base will grow. Where Options are granted with subscription prices that are set at a discount to the market prices for the Shares prevailing at the time of the grant of such Options, the amount of the cash inflow to the Company on the exercise of such Options would be diminished by the quantum of the discount given, as compared with the cash inflow that would have been receivable by the Company had the Options been granted at the market price of the Shares prevailing at the time of the grant.

Details of the number of Options granted pursuant to the ESOS, the number of Options exercised and the exercise price (as well as any applicable discounts) will be disclosed in our annual report.

We have made an application to the SGX-ST for permission to deal in and for quotation of the Shares which may be issued upon the exercise of the options to be granted under the ESOS. The approval of the SGX-ST is not to be taken as an indication of the merits of our Company, our subsidiaries, our Shares, the New Shares or the Option Shares.

INTERESTED PERSON TRANSACTIONS

In general, transactions between our Group and any of its interested persons (namely, the Directors, Chief Executive Officer or controlling shareholders of our Company or the associates of such Directors, Chief Executive Officer or controlling shareholders) are known as interested person transactions. The following discussion on material interested person transactions for the last three financial years and as at the Latest Practicable Date, is based on the Group and interested persons are construed accordingly.

The following represent transactions undertaken by our Group with our Interested Persons (as defined in Chapter 9 of the SGX-ST Listing Manual) for the 3 most recent completed financial years and up to the Latest Practicable Date. Save as disclosed below and under the section entitled “*Group Structure — Restructuring Exercise*” beginning on page 54 of this Prospectus, none of our Directors, Chief Executive Officer or controlling shareholders or their associates has any interest in any material transaction undertaken by us for the periods under review.

PAST INTERESTED PERSON TRANSACTIONS

The following are material transactions undertaken between our Company and interested persons in the past three financial years:

(a) Guarantees and security provided by our Directors and/or their associates

Our Directors and/or their associates have provided guarantees and other forms of security for banking facilities and hire purchase credit lines extended to our Group in the last three financial years. Details of such guarantees and security are listed below:

| Banker/Financier | Facilities granted | Facilities for use by | Description of guarantee/ security provided |
|-----------------------|--|-----------------------|---|
| 1. Orix Asia Limited | Hire purchase credit line totaling HK\$496,209 | Superior HK | <ul style="list-style-type: none"> Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung Corporate guarantee executed by Superior Cassette Screws Manufacturers Ltd. |
| 2. IBA Credit Limited | Hire purchase credit lines totaling HK\$2,340,565 | Superior HK | <ul style="list-style-type: none"> Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung |
| 3. DBS Kwong On Bank | Hire purchase credit line for the amount HK\$1,482,000 | Superior HK | <ul style="list-style-type: none"> Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung |

The above hire purchase credit lines were granted at interest rates of between 5.85% to 13.80% per annum.

The largest amount guaranteed by our Directors and/or their associates during each of the last three financial years ended 31 March 2003, based on amounts as at the end of each calendar month, were HK\$2.32 million, HK\$4.18 million and HK\$4.09 million respectively.

The above guarantees have been released and discharged as at the Latest Practicable Date as the amounts outstanding under the hire purchase credit lines have been paid.

(b) Transactions between Superior HK and our Directors

To enable our Directors, Mr Lam Tak Shing, Mr Tang Yuk Fung and Ms Kwan Suk Yee, to meet expenditures incurred or to be incurred by them on behalf of Superior HK or for the purposes of enabling them to perform their duties in Superior HK, Superior HK had made various interest-free cash advances to them over the last three financial years. The following table shows the aggregate amounts outstanding as at the end of each of the last three financial years and the largest amounts outstanding in FY2001, FY2002 and FY2003:

| Director | Aggregate amounts outstanding (HK\$) | | | Largest amounts outstanding (HK\$) | | |
|---------------|---|----------------------|----------------------|---------------------------------------|---------|-----------|
| | As at 31 Mar 2001 | As at 31 Mar 2002 | As at 31 Mar 2003 | FY2001 | FY2002 | FY2003 |
| Lam Tak Shing | 44,054 | — | — | 82,032 | 130,665 | — |
| Tang Yuk Fung | 233,232 | 223,855 | 1,663,310 | 233,232 | 223,855 | 1,663,310 |
| Kwan Suk Yee | 29,883 | 76,965 | 639,040 | 29,883 | 434,515 | 639,040 |

All outstanding amounts had been repaid by the relevant Directors as at the Latest Practicable Date.

Our Director, Mr Lam Tak Shing, had made several cash payments on behalf of Superior HK from time to time in FY2002 and FY2003. The aggregate amount outstanding as of 31 March 2002 and 31 March 2003 was HK\$380,579 and HK\$570,437 respectively. All outstanding amounts had been repaid by Superior HK to Mr Lam Tak Shing as at the Latest Practicable Date.

We do not intend to enter into such transactions with our Directors after our listing on SGX-SESDAQ.

(c) Cash advances made to Total Rich Enterprise Limited

Superior HK had previously made interest-free cash advances to Total Rich Enterprise Limited, a company in which our Executive Directors, Mr Lam Tak Shing and Ms Kwan Suk Yee, own 50% of the share capital each. The aggregate amounts outstanding as of 31 March 2001, 31 March 2002 and 31 March 2003 were HK\$1,035,859, HK\$1,851,383 and HK\$3,053,588 respectively. The same respective amounts were also the largest amounts outstanding for the relevant financial years.

As at the Latest Practicable Date, all outstanding amounts due have been fully repaid by Total Rich Enterprise Limited to Superior HK.

We do not intend to extend any more cash advances to Total Rich Enterprise Limited after our listing on SGX-SESDAQ.

(d) Cash advances made to Synetcom (Hong Kong) Co. Ltd

Superior HK had previously made interest-free cash advances to Synetcom (Hong Kong) Co. Limited, a company in which our Executive Director, Mr Lam Tak Shing, owns 50% of the share capital. The aggregate amounts outstanding as of 31 March 2001, 31 March 2002 and 31 March 2003 were HK\$9,725, HK\$49,710 and HK\$79,491 respectively. The same respective amounts were also the largest amounts outstanding for the relevant financial years.

As at the Latest Practicable Date, all outstanding amounts due have been fully repaid by Synetcom (Hong Kong) Co. Ltd to Superior HK.

We do not intend to extend any more cash advances to Synetcom (Hong Kong) Co. Ltd after our listing on SGX-SESDAQ.

(e) Transactions with Superior Screws Manufacturers

Superior HK had previously made interest-free cash advances to Superior Screws Manufacturers, a partnership between our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung. The aggregate amounts outstanding as of 31 March 2001, 31 March 2002 and 31 March 2003 were HK\$3,530, HK\$6,780 and HK\$6,780 respectively. The largest amounts outstanding in FY2001, FY2002 and FY2003 were HK\$3,530, HK\$6,780 and HK\$6,780 respectively.

For the period between 1999 and 2000, as Superior HK did not have its own manufacturing facilities, it subcontracted the manufacturing of its products to a processing factory in which Superior Screws Manufacturers had an interest. The amount payable by Superior HK to the processing factory under this sub-contracting arrangement amounted to an aggregate of HK\$5,800,000 as at 31 March 2001. Such a subcontracting arrangement was at arm's length and on commercial terms.

In FY2001, Superior HK provided surface treatment services to Superior Screws Manufacturers for a total consideration of HK\$710,000. This transaction was carried out at arm's length and on commercial terms.

As at the Latest Practicable Date, all outstanding amounts between Superior Screws Manufacturers and Superior HK have been settled. We do not intend to enter into any transactions with Superior Screws Manufacturers after the Group's listing on the SGX-SESDAQ.

(f) Transactions with Superior Cassette Screws Manufacturers Ltd.

Superior HK was incorporated in 1999 to take over the business of Superior Cassette Screws Manufacturers Ltd., a company which is jointly and equally owned by Mr Lam Tak Shing and Mr Tang Yuk Fung, our Executive Directors.

In FY2001, Superior HK purchased used heading and threading machines for a total cash consideration of HK\$1,537,000 from Superior Cassette Screws Manufacturers Ltd.

As at the Latest Practicable Date, the outstanding amount has been paid by Superior HK to Superior Cassette Screws Manufacturers Ltd. Superior Cassette Screws Manufacturers Ltd. is currently undergoing voluntary winding-up. As such, we do not contemplate that we will enter into any transactions with Superior Cassette Screws Manufacturers Ltd. after our listing on the SGX-SESDAQ.

(g) Transactions with Ms Lam Mei Lin, the sister of our Executive Director, Mr Lam Tak Shing

Ms Lam Mei Lin had made several cash payments on behalf of Superior HK from time to time in FY2001 and FY2002. The aggregate amounts outstanding as of 31 March 2001 and 31 March 2002 were HK\$21,714 and HK\$287,188 respectively. The amounts were subsequently repaid by Superior HK in FY2003.

In FY2003, Superior HK sold a property to Ms Lam Mei Lin for HK\$800,000. This sale price was above the valuation price indicated in a valuation report recently undertaken by a certified valuer in Hong Kong. As at the Latest Practicable Date, all outstanding amounts were paid by Ms Lam Mei Lin to Superior HK.

We do not intend to enter into any more transactions with Ms Lam Mei Lin after our listing on the SGX-SESDAQ.

(h) Transactions with Superior Screws (S) Pte Ltd

Mr Lam Tak Shing and Ms Kwan Suk Yee, our Executive Directors, own in aggregate 66% of the capital in Superior Screws (S) Pte Ltd (the balance shareholding was owned by an unrelated third party), a company incorporated in Singapore to market our products. Such marketing functions were taken over by Superior Singapore, one of our subsidiaries, in August 2003.

For the period between 2001 and July 2003, Superior HK sold our manufactured products to Superior Screws (S) Pte Ltd, which would on-sell such products to customers in South-East Asia. As at 31 March 2002 and 31 March 2003, the amounts payable by Superior Screws (S) Pte Ltd to Superior HK amounted to an aggregate of HK\$1,981,515 and HK\$4,621,811 respectively.

As at the Latest Practicable Date, the outstanding amounts were settled by: (i) the netting off against inventory returned by Superior Screws (S) Pte Ltd amounting to approximately HK\$0.9 million; and (ii) cash repayments by Superior Screws (S) Pte Ltd amounting to approximately HK\$3.7 million. There are no inventory obsolescence issues arising from the inventory returned to Superior HK as the entire inventory was then sold by Superior HK to another unrelated third party customer. We do not intend to enter into any more transactions with Superior Screws (S) Pte Ltd after the listing on the SGX-SESDAQ.

PRESENT INTERESTED PERSON TRANSACTIONS

(a) Guarantees and security provided by our Directors and/or their associates

Our Directors and/or their associates have provided guarantees and other forms of security for banking facilities and hire purchase credit lines extended to our Group which are still in force. Details of such guarantees and security are listed below:

| Banker/Financier | Facilities granted | Facilities for use by | Description of guarantee/ security provided |
|----------------------------|---|-----------------------|--|
| 1. Bank of China (HK) Ltd. | General banking facilities totaling HK\$1.0 million | Superior HK | <ul style="list-style-type: none">• Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung• Legal charge over property owned by Mr Lam Tak Shing's mother |
| 2. Citibank N.A. | General banking facilities totaling HK\$3,250,000 | Superior HK | <ul style="list-style-type: none">• Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing, Mr Tang Yuk Fung and Ms Kwan Suk Yee• Corporate guarantee executed by Superior Cassette Screws Manufacturers Ltd.• Legal charge over property owned by Mr Lam Tak Shing and Ms Kwan Suk Yee |

| Banker/Financier | Facilities granted | Facilities for use by | Description of guarantee/ security provided |
|-----------------------------|--|-----------------------|---|
| 3. Orix Asia Limited | Hire purchase credit line amounting to HK\$258,300 | Superior HK | <ul style="list-style-type: none"> Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung Corporate guarantee executed by Superior Cassette Screws Manufacturers Ltd. |
| 4. IBA Credit Limited | Hire purchase credit lines totaling HK\$2,043,500 | Superior HK | <ul style="list-style-type: none"> Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung Corporate guarantee executed by Total Rich Enterprises Ltd., a company which is owned by Executive Directors, Mr Lam Tak Shing and Ms Kwan Suk Yee. |
| 5. AIG Finance Co. (HK) Ltd | Hire purchase credit line for the amount HK\$600,000 | Superior HK | <ul style="list-style-type: none"> Personal guarantee executed by our Executive Director, Mr Lam Tak Shing |
| 6. Delta Asia Credit Ltd. | Hire purchase credit line for the amount HK\$700,000 | Superior HK | <ul style="list-style-type: none"> Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung |
| 7. IBA Credit Limited | General banking facilities totaling HK\$1,950,000 | Superior HK | <ul style="list-style-type: none"> Personal guarantees executed by our Executive Directors, Mr Lam Tak Shing and Mr Tang Yuk Fung |

The above borrowings bear interest at between 5.85% to 13.80% per annum.

We will procure the discharge of the above securities after our Listing subject to approval by the relevant financial institutions. Should the financial institutions not agree to the discharge, the above securities will continue to be given by the relevant interested persons.

REVIEW BY AUDIT COMMITTEE

Our Audit Committee will review all other existing and future interested person transactions, if any, on at least a half-yearly basis to ensure that they are carried out on normal commercial terms and are not prejudicial to the interests of our shareholders.

Our Audit Committee will also review all interested person transactions to ensure that the then prevailing rules and regulations of the SGX-ST (in particular Chapter 9 of the Listing Manual) are complied with. We will also endeavour to comply with the principles of and best practices set out in the “Best Practices Guide” of the Listing Manual.

POTENTIAL CONFLICT OF INTERESTS

Save as disclosed under the section on “*Past Interested Person Transactions*” and below, none of our Directors, controlling Shareholders and Executive Officers or their associates has any material interest, direct or indirect, in:

- (i) any company carrying out the same business;
- (ii) any enterprise or company that is our Company’s customer or supplier of goods or services; and
- (iii) any transaction to which we are a party.

Superior Screws (S) Pte Ltd was previously set up by our Executive Directors, Mr Lam Tak Shing, Ms Kwan Suk Yee and another unrelated third party to sell our products in Singapore. This function was subsequently taken over by Superior Singapore. Mr Lam Tak Shing and Ms Kwan Suk Yee each hold 1 ordinary share of S\$1.00 each in Superior Screws (S) Pte Ltd (giving them a total shareholding interest of approximately 66.7%) and they are both directors of Superior Screws (S) Pte Ltd.

Mr Lam Tak Shing and Ms Kwan Suk Yee have, on 1 November 2003, executed a Deed of Non-Competition pursuant to which they have undertaken to ensure that Superior Screws (S) Pte Ltd and its subsidiaries will not engage in the same business as that undertaken by our Group for as long as they are shareholders and/or directors of Superior Screws (S) Pte Ltd and our Company.

GENERAL AND STATUTORY INFORMATION

INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

1. The names, ages, addresses and current occupations of our Directors and Executive Officers of our Group are set out on pages 75, 76 and 80 of this Prospectus.
2. Information on the business and work experience of our Directors is set out on pages 76 and 77 of this Prospectus.
3. The list of present and past directorships of each Director, other than directorships held in our Company, for the five years preceding the Latest Practicable Date is set out on pages 77 to 79 of this Prospectus.
4. Information on the business and work experience of our Executive Officers is set out on page 80 of this Prospectus.
5. None of our Executive Officers has any present or past directorships over the past five years up to the Latest Practicable Date.
6. None of our Directors, Executive Officers or controlling shareholders is or was involved in any of the following events:
 - (i) during the last ten years, a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner;
 - (ii) during the last ten years, a petition under any law of any jurisdiction filed against a corporation of which he was a director or key executive for the winding-up of that corporation on the ground of insolvency;
 - (iii) any unsatisfied judgments against him;
 - (iv) a conviction of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment for three months or more, or any criminal proceedings (including any pending criminal proceedings which he is aware of) for such purpose;
 - (v) a conviction of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or any criminal proceedings (including pending criminal proceedings which he is aware of) for such breach;
 - (vi) during the last ten years, judgement entered against him in any civil proceeding in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or any civil proceedings (including any pending civil proceedings which he is aware of) involving an allegation of fraud, misrepresentation or dishonesty on his part;
 - (vii) a conviction in Singapore or elsewhere of any offence in connection with the formation or management of any corporation;
 - (viii) disqualification from acting as a director of any corporation, or from taking part directly or indirectly in the management of any corporation;
 - (ix) been the subject of any order, judgment or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him from engaging in any type of business practice or activity; and
 - (x) to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of affairs of
 - (a) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or

- (b) any corporation or partnership which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,

in connection with any matter occurring or arising during the period when he was so concerned with the corporation or partnership.

7. The aggregate emoluments paid to our Directors for services rendered in all capacities to our Company and our subsidiaries in FY2003 amounted to approximately HK\$0.8 million. Had the Service Agreements referred to on page 82 of this Prospectus been in existence from 1 April 2002, the aggregate remuneration paid to the Executive Directors in FY2003 would have been approximately HK\$2.5 million instead of HK\$0.8 million and our Proforma profit before tax for the Group would have been HK\$9.5 million instead of HK\$11.2 million.
8. Save as disclosed on page 82 of this Prospectus under the Section on “*Service Agreements*”, there are no existing or proposed service agreements between us and our Directors.
9. Save as disclosed on page 80 of this Prospectus under the Section on “*Management*”, none of our Directors and Executive Officers are related by blood or marriage to one another nor are they so related to any substantial shareholder of our Company.
10. No option to subscribe for shares in, or debentures of, our Company has been granted to, or was exercised by, any Director or Executive Officer within the last financial year.
11. No person has been, or is entitled to be, given an option to subscribe for any shares in or debentures of our Company.
12. Save as disclosed on pages 92 to 96 of this Prospectus under the Section on “*Interested Person Transactions*”, no Director or expert is (i) interested, directly or indirectly, in the promotion of, or in any assets acquired or disposed of by, or leased to, our Company within two years preceding the Latest Practicable Date, or in any proposal for such acquisition or disposal or leased as aforesaid, or (ii) interested where the interest consists in being a partner in a firm or a holder of shares in or debentures of a corporation interested in the same.
13. Save as disclosed on pages 92 to 96 of this Prospectus under the Section on “*Interested Person Transactions*”, no Director has any interest in any existing contract or arrangement which is significant in relation to our business taken as a whole.
14. Saved as disclosed on page 97 of this Prospectus under the section on “*Potential Conflict of Interests*”, none of our Directors, substantial shareholders or Executive Officers has any interest, direct or indirect, in any company carrying out the same business or deals in similar products as our Company or any of its subsidiaries.
15. There is no shareholding qualification for Directors in the Bye-Laws of our Company.
16. No sum or benefit has been paid or has been agreed to be paid to any Director or expert who is a partner of any firm in which a Director or expert or any corporation in which such Director or expert holds shares or debentures, in cash or shares or otherwise by any person (i) (in the case of a Director) to induce him to become, or to qualify him as our Director or otherwise for the services rendered by him or such firm or corporation in connection with the promotion or formation of our Company or (ii) (in the case of an expert) for services rendered by him or such firm or corporation in connection with the promotion or formation of our Company.

SHARE CAPITAL

17. Save as disclosed below and set out under “*Share Capital*” on pages 51 and 52 of the Prospectus, there were no changes in the issued and paid-up capital of the Company and its subsidiaries within the three years preceding the date of lodgement of this Prospectus.

Genstar Holdings Limited

| Date | Purpose of Issue | Par Value | Issue Price/ Consideration | Number of Shares | Resultant issued Share capital |
|--------------|-------------------|-----------|-------------------------------|--|--------------------------------------|
| 6 March 2003 | Subscriber shares | US\$1.00 | US\$2.00 | 2 ordinary shares of US\$1.00 each | US\$2.00 |

Billion East Limited

| Date | Purpose of Issue | Par Value | Issue Price/ Consideration | Number of Shares | Resultant issued Share capital |
|---------------|-------------------|-----------|-------------------------------|--|--------------------------------------|
| 13 March 2003 | Subscriber shares | US\$1.00 | US\$2.00 | 2 ordinary shares of US\$1.00 each | US\$2.00 |

Newsky Global Limited

| Date | Purpose of Issue | Par Value | Issue Price/ Consideration | Number of Shares | Resultant issued Share capital |
|--------------|-------------------|-----------|-------------------------------|--|--------------------------------------|
| 6 March 2003 | Subscriber shares | US\$1.00 | US\$2.00 | 2 ordinary shares of US\$1.00 each | US\$2.00 |

Sportmax Ltd.

| Date | Purpose of Issue | Par Value | Issue Price/ Consideration | Number of Shares | Resultant issued Share capital |
|---------------|-------------------|-----------|-------------------------------|--|--------------------------------------|
| 13 March 2003 | Subscriber shares | US\$1.00 | US\$2.00 | 2 ordinary shares of US\$1.00 each | US\$2.00 |

Superior Fasteners (S) Pte. Ltd.

| Date | Purpose of Issue | Par Value | Issue Price/ Consideration | Number of Shares | Resultant issued Share capital |
|--------------|-------------------|-----------|-------------------------------|---|--------------------------------------|
| 22 July 2003 | Subscriber shares | S\$1.00 | S\$2.00 | 2 ordinary shares of S\$1.00 each | S\$2.00 |

Superior Screws (Huizhou) Industry Company Limited (卓越螺丝(惠州)工业有限公司)

| Date | Purpose of Issue | Par Value | Issue Price/ Consideration | Number of Shares | Resultant registered capital |
|------------------|---------------------------------|------------------|---------------------------------------|-----------------------------|---|
| 20 June 2000 | Injection of registered capital | Not applicable | HK\$5,000,000 | Not applicable | HK\$5,000,000 |
| 17 December 2001 | Increase in registered capital | Not applicable | HK\$2,000,000 | Not applicable | HK\$7,000,000 |
| 16 July 2003 | Increase in registered capital | Not applicable | HK\$3,000,000 | Not applicable | HK\$10,000,000 |

Superior Metal Hardware Products (Huizhou) Ltd. (卓越五金制品(惠州)有限公司)

| Date | Purpose of Issue | Par Value | Issue Price/ Consideration | Number of Shares | Resultant registered capital |
|----------------|---------------------------------|------------------|---------------------------------------|-----------------------------|---|
| 15 August 2003 | Injection in registered capital | Not applicable | HK\$3,000,000 | Not applicable | HK\$3,000,000 |

18. Save as disclosed above and on pages 54 and 55 of this Prospectus, no shares or debentures were issued or were agreed to be issued by the Company for cash or for a consideration other than cash during the last two years.

MATERIAL CONTRACTS

19. The following contracts not being contracts entered into in the ordinary course of business have been entered into by our Company and our subsidiaries within the two years preceding the date of lodgement of this Prospectus and are or may be material:
- the Sale and Purchase Agreement dated 31 October 2003 between our Company, Mr Lam Tak Shing and Mr Tang Yuk Fung pursuant to which our Company acquired from Mr Lam Tak Shing and Mr Tang Yuk Fung the entire issued share capital of Chain Dragon, Silver Star and Superior HK;
 - the Deed of Non-Competition dated 1 November 2003 between our Company, Mr Lam Tak Shing and Ms Kwan Suk Yee pursuant to which Mr Lam Tak Shing and Ms Kwan Suk Yee have undertaken to procure that Superior Screws (S) Pte Ltd and its subsidiaries shall not carry on any business which is similar to our Group's existing business for as long as Mr Lam Tak Shing and Ms Kwan Suk Yee are shareholders and/or directors of Superior Screws (S) Pte Ltd and our Company;
 - the Consultancy Agreement dated 1 September 2002 between Superior HK and Chinarise Capital (Hong Kong) Ltd. and supplemented by an Amendment Agreement between Superior HK, Chinarise Capital (Hong Kong) Ltd., Mr Lam Tak Shing and Mr Tang Yuk Fung dated 31 August 2003, pursuant to which Chinarise Capital (Hong Kong) Ltd. agreed to provide consultancy services to our Company in consideration of a fee of US\$120,000;
 - the management and underwriting agreement dated 2 December 2003 between our Company, the Manager and the Underwriters for the management of the Invitation and the underwriting of the New Shares ("Management and Underwriting Agreement");
 - the placement agreement dated 2 December 2003 between our Company and the Joint Lead Placement Agents for the placement of the Placement Shares (the "Placement Agreement"); and
 - the depository agreement dated 2 December 2003 between our Company and CDP pursuant to which CDP will act as central depository for our securities for trades in the securities through the SGX-SESDAQ.

LITIGATION

20. Neither our Company nor any of our subsidiaries is engaged in any litigation as plaintiff or defendant in respect of any claims or amounts which are material in the context of the Invitation and our Directors have no knowledge of any proceedings pending or threatened against our Company or any of our subsidiaries or any facts likely to give rise to any litigation, claims or proceedings which might materially affect the financial position, profitability or the business of our Company or any of our subsidiaries.

MANAGEMENT AND UNDERWRITING AND PLACEMENT ARRANGEMENTS

21. (a) Pursuant to the Management and Underwriting Agreement, we appointed the Manager to manage the Invitation, and the Underwriters to underwrite the Offer Shares. The Manager will receive a management fee from our Company for its services rendered in connection with the Invitation.
- (b) Pursuant to the Management and Underwriting Agreement, the Underwriters agreed to underwrite the Offer Shares for a commission of 2.0% of the Issue Price for each Share, payable by our Company pursuant to the Invitation bears to the total number of New Shares for subscribing or for procuring subscribers for any Shares not subscribed for pursuant to the Invitation and will pay or procure payment to our Company for such Shares. The number of Shares each Underwriter has agreed to subscribe or procure subscriptions for is as follows:

| Underwriter | Number of Shares |
|-----------------------------------|-------------------------|
| SBI E2-Capital Securities Pte Ltd | 1,000,000 |
| UOB Kay Hian Private Limited | 1,000,000 |

- (c) Pursuant to the Placement Agreement, the Joint Lead Placement Agents agreed to subscribe or procure subscriptions for the Placement Shares for a placement commission of 2.5% of the Issue Price for each Placement Share, payable by our Company pursuant to the Invitation bears to the total number of New Shares. The number of Shares each Joint Lead Placement Agent has agreed to subscribe or procure subscriptions for is as follows:

| Joint Lead Placement Agent | Number of Shares |
|-----------------------------------|-------------------------|
| SBI E2-Capital Securities Pte Ltd | 18,000,000 |
| UOB Kay Hian Private Limited | 5,000,000 |

- (d) Brokerage will be paid by our Company to members of the Exchange, merchant banks and members of the Association of Banks in Singapore in respect of accepted applications made on Application Forms bearing their respective stamps, or to Participating Banks in respect of successful applications made through Electronic Applications at the rate of 0.5% of the Issue Price for each Offer Share.
- (e) Subscribers of Placement Shares may be required to pay a placement commission of up to 1.0 per cent of the Issue Price to the Joint Lead Placement Agents.
- (f) Save as aforesaid, no commission, discount or brokerage, has been paid or other special terms granted within the two years preceding the Latest Practicable Date or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the Company.
- (g) The Management and Underwriting Agreement may be terminated by the Manager at any time before the close of the Application List on the occurrence of certain events including, *inter alia*:

- (i) any change or any development involving a prospective change or any crisis in national or international monetary, financial, economic or political conditions (including but without limiting thereto conditions in the stock market, in the foreign exchange market and conditions with respect to interest rates, in Singapore and overseas); or
 - (ii) the issue of a stop order by the Authority in accordance with Section 242 of the Singapore Securities and Futures Act; or
 - (iii) foreign exchange controls in Singapore and overseas or any occurrence of a combination of any such changes or developments or crises, or any deterioration of any such conditions; which has resulted or is in the reasonable opinion of the Manager likely to result in the conditions in the stock market in Singapore and/or stock markets overseas being materially and adversely affected; or the success of the Invitation being materially prejudiced; or it becoming inadvisable, inexpedient or not commercially viable for the Invitation to commence, be proceeded with or completed; or it becoming for any reason not commercially viable or otherwise contrary to or outside the usual commercial customs or practices in Singapore for the Manager to observe or perform or be obliged to observe or perform the terms of this Agreement or the Invitation; or the business, trading position, operations or prospects of the Group being materially and adversely affected.
- (h) The Placement Agreement is conditional upon the Management and Underwriting Agreement not having been terminated or rescinded pursuant to the provisions of the Management and Underwriting Agreement and may be terminated on the occurrence of certain events, including those specified in paragraph 21(g) above.
22. Our public relations consultant, Quattro Media Pte Ltd, is an affiliated company of SBI E2-Capital Pte Ltd, our manager and an associated company of SBI E2-Capital Securities Pte Ltd, one of our Joint Lead Placement Agents and Underwriters.
23. Save as disclosed above, we do not have any material relationship with any of the Manager, Underwriters or Joint Lead Placement Agents.
24. Save as disclosed above, we are not aware of person who intends to subscribe for more than five per cent. (5%) of the New Shares.

MISCELLANEOUS

25. The nature of our business is stated on pages 59 to 65 of this Prospectus. As at the Latest Practicable Date, the corporations which are deemed to be related to us by virtue of Section 6 of the Singapore Companies Act are set out on page 57 of this Prospectus.
26. The amount payable on application is S\$0.23 for each Offer Share and S\$0.23 for each Placement Share. There has been no previous issue of Shares by us or offer for sale of our Shares to the public within the two years preceding the Latest Practicable Date.
27. The estimated amount of expenses of the Invitation and of the application for listing, including underwriting and placement commission, brokerage, management fee, professional fees to reporting auditors and solicitors to the Invitation and all other incidental expenses in relation to this Invitation is approximately S\$1.8 million, which will be borne by us. A breakdown of these estimated expenses is as follows:

| | S\$'000 |
|---|----------------|
| Professional fees | 1,435 |
| Underwriting commission, placement commission and brokerage | 144 |
| Miscellaneous expenses (including listing fees) | 171 |
| Total estimated expenses of the Invitation | <u>1,750</u> |

28. No amount of cash or securities or benefit has been paid or given to any promoter within the two years preceding the Latest Practicable Date or is proposed or intended to be paid or given to any promoter at any time.
29. Save as disclosed on pages 28 to 33 of this Prospectus under the Section on “*Risk Factors*”, our Directors are not aware of any relevant material information including trading factors or risks not mentioned elsewhere in this Prospectus which is unlikely to be known or anticipated by the general public and which could materially affect the profits of our Company and our subsidiaries.
30. No commission, discount or brokerage has been paid or other special terms granted within the two years preceding the Latest Practicable Date or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procure subscriptions for any shares in, or debentures of, our Company or any of our subsidiaries.
31. No expert is employed on a contingent basis by our Company or any of our subsidiaries, has a material interest, whether direct or indirect, in the shares of our Company or our subsidiaries, or has a material economic interest, whether direct or indirect, in our Company, including an interest in the success of the Offer.
32. Save as disclosed in this Prospectus, the financial condition and operations of our Group are not likely to be affected by any of the following:
 - (a) known trends or known demands, commitments, events or uncertainties that will result in or are reasonably likely to result in the Group’s liquidity increasing or decreasing in any material way;
 - (b) material commitments for capital expenditure;
 - (c) unusual or infrequent events or transactions or any significant economic changes that will materially affect the amount of reported income from operations; and
 - (d) known trends or uncertainties that have had or that we reasonably expect to have a material favourable or unfavourable impact on revenues or operating income.
33. Save as disclosed on pages A-25 and A-26 of this Prospectus under the section on “*Subsequent Events*”, the Directors are not aware of any event which has occurred since 31 March 2003, which may have a material effect on the financial information provided in the Report on Examination of the Proforma Consolidated Financial Statements of the Group, the audited financial statements of Superior Screws Manufacturers Limited and Silver Star, and the audited consolidated financial statements of Chain Dragon and its subsidiary for the years ended 31 March 2001, 2002 and 2003.

CONSENTS

34. The Reporting Auditors have given and have not withdrawn their respective written consent to the issue of this Prospectus with the inclusion herein of their Report on Examination of the Proforma Consolidated Financial Statements of the Group in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.
35. PricewaterhouseCoopers Hong Kong has given and has not withdrawn its consent to the issue of this Prospectus with the inclusion herein of the Audited Financial Statements of Superior Screws Manufacturers Limited for the Period/Years Ended 31 March 2001, 2002 and 2003, the Audited Financial Statements of Silver Star Electro-Plating Co., Limited for the Years Ended 31 March 2001, 2002 and 2003, and the Audited Consolidated Financial Statements of Chain Dragon Asia Limited and its subsidiary for the Years Ended 31 March 2001, 2002 and 2003, in the form and context in which they appear in this Prospectus and to act in such capacity in relation to this Prospectus.
36. Each of the Solicitors to the Invitation, the Legal Advisers to the Company on Bermuda Law, the Legal Advisers to the Company on PRC Law, the Legal Advisers to the Company on Hong Kong

Law, the Registrar for the Invitation and Singapore Share Transfer Agent, the Bermuda Registrar and Share Transfer Agent, the Receiving Banker and the Principal Banker do not make, or purport to make, any statement in this Prospectus or any statement upon which a statement in this Prospectus is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any person which is based on, or arises out of, the statements, information or opinions in this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

37. Copies of the following documents may be inspected at the office of Wong Partnership at 80 Raffles Place, #58-01 UOB Plaza 1, Singapore 048624 during normal business hours for a period of 6 months from the date of registration of this Prospectus:
- (a) the Memorandum of Association and the Bye-Laws of our Company;
 - (b) the Report on Examination of the Proforma Consolidated Financial Statements of the Group as set out on pages A-1 to A-26 of this Prospectus;
 - (c) the Audited Financial Statements of Superior Screws Manufacturers Limited for the Period/ Years Ended 31 March 2001, 2002 and 2003;
 - (d) the Audited Financial Statements of Silver Star Electro-Plating Co., Limited for the Years Ended 31 March 2001, 2002 and 2003;
 - (e) the Audited Consolidated Financial Statements of Chain Dragon Asia Limited and its Subsidiary for the Years Ended 31 March 2001, 2002 and 2003;
 - (f) the material contracts referred to on page 101 of this Prospectus;
 - (g) the letters of consent referred to on page 105 of this Prospectus;
 - (h) the Bermuda Act; and
 - (i) the Service Agreements referred to on page 82 of this Prospectus.

STATEMENT BY DIRECTORS OF THE COMPANY

38. This Prospectus has been seen and approved by our Directors and they collectively and individually accept the full responsibility for the accuracy of the information given in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, that the facts stated and the opinions expressed herein are fair and accurate in all material respects as of the date hereof and there are no other facts the omission of which would make any statements herein misleading, and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation and our Group.

STATEMENT BY THE MANAGER

39. The Manager acknowledges that, having made due and careful enquiry and to the best of its knowledge and belief, based on information furnished to it by the Group, this Prospectus constitutes a full and true disclosure of all the material facts about the Invitation and the Group, and it is not aware of any other facts, the omission of which would make any statements herein misleading.

**REPORT ON EXAMINATION OF THE PROFORMA
CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP**

2nd December 2003

The Board of Directors
Superior Fastening Technology Limited
Canon's Court,
22 Victoria Street
Hamilton HM12,
Bermuda

Dear Sirs

We report on the proforma consolidated financial statements of Superior Fastening Technology Limited (the "Company" and referred to collectively with its subsidiaries as the "Group") set out on pages A-3 to A-26 of the prospectus dated 2nd December 2003. This report, together with the proforma consolidated financial statements prepared for illustrative purposes only, have been prepared in accordance with the provisions set out in the Fifth Schedule of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2002 and are based on certain assumptions after making certain adjustments to show what:

- (a) the financial results of the Group for the financial years ended 31st March 2001, 2002 and 2003 would have been if the group structure as described in Note 1(a) to the proforma consolidated financial statements of the Group as of the date of the lodgement of the prospectus had been in place since 1st April 2000;
- (b) the financial position of the Group as at 31st March 2003 would have been if the group structure as of the date of the lodgement of the prospectus had been in place on that date; and
- (c) the changes in equity and cash flows of the Group for the financial year ended 31st March 2003 would have been if the group structure as of the date of the lodgement of the prospectus had been in place since 1st April 2002.

The proforma consolidated financial statements, because of their nature, may not give a true picture of the actual financial results, financial position, changes in equity and cash flows of the Group.

The proforma consolidated financial statements are the responsibility of the directors of the Company. Our responsibility is to express an opinion on the proforma consolidated financial statements based on our work.

Our work, which involved no independent examination of the underlying financial statements, consisted primarily of comparing proforma consolidated financial statements of the Group to the audited financial statements or management accounts of the Company and its subsidiaries, or where information is not available in the financial statements or management accounts, to accounting records, considering the appropriateness of the adjustments and discussing the proforma consolidated financial statements with the directors of the Company.

In our opinion:

- (a) the proforma consolidated financial statements have been properly prepared on the basis set out in Note 1(b) to the proforma consolidated financial statements of the Group;
- (b) the proforma consolidated financial statements have been properly prepared in a manner consistent with both the format of the financial statements and the accounting policies of the Group;
- (c) each material adjustment made to the information used in the preparation of the proforma consolidated financial statements is appropriate for the purpose of preparing such financial statements.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Singapore

Tan Khiaw Ngoh
Partner

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

Raymund Chao
Partner

SUPERIOR FASTENING TECHNOLOGY LIMITED

PROFORMA CONSOLIDATED INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | Note | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|---|------|------------------|------------------|------------------|
| Sales | 4 | 23,826 | 27,860 | 40,975 |
| Cost of sales | | <u>(18,463)</u> | <u>(16,754)</u> | <u>(21,628)</u> |
| Gross profit | | 5,363 | 11,106 | 19,347 |
| Selling and distribution expenses | | (903) | (1,145) | (1,268) |
| General and administrative expenses | | <u>(4,037)</u> | <u>(6,796)</u> | <u>(6,498)</u> |
| Operating profit | 6 | 423 | 3,165 | 11,581 |
| Finance costs, net | 7 | <u>(131)</u> | <u>(374)</u> | <u>(397)</u> |
| Profit before taxation | | 292 | 2,791 | 11,184 |
| Taxation | 9 | <u>(130)</u> | <u>(225)</u> | <u>(795)</u> |
| Net profit attributable to shareholders | | <u>162</u> | <u>2,566</u> | <u>10,389</u> |
| Basic earnings per share (in HK cents) | 10 | <u>0.20</u> | <u>3.24</u> | <u>13.10</u> |

SUPERIOR FASTENING TECHNOLOGY LIMITED

PROFORMA CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2003

| | Note | 2003 HK\$'000 |
|---|----------|------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | | 908 |
| Inventories | 12 | 2,614 |
| Trade receivables | | 6,755 |
| Other receivables, deposits and prepayments | 13 | 2,489 |
| Due from related parties | | |
| — trade | 11(vii) | 4,622 |
| — non-trade | 11(vii) | 1,752 |
| Due from directors | 11(viii) | 1,094 |
| | | <u>20,234</u> |
| Non-current asset | | |
| Property, plant and equipment | 14 | <u>14,305</u> |
| TOTAL ASSETS | | <u>34,539</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Trade payables | | 5,179 |
| Other payables and accruals | 15 | 7,746 |
| Due to related parties — non-trade | 11(vii) | 1,870 |
| Bank overdrafts | 16 | 2,354 |
| Current portion of long-term bank loans | 16 | 585 |
| Current portion of finance lease liabilities | 17 | 1,571 |
| Taxes payable | | 924 |
| | | <u>20,229</u> |
| Non-current liabilities | | |
| Long-term bank loans | 16 | 139 |
| Finance lease liabilities | 17 | 515 |
| Deferred taxation | 18 | 81 |
| | | <u>735</u> |
| Total liabilities | | <u>20,964</u> |
| Shareholders' equity | | |
| Share capital | 19 | 94 |
| Reserves | 20 | 13,481 |
| | | <u>13,575</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u>34,539</u> |

SUPERIOR FASTENING TECHNOLOGY LIMITED

PROFORMA CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2003

| | Share capital HK\$'000 | Reserves HK\$'000 | Total HK\$'000 |
|---|------------------------------|----------------------|-------------------|
| Balance at 1st April 2002 | 94 | 3,092 | 3,186 |
| Net profit attributable to shareholders | — | 10,389 | 10,389 |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31st March 2003 | 94 | 13,481 | 13,575 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

SUPERIOR FASTENING TECHNOLOGY LIMITED

PROFORMA CONSOLIDATED CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2003

| | 2003 HK\$'000 |
|--|------------------|
| Cash flows from operating activities | |
| Net profit | 10,389 |
| Adjustments for: | |
| Taxation | 795 |
| Depreciation | 1,444 |
| Profit on disposal of property, plant and equipment | (74) |
| Interest expense | 441 |
| Changes in working capital: | |
| Inventories | (1,415) |
| Trade receivables | 1,068 |
| Other receivables, deposits and prepayments | (1,440) |
| Net amounts due from/(to) directors and related parties | (7,406) |
| Trade payables | 5 |
| Other payables and accruals | 2,443 |
| Cash generated from operations | 6,250 |
| Interest paid | (441) |
| Tax paid | (95) |
| Net cash generated from operating activities | 5,714 |
| Cash flows from investing activities | |
| Purchase of property, plant and equipment | (3,447) |
| Net cash used in investing activities | (3,447) |
| Cash flows from financing activities | |
| Proceeds from drawdown of long-term bank loans | 700 |
| Repayments of long-term bank loans | (638) |
| Finance lease principal payments | (2,546) |
| Net cash used in financing activities | (2,484) |
| Decrease in cash and cash equivalents | (217) |
| Cash and cash equivalents at 1st April | (1,229) |
| Cash and cash equivalents at 31st March | (1,446) |
| Analysis of balances of cash and cash equivalents | |
| Cash and bank balances | 908 |
| Bank overdrafts | (2,354) |
| | (1,446) |
| Major non-cash transactions | |

- (i) During the year ended 31st March 2003, the Group entered into finance lease arrangements in respect of property, plant and equipment of approximately HK\$1,802,000.
- (ii) During the year ended 31st March 2003, the building was disposed of to a related party at a consideration of HK\$800,000 (note 11).
- (iii) During the year ended 31st March 2003, the Company issued 12,000 ordinary shares with par value of US\$1 each, which amounts to a total value of US\$12,000 (approximately HK\$94,000). These ordinary shares had not been paid up as at 31st March 2003.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 12th March 2003 under the Companies Act 1981 of Bermuda as an exempted company with limited liability. The Company was incorporated for the purpose of acquiring the shares in the existing companies of the Group (as defined in note 1(a)), which are principally engaged in the fastening technology.

The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. Its principal activity is investment holding.

At the date of incorporation and at 31st March 2003, the authorised and issued share capital of the Company were US\$12,000, comprising 12,000 ordinary shares at par value of US\$1 each.

(a) Restructuring Exercise

The Group carried out a restructuring exercise (the "Restructuring Exercise") in preparation of the Company's listing on the Singapore Exchange Securities Trading Limited. Details of the Restructuring Exercise are set out on pages 54 and 55 of the prospectus.

Upon the completion of the Restructuring Exercise, the Company has the following subsidiaries:

| Name of subsidiary | Principal activities | Date and country of incorporation | Paid-in capital | Shareholdings held by the Company |
|---|---|---|-----------------|-----------------------------------|
| Genstar Holdings Limited ("Genstar") ** | Investment holding | 6th March 2003 (the British Virgin Islands) | US\$2 | 100% |
| Billion East Limited ("Billion East") ** | Investment holding | 13th March 2003 (the British Virgin Islands) | US\$2 | 100% |
| Newsy Global Limited ("Newsy") ** | Investment holding | 6th March 2003 (the British Virgin Islands) | US\$2 | 100% |
| Sportmax Ltd. ("Sportmax") ** | Investment holding | 13th March 2003 (the British Virgin Islands) | US\$2 | 100% |
| Chain Dragon Asia Limited ("Chain Dragon") * | Investment holding | 15th October 1996 (Hong Kong) | HK\$2 | 100% |
| Silver Star Electro-plating Co., Limited ("Silver Star") * | Provision of surface treatment services | 7th February 1995 (Hong Kong) | HK\$2 | 100% |
| Superior Screws Manufacturers Limited ("Superior HK") * | Manufacturing and trading of fasteners | 3rd March 1999 (Hong Kong) | HK\$2 | 100% |

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (*cont'd*)

(a) Restructuring Exercise (*cont'd*)

| Name of subsidiary | Principal activities | Date and country of incorporation | Paid-in capital | Shareholdings held by the Company |
|--|----------------------------|--|-----------------|-----------------------------------|
| 卓越螺丝(惠州)工业有限公司 ("Superior Huizhou") * | Manufacturing of fasteners | 20th June 2000 (the People's Republic of China) | HK\$7,000,000 | 100% |
| Superior Fasteners (S) Pte. Ltd.** | Trading of fasteners | 22nd July 2003 (Singapore) | S\$2 | 100% |

* Audited by PricewaterhouseCoopers, Hong Kong.

** No audited financial statements were prepared for these companies since their respective dates of incorporation as they are newly incorporated.

(b) Basis of preparation

The Restructuring Exercise was undertaken on 31st October 2003 and involved companies which are under common control as the same shareholders exercised joint or collective control before and after the transaction. The proforma consolidated financial statements were prepared using the historical cost method in a manner similar to the "pooling of interests" method as if the Company had been part of the Group and the group structure described above had been in place throughout the periods covered by this report.

The objective of the proforma consolidated financial statements of the Group is to show what the historical information would have been had the Group existed during the years under review. However, the proforma consolidated financial statements of the Group are not necessarily indicative of the results of the operations or the related effects on the financial position that would have been attained had the above mentioned Group actually existed during the years under review.

All material intra-group transactions and balances have been eliminated in the preparation of the proforma consolidated financial statements.

The proforma consolidated financial statements in this report are prepared based on the following:

- (i) audited consolidated financial statements of Chain Dragon and its subsidiary, Superior Huizhou, and audited financial statements of Silver Star and Superior HK for each of the financial years ended 31st March 2001, 2002 and 2003 prepared in accordance with the International Financial Reporting Standards and audited by PricewaterhouseCoopers, Hong Kong, a firm of Certified Public Accountants under Section 82A of the Professional Accountants Ordinance, Chapter 50.
- (ii) management accounts of the Company for the financial period from 12th March 2003 (date of incorporation) to 31st March 2003, Genstar and Newsky for the financial period from 6th March 2003 (date of incorporation) to 31st March 2003 and management accounts of Billion East and Sportmax for the period from 13th March 2003 (date of incorporation) to 31st March 2003.

No audited financial statements were prepared for the Company, Genstar, Billion East, Newsky and Sportmax since their respective dates of incorporation as these companies are newly incorporated. All relevant significant transactions of such companies taken place since their dates of incorporation if any, have been, however, reflected or disclosed in these proforma consolidated financial statements.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no changes to the accounting policies of the companies within the Group during the financial years/periods ended 31st March 2001, 2002 and 2003. The principal accounting policies adopted in the preparation of these proforma consolidated financial statements are set out below:

(a) Basis of consolidation

The proforma consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(b) Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer upon delivery of goods. Revenue from rendering of services is recognised when services are performed.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

(c) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation for building and leasehold improvement is calculated on the straight-line method to write off the cost over the lease term. Depreciation of other property, plant and equipment is calculated on the following rates to write off the cost of each asset to their residual values:

| | |
|------------------------|---|
| Building | Shorter of useful lives or over the lease period |
| Leasehold improvement | Shorter of useful lives or over the lease periods |
| Plant and machinery | 10% diminishing balance method |
| Furniture and fixtures | 20% diminishing balance method |
| Motor vehicles | 20% diminishing balance method |
| Computer software | 25% straight-line method |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*cont'd*)

(c) Property, plant and equipment (*cont'd*)

Repairs and maintenance are charged to the proforma consolidated income statements during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(d) Impairment of long lived assets

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(e) Leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the proforma consolidated income statements over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where a significant portion of the risks and rewards of ownership is retained by the leasing company are accounted for as operating leases. Payments made under operating leases, net of any incentives received from the leasing company, are charged to the proforma consolidated income statements on a straight-line basis over the period of the lease.

(f) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*cont'd*)

(g) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events that it is probable an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Employee benefits

The companies within the Group operate a number of defined contribution plans based on local practices and regulations. The pension plans are funded by payments from employees and by the companies within the Group. The plans cover full-time employees and provide for contributions of 5% of an employee's monthly basic salary. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

(k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*cont'd*)

(k) Contingent liabilities and contingent assets (*cont'd*)

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

(l) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(m) Share capital

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(n) Translation of foreign currencies

The Company is located in Bermuda. However, it is using Hong Kong dollars as its measurement currency, which is different from the currency of the country in which it is domiciled because most of the transactions of the Company and its subsidiaries are conducted in Hong Kong dollars.

Companies within the Group maintain their books and records in their respective local reporting currencies. Income statements of foreign entities are translated into the Group's reporting currency at the weighted average exchange rates for the year and balance sheets are translated at the exchange rates ruling on 31st March. Exchange differences arising from the translation of the balance sheets and income statements of foreign entities are taken to shareholders' equity. On disposal of a foreign entity, accumulated exchange differences are recognised in the proforma consolidated income statements as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the proforma consolidated income statements.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*cont'd*)

(o) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction cost) and the redemption value is recognised in the proforma consolidated income statement over the period of the borrowings.

(p) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(q) Financial instruments

Financial instruments carried on the proforma consolidated balance sheet include cash and bank balances, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Details of financial instruments are set out in note 22.

3. MATERIAL ADJUSTMENTS

The material adjustments made to the information used in the preparation of the proforma consolidated financial statements are as follows:

Proforma consolidated income statements

| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|------------------|
| <u>Gross revenue</u> | | | |
| Per aggregation of financial statements of individual entities | 34,892 | 55,973 | 77,908 |
| Elimination of intercompany sales (i) | (11,066) | (28,113) | (36,933) |
| Per proforma consolidated financial statements of the Group | <u>23,826</u> | <u>27,860</u> | <u>40,975</u> |
| <u>Cost of sales</u> | | | |
| Per aggregation of financial statements of individual entities | 29,529 | 44,867 | 58,561 |
| Elimination of intercompany purchases (i) | (11,066) | (28,113) | (36,933) |
| Per proforma consolidated financial statements of the Group | <u>18,463</u> | <u>16,754</u> | <u>21,628</u> |

- (i) Elimination of intercompany sales and purchases between Superior HK, Silver Star and Superior Huizhou.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

4. SALES

Analysis of the Group's sales are as follows:

| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|----------------------------------|------------------|------------------|------------------|
| Sales of fasteners | 18,065 | 23,763 | 35,911 |
| Surface treatment service income | 5,761 | 4,097 | 5,064 |
| | <u>23,826</u> | <u>27,860</u> | <u>40,975</u> |

5. SEGMENTAL INFORMATION

In accordance with the Company's internal financial reporting, the Company has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

Primary reporting segment — Business segments

The Group is primarily engaged in two business segments, fasteners (manufacturing of screws) and surface treatment (provision of eletro-plating services). The Group adopts these two business segments as the basis for its primary segment information. Details of the segmental information for the years ended 31st March 2001, 2002 and 2003 are presented below:

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

Results by business segments

A-15

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

Secondary reporting segment — Geographical segments

A-16

| Results by geographical segments | | | | | | | | |
|----------------------------------|--------------------------|------------------------------------|---------------------|--------------------------|------------------------------------|---------------------|--------------------------|------------------------------------|
| 2001 | | | 2002 | | | 2003 | | |
| Revenue HK\$'000 | Total assets HK\$'000 | Capital expenditure HK\$'000 | Revenue HK\$'000 | Total assets HK\$'000 | Capital expenditure HK\$'000 | Revenue HK\$'000 | Total assets HK\$'000 | Capital expenditure HK\$'000 |
| 19,463 | 16,612 | 9,985 | 23,094 | 20,922 | 3,072 | 31,836 | 29,340 | 5,249 |
| 2,370 | 557 | — | 3,476 | 2,279 | — | 6,995 | 4,872 | — |
| 1,993 | 300 | — | 1,290 | 220 | — | 2,144 | 327 | — |
| 23,826 | 17,469 | 9,985 | 27,860 | 23,421 | 3,072 | 40,975 | 34,539 | 5,249 |

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

6. OPERATING PROFIT

Operating profit of the Group is arrived at after charging/(crediting) the following:

| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|------------------|
| Cost of inventories sold | 18,463 | 16,754 | 21,628 |
| Staff costs (note 8) | 2,608 | 3,926 | 4,509 |
| Depreciation on property, plant and equipment | | | |
| — owned assets | 614 | 621 | 919 |
| — leased assets under finance leases | 131 | 466 | 525 |
| Operating lease rental on property | 352 | 517 | 532 |
| Auditors' remuneration | | | |
| — auditors of the Company | 100 | 100 | 100 |
| — other auditors | 37 | 6 | 21 |
| Repairs and maintenance expense on property, plant and machinery | 52 | 169 | 150 |
| Profit on disposal of property, plant and equipment | — | — | (74) |
| Trade receivables — impairment charge for bad and doubtful debts | 5 | 278 | — |
| | <u>5</u> | <u>278</u> | <u>—</u> |

7. FINANCE COSTS, NET

| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|---------------------------------------|------------------|------------------|------------------|
| Interest expense on | | | |
| — bank overdrafts | 8 | 91 | 114 |
| — long-term bank loans | 95 | 140 | 157 |
| — finance lease liabilities | 47 | 158 | 170 |
| | <u>150</u> | <u>389</u> | <u>441</u> |
| Interest income on bank deposits | (4) | (2) | — |
| Net foreign exchange transaction gain | (15) | (13) | (44) |
| | <u>131</u> | <u>374</u> | <u>397</u> |

8. STAFF COSTS

| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|------------------|
| Wages and salaries | 2,588 | 3,857 | 4,419 |
| Pension costs — defined contribution plans | 20 | 69 | 90 |
| | <u>2,608</u> | <u>3,926</u> | <u>4,509</u> |
| Number of full-time employees at end of year | <u>167</u> | <u>187</u> | <u>255</u> |

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

9. TAXATION

| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|--------------------------|------------------|------------------|------------------|
| — Current tax | 104 | 145 | 820 |
| — Deferred tax (note 18) | 26 | 80 | (25) |
| | <u>130</u> | <u>225</u> | <u>795</u> |

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of Hong Kong, the country of the Group's main operation, as follows:

| | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|------------------|
| Profit before taxation | 292 | 2,791 | 11,184 |
| Tax calculated at a tax rate of 16% | 47 | 447 | 1,789 |
| Effect of different tax rates in other countries | (36) | 177 | 598 |
| Income not subject to tax | — | (392) | (1,569) |
| Utilisation of previously unrecognised temporary differences (i) | — | (107) | — |
| Temporary differences not recognised (i) | 107 | — | — |
| Others | 12 | 100 | (23) |
| Taxation | <u>130</u> | <u>225</u> | <u>795</u> |

- (i) The temporary differences not recognised represent the accumulated tax losses of a subsidiary incurred for the year ended 31st March 2001. Subsequently, the accumulated tax losses have been utilised by the subsidiary in the year ended 31st March 2002.
- (ii) The Company is incorporated under the laws of Bermuda and, under the current Bermuda laws, it is not subject to tax on income or capital gains.
- (iii) Certain subsidiaries of the Company are incorporated in the British Virgin Islands which are also not subject to tax on income or capital gains.
- (iv) Hong Kong profits tax has been provided for subsidiaries incorporated in Hong Kong at the rate of 16% on the estimated assessable profit for the year for the financial years ended 31st March 2001, 2002 and 2003.
- (v) A subsidiary is incorporated in the PRC and is subject to the Enterprise Income Tax (the "EIT") of the People's Republic of China ("PRC") at an EIT rate of 24% on taxable profits. The subsidiary is exempted from PRC EIT in the first two profit making years followed by a 50% reduction for the consecutive three years thereafter. The first profit making year occurred in the calendar year ended 31st December 2001 after offsetting the accumulated tax losses carried forward.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

10. EARNINGS PER SHARE

Earnings per share for the financial years ended 31st March 2001, 2002 and 2003 are based on the profit attributable to shareholders of the Company and on the basis that at the end of each financial year, the issued share capital of the Company comprised 79,296,200 ordinary shares of HK17 cents each which represents the pre-invitation share capital of the Company.

As there are no dilutive potential ordinary shares during the years and as at the end of each year under review, no diluted earnings per share is presented.

11. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The following significant transactions with related parties took place during financial years ended 31st March 2001, 2002 and 2003 at terms agreed between the parties as follows:

| | Note | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 |
|--|-------|------------------|------------------|------------------|
| Purchase of used heading and threading machines from a related party | (i) | 1,537 | — | — |
| Subcontracting fees to a related party | (ii) | 5,090 | — | — |
| Sale of building to a related party | (iii) | — | — | 800 |
| Sales of goods to a related party | (iv) | — | 1,621 | 5,868 |
| Directors' emoluments — fees | (v) | 760 | 760 | 760 |
| Contributions to defined contribution plans for directors | (vi) | 8 | 24 | 24 |

- (i) During the financial year ended 31st March 2001, the Group purchased certain used heading and threading machines from Superior Cassette Screws Manufacturers Ltd. ("SCSML") for a consideration of HK\$1,537,000. SCSML is a company which is jointly and equally owned by Mr Lam Tak Shing and Mr Tang Yuk Fung, our Executive Directors.
- (ii) Subcontracting fees to a processing plant, in which two of the directors of the Company had interests, for processing services rendered to the Group. This processing plant had ceased operations since September 2000.
- (iii) During the financial year ended 31st March 2003, the Group disposed of a building to a related party, Ms Lam Mei Lin, sibling of Mr Lam Tak Shing at a consideration of HK\$800,000. The consideration was based on commercial terms and conditions and at market prices.
- (iv) Sales of goods to a related party represent those to Superior Screws (S) Pte Ltd. The consideration was based on commercial terms and conditions and at market prices. Mr Lam Tak Shing and Ms Kwan Suk Yee, our Executive Directors, own in aggregate 66% of the capital in Superior Screws (S) Pte Ltd.
- (v) Directors' fees are paid to Mr Lam Tak Shing and Mr Tang Yuk Fung at amount of HK\$760,000 per annum.
- (vi) Contributions to defined contribution plans for the directors have been made at HK\$2,000 per month from December 2000.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

11. RELATED PARTY TRANSACTIONS (*cont'd*)

- (vii) As at 31st March 2003, balances with related parties were non-interest bearing, unsecured and repayable within the next twelve months.
- (viii) As at 31st March 2003, balances with directors were non-interest bearing, unsecured and repayable within the next twelve months.

12. INVENTORIES

| | 2003 HK\$'000 |
|---------------------------|------------------|
| Raw materials, at cost | 595 |
| Work-in-progress, at cost | 251 |
| Finished goods, at cost | 1,768 |
| | <u>2,614</u> |

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2003 HK\$'000 |
|---|------------------|
| Other receivables | 182 |
| Deposits for rental, utility, property, plant and equipment | 1,447 |
| Prepayments | 860 |
| | <u>2,489</u> |

14. PROPERTY, PLANT AND EQUIPMENT

| | Building HK\$'000 | Leasehold improvement HK\$'000 | Plant and machinery HK\$'000 | Furniture and fixtures HK\$'000 | Motor vehicles HK\$'000 | Computer software HK\$'000 | Total HK\$'000 |
|---|----------------------|--------------------------------------|------------------------------------|---------------------------------------|-------------------------------|----------------------------------|-------------------|
| Net book value as at 1st April 2002 | 726 | 4,816 | 4,678 | 278 | 672 | 56 | 11,226 |
| Additions | — | 2,256 | 2,337 | 176 | 88 | 392 | 5,249 |
| Disposals | (726) | — | — | — | — | — | (726) |
| Depreciation charge for the year | — | (380) | (702) | (90) | (152) | (120) | (1,444) |
| Net book value as at 31st March 2003 | <u>—</u> | <u>6,692</u> | <u>6,313</u> | <u>364</u> | <u>608</u> | <u>328</u> | <u>14,305</u> |
| At 31st March 2003 | | | | | | | |
| Cost | — | 7,607 | 7,866 | 590 | 958 | 482 | 17,503 |
| Accumulated depreciation | — | (915) | (1,553) | (226) | (350) | (154) | (3,198) |
| Net book value | <u>—</u> | <u>6,692</u> | <u>6,313</u> | <u>364</u> | <u>608</u> | <u>328</u> | <u>14,305</u> |

Note:

The cost, accumulated depreciation and net book value of property, plant and equipment of the Group as at 31st March 2003 included assets held under finance leases of approximately HK\$5,184,000, HK\$1,455,000 and HK\$3,729,000 respectively.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

15. OTHER PAYABLES AND ACCRUALS

| | 2003 HK\$'000 |
|----------------------------|------------------|
| Other payables | 2,488 |
| Accrued salaries | 1,009 |
| Accrued professional fees | 300 |
| Accrued operating expenses | 771 |
| Other accruals | 3,178 |
| | <u>7,746</u> |

16. BORROWINGS

| | 2003 HK\$'000 |
|--|------------------|
| Current | |
| Bank overdrafts | 2,354 |
| Long-term bank loans | 585 |
| | <u>2,939</u> |
| Non-current | |
| Long-term bank loans (repayable later than 1 and not later than 5 years) | 139 |
| | <u>3,078</u> |

The effective annual interest rates at the balance sheet date were as follows:

| | 2003 |
|----------------------|------|
| Bank overdrafts | 7% |
| Long-term bank loans | 7% |

17. FINANCE LEASE LIABILITIES

| | 2003 HK\$'000 |
|--|------------------|
| Finance lease liabilities — minimum lease payments: | |
| Not later than 1 year | 1,684 |
| Later than 1 year and not later than 5 years | 583 |
| | <u>2,267</u> |
| Future finance charges on finance leases | (181) |
| Present value of finance lease liabilities | <u>2,086</u> |
| The present value of finance lease liabilities is as follows: | |
| Not later than 1 year | 1,571 |
| Later than 1 year and not later than 5 years | 515 |
| | <u>2,086</u> |

The effective annual interest rate of finance lease liabilities as at 31st March 2003 is 10%.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

18. DEFERRED TAXATION

Deferred taxation represents the tax effects of temporary differences of accelerated depreciation allowances as follows:

| | 2003 HK\$'000 |
|---|------------------|
| As at 1st April 2002 | 106 |
| Transfer to proforma consolidated income statement (note 9) | (25) |
| As at 31st March 2003 | <u>81</u> |

19. SHARE CAPITAL

| | 2003 HK\$'000 |
|--|------------------|
| Authorised: 12,000 ordinary shares of US\$1 each | <u>94</u> |
| Issued and not yet paid: 12,000 ordinary shares of US\$1 each | <u>94</u> |

20. RESERVES

| | PRC statutory reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
|---|---|----------------------------------|-------------------|
| Balance at 1st April 2002 | 178 | 2,914 | 3,092 |
| Net profit attributable to shareholders | — | 10,389 | 10,389 |
| Transfer (i) | <u>727</u> | <u>(727)</u> | <u>—</u> |
| Balance at 31st March 2003 | <u>905</u> | <u>12,576</u> | <u>13,481</u> |

- (i) In accordance with the “Law of the PRC on Enterprises Operated Exclusively with Foreign Capital” and the PRC subsidiary’s Articles of Association, an appropriation of the Reserve Fund and the Staff and Workers’ Bonus and Welfare Fund from profit after tax having set off accumulated losses of previous years in advance have to be made prior to profit distribution to the equity owners. The appropriation for the Reserve Fund is no less than 10% of the profit after tax and it will cease to accrue when the accumulated appropriation exceeds 50% of the registered capital. The percentage of appropriation to the Staff and Workers’ Bonus and Welfare Fund is decided by the PRC subsidiary and charged to income statement as expenses.

For the year ended 31st March 2003, the PRC subsidiary appropriated approximately HK\$727,000 as Reserve Fund and no appropriation to Staff and Workers’ Bonus and Welfare Fund.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

21. COMMITMENTS

(i) Capital commitments

Capital commitments for property, plant and equipment:

| | 2003 HK\$'000 |
|-----------------------------------|------------------|
| Authorised but not contracted for | 5,094 |

The Group entered into a letter of intention dated 1st October 2002 for the renovation of buildings in Huizhou, the PRC. As at 31st March 2003, 10% of the total construction sum of HK\$5,660,000 was paid as deposits but the formal construction agreement had not been signed.

(ii) Operating lease commitments

As at 31st March 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 2003 HK\$'000 |
|--|------------------|
| Not later than 1 year | 535 |
| Later than 1 year and not later than 5 years | 1,651 |
| Later than 5 years | 9,722 |
| | <u>11,908</u> |

22. FINANCIAL INSTRUMENTS

(i) Financial risk factors

The Group's activities expose it to certain financial risks, including the effects of foreign currency exchange rates and interest rates.

Risk management is carried out by the Board of Directors. The Board of Directors identifies, evaluates and hedges, where applicable, financial risks in close co-operation with the Group.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Hong Kong dollars, United States dollars and Renminbi.

The Group's results of operations may be affected by changes in value of currencies other than Hong Kong dollars, depending on currencies of its foreign currency denominated receipts and obligations.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS (cont'd)

(i) Financial risk factors (cont'd)

(b) Interest rate risk

The Group's income and operating cash flows may be affected by substantial changes in market interest rates. The Group has no significant interest-bearing assets but enters into bank borrowings and finance leases from time to time. Interest rates applicable to the Group's borrowings and finance leases are disclosed in notes 16 and 17.

(c) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of available credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

(ii) Fair value estimation

Financial assets of the Group include cash and cash equivalents, trade receivables, other receivables and amounts due from related parties. Financial liabilities of the Group include bank overdrafts, trade payables, other payables and accruals, amounts due to related parties, long-term bank loans and finance lease liabilities.

There are no material differences between the fair values and carrying amounts of the Group's financial assets and financial liabilities.

23. BANKING FACILITIES

Aggregate banking facilities as at 31st March 2003 were approximately HK\$4,250,000 of which the unused facilities as at the same date amounted to approximately HK\$855,000. The facilities related to overdrafts, loans and trade financing and were secured by:

- (i) personal guarantees of the directors;
- (ii) unlimited joint and several guarantees of the directors; and
- (iii) several properties owned by the directors.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

24. SUBSEQUENT EVENTS

- (a) Pursuant to a Sale and Purchase Agreement dated 31st October 2003, the Company acquired the entire issued share capital of Chain Dragon, Silver Star and Superior HK from Mr. Lam Tak Shing and Mr. Tang Yuk Fung for a total consideration of HK\$13,480,354, based on the aggregate of the audited Net Tangible Asset value of Chain Dragon and its subsidiary, Silver Star and Superior HK of HK\$9,030,142, HK\$695,824, HK\$3,754,388 respectively as at 31st March 2003.

The Company directed Mr. Lam Tak Shing and Mr. Tang Yuk Fung to transfer their shares in the following companies to the respective intermediate holding companies:

| Name of company acquired | Intermediate holding company to hold shares in company acquired |
|---------------------------------|--|
| Chain Dragon | Billion East |
| Silver Star | Sportmax |
| Superior HK | Newsy Global |

The consideration for Chain Dragon, Silver Star and Superior HK was satisfied by: (i) the allotment and issue of a total of 13,386,754 ordinary shares of HK\$1.00 each in the Company, and (ii) the crediting as fully paid of the existing 93,600 ordinary shares of HK\$1.00 each in the Company.

On 31st October 2003, the Company acquired the entire issued share capital of Superior Fasteners (S) Pte. Ltd. from Mr Lam Tak Shing and Mr Tang Yuk Fung for a total consideration of S\$2.00, based on the par value of the shares acquired. The consideration for Superior Fasteners (S) Pte. Ltd. was satisfied in cash.

- (b) On 14th August 2003, the authorised share capital of the Company was altered from US\$12,000 comprising 12,000 ordinary shares of US\$1.00 each to become HK\$93,600 comprising 93,600 ordinary shares of HK\$1.00 each. Pursuant to written resolutions in lieu of a Special General Meeting dated 27th October 2003, the sole shareholder of the Company approved, amongst others, the following:
- (i) the increase in the authorised share capital of the Company from HK\$93,600 divided into 93,600 ordinary shares of HK\$1.00 each to HK\$99,999,984 divided into 99,999,984 ordinary shares of HK\$1.00 each;
 - (ii) the allotment and issue of 13,386,754 new ordinary shares of HK\$1.00 each and the crediting as fully-paid the 93,600 existing issued but nil-paid ordinary shares of HK\$1.00 each in the Company in connection with the Restructuring Exercise, the details of which are set out on pages 54 and 55 of the prospectus;
 - (iii) the consolidation of 17 ordinary shares of HK\$1.00 each in the authorised and issued share capital of the Company into one ordinary share of HK\$17.00 each;
 - (iv) the sub-division of every one ordinary share of HK\$17.00 each in the authorised and issued share capital of the Company into 100 ordinary shares of HK\$0.17 each;
 - (v) the allotment and issue of 25,000,000 new shares for which the Company invites applications to subscribe (the "New Shares"). The New Shares, when issued and fully paid-up, will rank pari passu in all respects with the existing issued and fully paid-up Shares; and
 - (vi) the adoption of the Superior Fasteners Employee Share Option Scheme.

SUPERIOR FASTENING TECHNOLOGY LIMITED

NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

24. SUBSEQUENT EVENTS (*cont'd*)

- (c) On 15th August 2003, the Company incorporated a wholly-owned subsidiary, Superior Metal Hardware Products (Huizhou) Ltd., in the People's Republic of China with a registered capital of HK\$3 million.

25. DIVIDENDS

No dividends have been declared or paid by the Company since its incorporation.

**AUDITED FINANCIAL STATEMENTS OF SUPERIOR SCREWS
MANUFACTURERS LIMITED FOR THE PERIOD/
YEARS ENDED 31 MARCH 2001, 2002 AND 2003**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF SUPERIOR SCREWS MANUFACTURERS LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the accompanying balance sheets of Superior Screws Manufacturers Limited (the "Company") as of 31st March 2001, 2002 and 2003 and the related income and cash flow statements for the period/years then ended. These financial statements set out on pages B-2 to B-18 are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Company as of 31st March 2001, 2002 and 2003 and of the results of its operations and its cash flows for the period/years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30th May 2003

SUPERIOR SCREWS MANUFACTURERS LIMITED

BALANCE SHEETS AS AT 31ST MARCH 2001, 2002 AND 2003

| | Note | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|------|------------------|-------------------|-------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and bank balances | | 123,243 | 307,713 | 128,372 |
| Trade receivables | | 5,242,845 | 6,287,971 | 5,741,494 |
| Other receivables, deposits and prepayments | | 80,401 | 158,851 | 1,833,705 |
| Due from related parties | 9 | 269,437 | 2,281,720 | 5,268,432 |
| Due from directors | 10 | 393,247 | 174,489 | 602,997 |
| | | <u>6,109,173</u> | <u>9,210,744</u> | <u>13,575,000</u> |
| Non-current assets | | | | |
| Property, plant and equipment | 8 | <u>1,130,091</u> | <u>1,658,190</u> | <u>1,067,440</u> |
| Total assets | | <u>7,239,264</u> | <u>10,868,934</u> | <u>14,642,440</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities | | | | |
| Bank overdrafts | | 255,816 | 2,171,068 | 2,354,061 |
| Trade payables and bills payable | | 3,600,008 | 3,570,723 | 3,908,201 |
| Other payables and accruals | | 453,698 | 339,166 | 440,923 |
| Due to a director | 10 | — | 322,576 | 512,434 |
| Current portion of long-term bank loans | 11 | 357,725 | 433,333 | 585,607 |
| Current portion of finance lease liabilities | 11 | 1,176,783 | 1,934,641 | 1,570,073 |
| Tax payable | | 78,535 | 181,559 | 781,559 |
| | | <u>5,922,565</u> | <u>8,953,066</u> | <u>10,152,858</u> |
| Non-current liabilities | | | | |
| Long-term bank loans | 11 | 269,512 | 229,167 | 139,393 |
| Finance lease liabilities | 11 | 519,911 | 894,172 | 514,801 |
| Deferred taxation | 12 | 26,000 | 106,000 | 81,000 |
| | | <u>815,423</u> | <u>1,229,339</u> | <u>735,194</u> |
| Total liabilities | | <u>6,737,988</u> | <u>10,182,405</u> | <u>10,888,052</u> |
| Shareholders' equity | | | | |
| Share capital | 13 | 2 | 2 | 2 |
| Retained earnings | | 501,274 | 686,527 | 3,754,386 |
| | | <u>501,276</u> | <u>686,529</u> | <u>3,754,388</u> |
| Total liabilities and shareholders' equity | | <u>7,239,264</u> | <u>10,868,934</u> | <u>14,642,440</u> |

Lam Tak Shing
Director

Tang Yuk Fung
Director

SUPERIOR SCREWS MANUFACTURERS LIMITED

INCOME STATEMENTS FOR THE PERIOD/YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | Note | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-------------------------------------|-------|--|--------------|--------------|
| Sales | 2, 16 | 18,154,795 | 23,982,961 | 36,169,969 |
| Cost of sales | 16 | (14,035,045) | (18,416,425) | (27,805,788) |
| Gross profit | | 4,119,750 | 5,566,536 | 8,364,181 |
| Selling and distribution expenses | | (569,690) | (568,534) | (536,729) |
| General and administrative expenses | | (2,801,835) | (4,249,624) | (3,759,442) |
| Operating profit | 3 | 748,225 | 748,378 | 4,068,010 |
| Finance costs, net | 4 | (142,416) | (380,101) | (425,151) |
| Profit before taxation | | 605,809 | 368,277 | 3,642,859 |
| Taxation | 5 | (104,535) | (183,024) | (575,000) |
| Net profit for the period/year | | 501,274 | 185,253 | 3,067,859 |

SUPERIOR SCREWS MANUFACTURERS LIMITED

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD/YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 | 2002 | 2003 |
|---|--|----------------|------------------|
| | HK\$ | HK\$ | HK\$ |
| On incorporation/total equity as at 1st April | — | 501,276 | 686,529 |
| Issue of shares | 2 | — | — |
| Net profit for the period/year | 501,274 | 185,253 | 3,067,859 |
| Total equity as at 31st March | <u>501,276</u> | <u>686,529</u> | <u>3,754,388</u> |

SUPERIOR SCREWS MANUFACTURERS LIMITED

CASH FLOW STATEMENTS FOR THE PERIOD/YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | Note | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|-------|--|--------------------|--------------------|
| Cash flows from operating activities | | | | |
| Cash generated from operations | 14(a) | 327,633 | 311,472 | 2,724,798 |
| Interest paid | | (103,370) | (230,941) | (271,275) |
| Net cash from operating activities | | <u>224,263</u> | <u>80,531</u> | <u>2,453,523</u> |
| Cash flows from investing activities | | | | |
| Purchase of property, plant and equipment | | (284,352) | (68,360) | (162,495) |
| Interest received | | 4,113 | 1,166 | 55 |
| Net cash used in investing activities | | <u>(280,239)</u> | <u>(67,194)</u> | <u>(162,440)</u> |
| Cash flow from financing activities | | | | |
| Issuance of ordinary shares | | 2 | — | — |
| New loans payable | | 850,000 | 500,000 | 700,000 |
| Repayment of amounts borrowed | | (222,763) | (464,737) | (637,500) |
| Interest element of finance lease rental payments | | (46,965) | (157,618) | (170,178) |
| Capital element of finance lease payments | | (656,871) | (1,621,764) | (2,545,739) |
| Net cash used in financing activities | | <u>(76,597)</u> | <u>(1,744,119)</u> | <u>(2,653,417)</u> |
| Decrease in cash and cash equivalents | | (132,573) | (1,730,782) | (362,334) |
| Cash and cash equivalents at 1st April | | — | (132,573) | (1,863,355) |
| Cash and cash equivalents at 31st March | | <u>(132,573)</u> | <u>(1,863,355)</u> | <u>(2,225,689)</u> |
| Analysis of the balances of cash and cash equivalents | | | | |
| Cash and bank balances | | 123,243 | 307,713 | 128,372 |
| Bank overdrafts | | (255,816) | (2,171,068) | (2,354,061) |
| | | <u>(132,573)</u> | <u>(1,863,355)</u> | <u>(2,225,689)</u> |

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

(b) Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer upon delivery of goods.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

(c) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation for building and leasehold improvement is calculated on the straight-line method to write off the cost over the lease term. Depreciation of other property, plant and equipment is calculated on the following rates to write off the cost of each asset to their residual values:

| | |
|------------------------|---|
| Building | Shorter of useful lives or over the lease periods |
| Leasehold improvement | Shorter of useful lives or over the lease periods |
| Furniture and fixtures | 20% diminishing balance method |
| Motor vehicles | 20% diminishing balance method |
| Computer software | 25% straight-line method |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. Major renovations are depreciated over the remaining useful life of the related assets.

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (*cont'd*)

(d) Impairment of long lived assets

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(e) Leases

(i) *Finance leases*

Leases that substantially transfer to the Company all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the income statements over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Operating leases*

Leases where a significant portion of the risks and rewards of ownership is retained by the leasing company are accounted for as operating leases. Payments made under operating leases, net of any incentives received from the leasing company, are charged to the income statement on a straight-line basis over the period of the lease.

(f) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(g) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (*cont'd*)

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events that it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Employee benefits

The Company operates a defined contribution plan in Hong Kong. The pension plan is funded by payments from employees and by the Company. The plan covers full-time employees and provides for contributions of 5% of an employee's monthly basic salary. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

(k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (*cont'd*)

(l) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(m) Share capital

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(n) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(o) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction cost) and the redemption value is recognised in the income statement over the period of the borrowings.

(p) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, trade receivables and prepayments, trade and other payables and amounts due from/(to) related parties. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Details of financial instruments are set out in note 17.

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. SALES

The Company is engaged in the manufacturing and trading of fasteners. Revenues recognised during the period/year are as follows:

| | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 | 2002 | 2003 |
|--------------------|--|------------|------------|
| | HK\$ | HK\$ | HK\$ |
| Sales of fasteners | 18,154,795 | 23,982,961 | 36,169,969 |

3. OPERATING PROFIT

Operating profit of the Company is arrived at after charging/(crediting) the following:

| | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 | 2002 | 2003 |
|---|--|------------|------------|
| | HK\$ | HK\$ | HK\$ |
| Auditors' remuneration | 60,000 | 40,950 | 55,700 |
| Depreciation on property, plant and equipment | | | |
| — owned assets | 81,111 | 92,261 | 99,164 |
| — leased assets under finance leases | 30,000 | 168,000 | 186,216 |
| Operating lease rental on property | 115,882 | 191,363 | 210,162 |
| Staff costs (note 6) | 1,458,222 | 1,790,254 | 1,741,539 |
| Cost of inventories sold | 14,035,045 | 18,416,425 | 27,805,788 |
| Profit on disposal of property, plant and equipment | — | — | (73,835) |
| Bad debts written off | 4,934 | 233,860 | — |

4. FINANCE COSTS, NET

| | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 | 2002 | 2003 |
|---------------------------------------|--|---------|----------|
| | HK\$ | HK\$ | HK\$ |
| Interest expense on | | | |
| — bank overdrafts | 7,623 | 90,823 | 114,025 |
| — long-term bank loans | 95,747 | 140,118 | 157,250 |
| — finance leases liabilities | 46,965 | 157,618 | 170,178 |
| | 150,335 | 388,559 | 441,453 |
| Interest income on bank deposits | (4,113) | (1,166) | (55) |
| Net foreign exchange transaction gain | (3,806) | (7,292) | (16,247) |
| | 142,416 | 380,101 | 425,151 |

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. TAXATION

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the period/years ended 31st March 2001, 2002 and 2003.

| | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 | 2002 | 2003 |
|-----------------------------|--|----------------|----------------|
| | HK\$ | HK\$ | HK\$ |
| Hong Kong profits tax | 78,535 | 103,024 | 600,000 |
| Deferred taxation (note 12) | 26,000 | 80,000 | (25,000) |
| | <u>104,535</u> | <u>183,024</u> | <u>575,000</u> |

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the tax rate of Hong Kong, the country of the Company's main operation, as follows:

| | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 | 2002 | 2003 |
|-------------------------------------|--|----------------|----------------|
| | HK\$ | HK\$ | HK\$ |
| Profit before taxation | 605,809 | 368,277 | 3,642,859 |
| Tax calculated at a tax rate of 16% | 96,929 | 58,924 | 582,857 |
| Others | 7,606 | 124,100 | (7,857) |
| Taxation | <u>104,535</u> | <u>183,024</u> | <u>575,000</u> |

6. STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

| | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 | 2002 | 2003 |
|--|--|------------------|------------------|
| | HK\$ | HK\$ | HK\$ |
| Wages and salaries | 1,441,622 | 1,730,978 | 1,673,053 |
| Pension costs — defined contribution plan | 16,600 | 59,276 | 68,486 |
| | <u>1,458,222</u> | <u>1,790,254</u> | <u>1,741,539</u> |
| Number of full-time employees at end of year | <u>6</u> | <u>6</u> | <u>8</u> |

7. DIRECTORS' EMOLUMENTS

During the year ended 31st March 2003, the directors received fees amounting to HK\$760,000 (2002: HK\$760,000 and 2001: HK\$760,000) in respect of their services to the Company.

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT

| | Building HK\$ | Leasehold improvement HK\$ | Furniture and fixtures HK\$ | Motor vehicles HK\$ | Computer software HK\$ | Total HK\$ |
|---|------------------|----------------------------------|-----------------------------------|---------------------------|------------------------------|------------------|
| Period ended 31st March 2001 | | | | | | |
| On incorporation | — | — | — | — | — | — |
| Additions | 806,850 | 119,685 | 127,640 | 150,000 | 37,027 | 1,241,202 |
| Depreciation for the period | (40,342) | (5,984) | (25,528) | (30,000) | (9,257) | (111,111) |
| Net book value as at 31st March 2001 | <u>766,508</u> | <u>113,701</u> | <u>102,112</u> | <u>120,000</u> | <u>27,770</u> | <u>1,130,091</u> |
| At 31st March 2001 | | | | | | |
| Cost | 806,850 | 119,685 | 127,640 | 150,000 | 37,027 | 1,241,202 |
| Accumulated depreciation | (40,342) | (5,984) | (25,528) | (30,000) | (9,257) | (111,111) |
| Net book value | <u>766,508</u> | <u>113,701</u> | <u>102,112</u> | <u>120,000</u> | <u>27,770</u> | <u>1,130,091</u> |
| Year ended 31st March 2002 | | | | | | |
| Net book value as at 1st April 2001 | 766,508 | 113,701 | 102,112 | 120,000 | 27,770 | 1,130,091 |
| Additions | — | — | 16,700 | 720,000 | 51,660 | 788,360 |
| Depreciation for the year | (40,343) | (5,984) | (23,762) | (168,000) | (22,172) | (260,261) |
| Net book value as at 31st March 2002 | <u>726,165</u> | <u>107,717</u> | <u>95,050</u> | <u>672,000</u> | <u>57,258</u> | <u>1,658,190</u> |
| At 31st March 2002 | | | | | | |
| Cost | 806,850 | 119,685 | 144,340 | 870,000 | 88,687 | 2,029,562 |
| Accumulated depreciation | (80,685) | (11,968) | (49,290) | (198,000) | (31,429) | (371,372) |
| Net book value | <u>726,165</u> | <u>107,717</u> | <u>95,050</u> | <u>672,000</u> | <u>57,258</u> | <u>1,658,190</u> |
| Year ended 31st March 2003 | | | | | | |
| Net book value as at 1st April 2002 | 726,165 | 107,717 | 95,050 | 672,000 | 57,258 | 1,658,190 |
| Additions | — | — | 27,701 | — | 393,094 | 420,795 |
| Disposals | (726,165) | — | — | — | — | (726,165) |
| Depreciation for the year | — | (5,984) | (24,551) | (134,400) | (120,445) | (285,380) |
| Net book value as at 31st March 2003 | <u>—</u> | <u>101,733</u> | <u>98,200</u> | <u>537,600</u> | <u>329,907</u> | <u>1,067,440</u> |
| At 31st March 2003 | | | | | | |
| Cost | — | 119,685 | 172,041 | 870,000 | 481,781 | 1,643,507 |
| Accumulated depreciation | — | (17,952) | (73,841) | (332,400) | (151,874) | (576,067) |
| Net book value | <u>—</u> | <u>101,733</u> | <u>98,200</u> | <u>537,600</u> | <u>329,907</u> | <u>1,067,440</u> |

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT (*cont'd*)

- (i) The cost, accumulated depreciation and net book value of property, plant and equipment of the Company as at 31st March 2003 included assets held under finance leases of approximately HK\$1,004,000, HK\$330,000 and HK\$674,000 respectively (2002: HK\$870,000, HK\$198,000 and HK\$672,000 respectively; 2001: HK\$150,000, HK\$30,000 and HK\$120,000 respectively).
- (ii) During the year ended 31st March 2003, the Company entered into financial lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$1,801,800 (2002: HK\$2,753,883 and 2001: HK\$2,353,565), of which property, plant and equipment amounting to HK\$258,300 (2002: HK\$720,000 and 2001: HK\$150,000) were acquired for own use and HK\$1,543,500 (2002: HK\$2,033,883 and 2001: HK\$2,203,565) were acquired for the use by a related company.
- (iii) During the period ended 31st March 2001, a related party transferred a building with a net book value of HK\$806,850 to the Company. The building was disposed of to a related party during the year ended 31st March 2003 at a consideration of HK\$800,000. The amount remained unsettled as at 31st March 2003 and was included in amounts due from related parties.

9. DUE FROM RELATED PARTIES

The amounts due from related parties are unsecured, non-interest bearing and repayable within the next twelve months.

10. DUE FROM/(TO) DIRECTORS

Amounts due from/(to) directors are unsecured, non-interest bearing and repayable within the next twelve months.

11. LONG-TERM LIABILITIES

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|--------------|--------------|--------------|
| Long-term bank loans, unsecured | 627,237 | 662,500 | 725,000 |
| Finance lease liabilities | 1,696,694 | 2,828,813 | 2,084,874 |
| | 2,323,931 | 3,491,313 | 2,809,874 |
| Current portion of long-term liabilities | (1,534,508) | (2,367,974) | (2,155,680) |
| | 789,423 | 1,123,339 | 654,194 |

The long-term bank loans and finance lease liabilities are wholly repayable within five years.

The effective annual interest rates at the balance sheet date were as follows:

| | 2001 | 2002 | 2003 |
|---------------------------|------|------|------|
| Bank overdrafts | 11% | 7% | 7% |
| Bank borrowings | 13% | 11% | 7% |
| Finance lease liabilities | 12% | 12% | 10% |

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. LONG-TERM LIABILITIES (*cont'd*)

At 31st March 2001, 2002 and 2003, the Company's finance lease liabilities were repayable as follows:

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|-------------------------|-------------------------|-------------------------|
| Finance lease liabilities — minimum lease payments: | | | |
| Within one year | 1,316,484 | 2,147,129 | 1,683,731 |
| In the second year to fifth year | 581,623 | 997,606 | 583,236 |
| | <u>1,898,107</u> | <u>3,144,735</u> | <u>2,266,967</u> |
| Future finance charges on finance leases | (201,413) | (315,922) | (182,093) |
| Present value of finance lease liabilities | <u><u>1,696,694</u></u> | <u><u>2,828,813</u></u> | <u><u>2,084,874</u></u> |

The present value of finance lease liabilities is as follows:

| | | | |
|----------------------------------|-------------------------|-------------------------|-------------------------|
| Within one year | 1,176,783 | 1,934,641 | 1,570,073 |
| In the second year to fifth year | 519,911 | 894,172 | 514,801 |
| | <u><u>1,696,694</u></u> | <u><u>2,828,813</u></u> | <u><u>2,084,874</u></u> |

12. DEFERRED TAXATION

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|----------------------|-----------------------|----------------------|
| At 1st April | — | 26,000 | 106,000 |
| Transfer to income statement (note 5) | 26,000 | 80,000 | (25,000) |
| At 31st March | <u><u>26,000</u></u> | <u><u>106,000</u></u> | <u><u>81,000</u></u> |
| Provided in the accounts in respect of: | | | |
| Accelerated depreciation allowances | <u><u>26,000</u></u> | <u><u>106,000</u></u> | <u><u>81,000</u></u> |

13. SHARE CAPITAL

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--------------------------------------|----------------------|----------------------|----------------------|
| Authorised: | | | |
| 10,000 ordinary shares of HK\$1 each | <u><u>10,000</u></u> | <u><u>10,000</u></u> | <u><u>10,000</u></u> |
| Issued and fully paid: | | | |
| 2 ordinary shares of HK\$1 each | <u><u>2</u></u> | <u><u>2</u></u> | <u><u>2</u></u> |

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash generated from operations

| | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 | 2002 | 2003 |
|--|--|----------------|------------------|
| | HK\$ | HK\$ | HK\$ |
| Net profit | 501,274 | 185,253 | 3,067,859 |
| Adjustments for: | | | |
| Taxation | 104,535 | 183,024 | 575,000 |
| Depreciation | 111,111 | 260,261 | 285,380 |
| Profit on the disposal of property, plant and equipment | — | — | (73,835) |
| Interest income | (4,113) | (1,166) | (55) |
| Interest expense | 150,335 | 388,559 | 441,453 |
| Changes in working capital: | 863,142 | 1,015,931 | 4,295,802 |
| Trade receivables | (5,242,845) | (1,045,126) | 546,477 |
| Other receivables, deposits and prepayments | (80,401) | (78,450) | (1,674,854) |
| Due from related parties | 1,127,278 | 21,600 | (643,212) |
| Net due from/(to) directors | (393,247) | 541,334 | (238,650) |
| Trade payables and bills payable | 3,600,008 | (29,285) | 337,478 |
| Other payables and accruals | 453,698 | (114,532) | 101,757 |
| Cash generated from operations | <u>327,633</u> | <u>311,472</u> | <u>2,724,798</u> |

(b) Major non-cash transactions

- (i) During the year ended 31st March 2003, the Company entered into financial lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK\$1,801,800 (2002: HK\$2,753,883 and 2001: HK\$2,353,565), of which property, plant and equipment amounting to HK\$258,300 (2002: HK\$720,000 and 2001: HK\$150,000) were acquired for own use and HK\$1,543,500 (2002: HK\$2,033,883 and 2001: HK\$2,203,565) were acquired for the use by a related company.
- (ii) During the period ended 31st March 2001, a related party transferred a building with a net book value of HK\$806,850 to the Company. The building was disposed of to a related party during the year ended 31st March 2003 at a consideration of HK\$800,000. The amount remained unsettled as at 31st March 2003 and was included in amounts due from related parties.

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. OPERATING LEASE COMMITMENTS

At 31st March 2001, 2002 and 2003, the Company had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|----------------|----------------|----------------|
| Not later than one year | 149,196 | 115,449 | 221,556 |
| Later than one year and not later than five years | 106,746 | — | 164,160 |
| | <u>255,942</u> | <u>115,449</u> | <u>385,716</u> |

16. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

During the period/year, the Company undertook the following transactions with related parties at terms agreed between the parties:

| | Note | For the period from 9th March 1999 (date of incorporation) to 31st March 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|-------|--|--------------|----------------|
| Sales to a related company | (i) | — | 1,620,556 | 5,867,678 |
| Purchases from a related party | (ii) | 7,049,980 | 18,355,756 | 27,734,171 |
| Subcontracting fees to related parties | (iii) | 4,344,062 | 2,684,023 | 2,007,652 |
| Purchase of building from a related party | (iv) | 806,850 | — | — |
| Sale of building to a related party | (v) | <u>—</u> | <u>—</u> | <u>800,000</u> |

- (i) Sales were made to a related company, Superior Screws (S) Pte Ltd for trading of fasteners.
- (ii) The Company purchased fasteners manufactured by a related company, 卓越螺絲(惠州)工業有限公司.
- (iii) The Company paid surface treatment services fee to a related processing plant and a related company, Silver Star Electro-plating Co., Limited.
- (iv) During the period ended 31st March 2001, a related party, Ms Lam Mei Lin, sibling of Mr Lam Tak Shing transferred a building with a net book value of HK\$806,850 to the Company.
- (v) During the year ended 31st March 2003, the Company disposed of a building to a related party, Ms Lam Mei Lin, sibling of Mr Lam Tak Shing at a consideration of HK\$800,000. The consideration was based on commercial terms and conditions and at market prices
- (vi) The Company had undertaken to provide continuing financial support to Chain Dragon and its subsidiary to enable it to meet its liabilities as they fall due and to enable Chain Dragon and its subsidiary to continue operations in the foreseeable future.
- (vii) Amounts due from/(to) related parties and directors are non-interest bearing, unsecured and repayable within the next twelve months.

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. FINANCIAL INSTRUMENTS

(a) Financial risk factors

The Company's activities expose it to certain financial risks, including the effects of foreign currency exchange rates and interest rates.

Risk management is carried out by the Board of Directors. The Board of Directors identifies, evaluates and hedges, where applicable, financial risks in close co-operation with the Company.

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Hong Kong dollars, United States dollars and Renminbi.

The Company's results of operations may be affected by changes in value of currencies other than Hong Kong dollars, depending on currencies of its foreign currency denominated receipts and obligations.

(ii) Interest rate risk

The Company's income and operating cash flows are affected by changes in market interest rates. The Company has no significant interest-bearing assets but it enters into bank borrowings and finance leases from time to time.

(iii) Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of available adequate credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

Financial assets of the Company include cash and bank balances, trade receivables, other receivables, deposits and prepayments and amounts due from related parties. Financial liabilities of the Company include bank overdrafts, trade payables, other payables and accruals, amounts due to related parties, long-term bank loans and finance lease liabilities.

There are no material differences between the fair values and carrying amounts of the Company's financial assets and financial liabilities.

SUPERIOR SCREWS MANUFACTURERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18. BANKING FACILITIES

Aggregate banking facilities as at 31st March 2001, 2002 and 2003 were approximately HK\$4,500,000, HK\$5,250,000 and HK\$4,250,000 respectively of which the unused facilities as at the same date amounted to approximately HK\$4,070,000, HK\$2,324,000 and HK\$855,000 respectively. The facilities related to overdrafts, loans and trade financing and were secured by:

- (i) personal guarantees of the directors;
- (ii) unlimited joint and several guarantees of the directors; and
- (iii) several properties owned by the directors.

**AUDITED FINANCIAL STATEMENTS OF
SILVER STAR ELECTRO-PLATING CO., LIMITED
FOR THE YEARS ENDED 31 MARCH 2001, 2002 AND 2003**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF SILVER STAR ELECTRO-PLATING CO., LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the accompanying balance sheets of Silver Star Electro-Plating Co., Limited (the "Company") as of 31st March 2001, 2002 and 2003 and the related income and cash flow statements for the years then ended. These financial statements set out on pages C-2 to C-11 are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Company as of 31st March 2001, 2002 and 2003 and of the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30th May 2003

SILVER STAR ELECTRO-PLATING CO., LIMITED

BALANCE SHEETS AS AT 31ST MARCH 2001, 2002 AND 2003

| | Note | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|------|------------------|------------------|------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and bank balances | | 20,396 | 8,264 | 101,482 |
| Trade receivables | | 1,381,178 | 1,534,954 | 1,013,863 |
| Other receivables, deposits and prepayments | | 64,030 | 14,724 | 22,710 |
| Due from a related party | 9 | 3,172,261 | 4,857,003 | 7,840,397 |
| Prepaid tax | | 2,170 | — | 57,259 |
| Total assets | | <u>4,640,035</u> | <u>6,414,945</u> | <u>9,035,711</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities | | | | |
| Trade payables | | 251,038 | — | 8,400 |
| Other payables and accruals | | 72,612 | 52,064 | 166,500 |
| Due to related parties | 9 | 3,635,570 | 5,605,118 | 8,060,192 |
| Due to directors | 9 | 214,178 | 104,795 | 104,795 |
| Tax payable | | — | 16,396 | — |
| | | <u>4,173,398</u> | <u>5,778,373</u> | <u>8,339,887</u> |
| Shareholders' equity | | | | |
| Share capital | 8 | 2 | 2 | 2 |
| Retained earnings | | <u>466,635</u> | <u>636,570</u> | <u>695,822</u> |
| | | <u>466,637</u> | <u>636,572</u> | <u>695,824</u> |
| Total liabilities and shareholders' equity | | <u>4,640,035</u> | <u>6,414,945</u> | <u>9,035,711</u> |

Lam Tak Shing
Director

Tang Yuk Fung
Director

SILVER STAR ELECTRO-PLATING CO., LIMITED

INCOME STATEMENTS FOR THE YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | Note | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-------------------------------------|------|--------------|--------------|--------------|
| Sales | 2, 9 | 7,014,972 | 7,579,898 | 7,816,289 |
| Cost of sales | 9 | (6,563,519) | (7,073,935) | (7,190,987) |
| Gross profit | | 451,453 | 505,963 | 625,302 |
| Selling and distribution expenses | | (22,297) | (500) | (18,400) |
| General and administrative expenses | | (295,579) | (293,775) | (555,447) |
| Operating profit | 3 | 133,577 | 211,688 | 51,455 |
| Finance income | 4 | 456 | 15 | 27,797 |
| Profit before taxation | | 134,033 | 211,703 | 79,252 |
| Taxation | 5 | (25,372) | (41,768) | (20,000) |
| Profit for the year | | 108,661 | 169,935 | 59,252 |

SILVER STAR ELECTRO-PLATING CO., LIMITED

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | 2001 | 2002 | 2003 |
|-------------------------------|----------------|----------------|----------------|
| | HK\$ | HK\$ | HK\$ |
| Total equity as at 1st April | 357,976 | 466,637 | 636,572 |
| Profit for the year | 108,661 | 169,935 | 59,252 |
| Total equity as at 31st March | <u>466,637</u> | <u>636,572</u> | <u>695,824</u> |

SILVER STAR ELECTRO-PLATING CO., LIMITED

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|--------------|--------------|--------------|
| Cash flows from operating activities | | | |
| Net profit | 108,661 | 169,935 | 59,252 |
| Adjustments for: | | | |
| Taxation | 25,372 | 41,768 | 20,000 |
| Interest income | (456) | (15) | — |
| Changes in working capital: | | | |
| Inventories | 100,725 | — | — |
| Trade receivables | 343,976 | (153,776) | 521,091 |
| Other receivables, deposits and prepayments | 32,985 | 49,306 | (7,986) |
| Due from related parties and a director, net | (596,923) | 175,423 | (528,320) |
| Trade payables | 68,210 | (251,038) | 8,400 |
| Other payables and accruals | 11,412 | (20,548) | 114,436 |
| Cash generated from operations | 93,962 | 11,055 | 186,873 |
| Tax paid | (95,190) | (23,202) | (93,655) |
| Net cash (used in)/from operating activities | (1,228) | (12,147) | 93,218 |
| Cash flows from investing activities | | | |
| Interest received | 456 | 15 | — |
| (Decrease)/increase in cash and cash equivalents | (772) | (12,132) | 93,218 |
| Cash and cash equivalents at 1st April | 21,168 | 20,396 | 8,264 |
| Cash and cash equivalents at 31st March | 20,396 | 8,264 | 101,482 |
| Analysis of the balances of cash and cash equivalents | | | |
| Cash and bank balances | 20,396 | 8,264 | 101,482 |

SILVER STAR ELECTRO-PLATING CO., LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

(b) Revenue recognition

Revenue comprises the invoiced value for surface treatment services rendered. Revenue from rendering of services is recognised when services are performed.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

(c) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(d) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(e) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events that it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

SILVER STAR ELECTRO-PLATING CO., LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (*cont'd*)

(f) Employee benefits

The Company operates a defined contribution plan in Hong Kong. The pension plan is funded by payments from employees and by the Company. The plan covers full-time employees and provides for contributions of 5% of an employee's monthly basic salary. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

(g) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

(h) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Share capital

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

SILVER STAR ELECTRO-PLATING CO., LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(j) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(k) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Details of financial instruments are set out in note 10.

2. SALES

The Company is engaged in the provision of surface treatment services. Revenue recognised during the year is as follows:

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|--------------|--------------|--------------|
| Surface treatment services fee (note 9) | 7,014,972 | 7,579,898 | 7,816,289 |

3. OPERATING PROFIT

Operating profit of the Company is arrived at after charging the following:

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|------------------------|--------------|--------------|--------------|
| Auditors' remuneration | 36,800 | 25,000 | 25,000 |
| Staff costs (note 6) | 226,138 | 207,900 | 468,940 |
| Bad debts written off | — | 44,134 | — |

4. FINANCE INCOME

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---------------------------------------|--------------|--------------|--------------|
| Interest income on bank deposits | 456 | 15 | — |
| Net foreign exchange transaction gain | — | — | 27,797 |
| | 456 | 15 | 27,797 |

SILVER STAR ELECTRO-PLATING CO., LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. TAXATION

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the years ended 31st March 2001, 2002 and 2003.

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-----------------------|---------------|---------------|---------------|
| Hong Kong profits tax | <u>25,372</u> | <u>41,768</u> | <u>20,000</u> |

Deferred taxation has not been provided as there are no material temporary differences between profit as computed for taxation purposes and profit as stated in the financial statements.

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-------------------------------------|----------------|----------------|---------------|
| Profit before taxation | <u>134,033</u> | <u>211,703</u> | <u>79,252</u> |
| Tax calculated at a tax rate of 16% | <u>21,445</u> | <u>33,872</u> | <u>12,680</u> |
| Others | <u>3,927</u> | <u>7,896</u> | <u>7,320</u> |
| Taxation | <u>25,372</u> | <u>41,768</u> | <u>20,000</u> |

6. STAFF COSTS

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|----------------|----------------|----------------|
| Wages and salaries | 222,750 | 198,000 | 447,832 |
| Pension costs — defined contribution plan | <u>3,388</u> | <u>9,900</u> | <u>21,108</u> |
| | <u>226,138</u> | <u>207,900</u> | <u>468,940</u> |
| Number of full-time employees at end of year | <u>1</u> | <u>1</u> | <u>2</u> |

7. DIRECTORS' EMOLUMENTS

None of the directors received or will receive any fees or emoluments in respect of their services to the Company during the years ended 31st March 2001, 2002 and 2003.

8. SHARE CAPITAL

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--------------------------------------|---------------|---------------|---------------|
| Authorised: | | | |
| 10,000 ordinary shares of HK\$1 each | <u>10,000</u> | <u>10,000</u> | <u>10,000</u> |
| Issued and fully paid: | | | |
| 2 ordinary shares of HK\$1 each | <u>2</u> | <u>2</u> | <u>2</u> |

SILVER STAR ELECTRO-PLATING CO., LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

During the year, the Company undertook the following transactions with related parties at terms agreed between the parties:

| | Note | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-------------------------------------|------|--------------|--------------|--------------|
| Services fee from a related company | (i) | 1,033,141 | 2,684,023 | 2,007,652 |
| Services fee to related parties | (ii) | 4,761,889 | 7,073,935 | 7,190,987 |

- (i) Services fee from a related company, Superior Screws Manufacturers Limited, for surface treatment services provided.
- (ii) Services fee to a related processing plant and a related company, 卓越螺絲(惠州)工業有限公司.
- (iii) Amounts due from/(to) related parties and directors are non-interest bearing, unsecured and repayable within the next twelve months.

10. FINANCIAL INSTRUMENTS

(i) Financial risk factors

The Company's activities expose it to certain financial risks, including the effects of foreign currency exchange rates and interest rates.

Risk management is carried out by the Board of Directors. The Board of Directors identifies, evaluates and hedges, where applicable, financial risks in close co-operation with the Company.

(a) Foreign exchange risk

The Company operates in Hong Kong but is exposed to foreign exchange risk primarily arising from Renminbi denominated transactions with respect to Hong Kong dollars and Renminbi.

The Company's results of operations may be affected by changes in value of the Renminbi.

(b) Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets and it enters into bank borrowings from time to time.

(c) Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

SILVER STAR ELECTRO-PLATING CO., LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INSTRUMENTS *(cont'd)*

(i) Financial risk factors *(cont'd)*

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through related companies and the ability to close out market positions. The Company relies on related companies to provide sufficient funding, where necessary.

(ii) Fair value estimation

Financial assets of the Company include cash and bank balances, trade receivables, other receivables, deposits and prepayments and amounts due from related parties. Financial liabilities of the Company include bank overdrafts, trade payables, other payables and accruals and amounts due to related parties.

There are no material differences between the fair values and carrying amounts of the Company's financial assets and financial liabilities.

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**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF
CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY
FOR THE YEARS ENDED 31 MARCH 2001, 2002 AND 2003**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF CHAIN DRAGON ASIA LIMITED**

(Incorporated in Hong Kong with limited liability)

We have audited the accompanying consolidated balance sheets of Chain Dragon Asia Limited (the "Company") and its subsidiary (the "Group") as of 31st March 2001, 2002 and 2003 and the related consolidated income statements and consolidated cash flow statements for the years then ended. These financial statements set out on pages D-2 to D-16 are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial positions of the Group as of 31st March 2001, 2002 and 2003 and of the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30th May 2003

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

CONSOLIDATED BALANCE SHEETS AS AT 31ST MARCH 2001, 2002 AND 2003

| | Note | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|-------|-------------------|-------------------|-------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 1,370 | 625,656 | 677,698 |
| Inventories | 9 | 979,042 | 1,198,742 | 2,613,835 |
| Other receivables, deposits and prepayments | 10 | 49,150 | 75,938 | 625,408 |
| Due from a related party | 6(iv) | 1,386,175 | 3,393,638 | 5,854,125 |
| Due from a director | 6(v) | 4,625 | 2,578 | 1,013,524 |
| | | <u>2,420,362</u> | <u>5,296,552</u> | <u>10,784,590</u> |
| Non-current assets | | | | |
| Property, plant and equipment | 7 | <u>8,110,163</u> | <u>9,567,498</u> | <u>13,237,505</u> |
| Total assets | | <u>10,530,525</u> | <u>14,864,050</u> | <u>24,022,095</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities | | | | |
| Trade payables | | 571,505 | 1,603,017 | 1,261,510 |
| Other payables and accruals | 11 | 3,289,677 | 4,911,744 | 7,138,652 |
| Due to related parties | 6(iv) | 7,111,403 | 6,580,264 | 6,391,791 |
| Tax payable | | — | — | 200,000 |
| | | <u>10,972,585</u> | <u>13,095,025</u> | <u>14,991,953</u> |
| Shareholders' equity | | | | |
| Share capital | 12 | 2 | 2 | 2 |
| Reserves | 13 | <u>(442,062)</u> | <u>1,769,023</u> | <u>9,030,140</u> |
| | | <u>(442,060)</u> | <u>1,769,025</u> | <u>9,030,142</u> |
| Total liabilities and shareholders' equity | | <u>10,530,525</u> | <u>14,864,050</u> | <u>24,022,095</u> |

Lam Tak Shing
Director

Tang Yuk Fung
Director

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | Note | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-------------------------------------|------|-------------------------|-------------------------|-------------------------|
| Sales | 6(i) | 9,721,362 | 24,411,178 | 33,921,592 |
| Cost of sales | | <u>(8,930,813)</u> | <u>(19,377,592)</u> | <u>(23,564,144)</u> |
| Gross profit | | 790,549 | 5,033,586 | 10,357,448 |
| Selling and distribution expenses | | (283,979) | (575,637) | (713,591) |
| General and administrative expenses | | <u>(966,023)</u> | <u>(2,253,573)</u> | <u>(2,182,926)</u> |
| Operating (loss)/profit | 2 | (459,453) | 2,204,376 | 7,460,931 |
| Finance income | 3 | <u>11,393</u> | <u>6,709</u> | <u>186</u> |
| (Loss)/profit before taxation | | (448,060) | 2,211,085 | 7,461,117 |
| Taxation | 5 | <u>—</u> | <u>—</u> | <u>(200,000)</u> |
| Net (loss)/profit for the year | | <u><u>(448,060)</u></u> | <u><u>2,211,085</u></u> | <u><u>7,261,117</u></u> |

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | Share capital HK\$ | Reserves HK\$ | Total HK\$ |
|-----------------------------------|--------------------------|------------------|------------------|
| Year ended 31st March 2001 | | | |
| Balance at 1st April 2000 | 2 | 5,998 | 6,000 |
| Net loss for the year | — | (448,060) | (448,060) |
| Balance at 31st March 2001 | <u>2</u> | <u>(442,062)</u> | <u>(442,060)</u> |
| Year ended 31st March 2002 | | | |
| Balance at 1st April 2001 | 2 | (442,062) | (442,060) |
| Net profit for the year | — | 2,211,085 | 2,211,085 |
| Balance at 31st March 2002 | <u>2</u> | <u>1,769,023</u> | <u>1,769,025</u> |
| Year ended 31st March 2003 | | | |
| Balance at 1st April 2002 | 2 | 1,769,023 | 1,769,025 |
| Net profit for the year | — | 7,261,117 | 7,261,117 |
| Balance at 31st March 2003 | <u>2</u> | <u>9,030,140</u> | <u>9,030,142</u> |

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31ST MARCH 2001, 2002 AND 2003

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|--------------|--------------|--------------|
| Cash flows from operating activities | | | |
| Net (loss)/profit | (448,060) | 2,211,085 | 7,261,117 |
| Adjustments for: | | | |
| Taxation | — | — | 200,000 |
| Depreciation | 634,326 | 826,548 | 1,159,218 |
| Interest income | (49) | (315) | (186) |
| Changes in working capital: | | | |
| Inventories | (979,042) | (219,700) | (1,415,093) |
| Other receivables, deposits and prepayments | (49,150) | (26,788) | (549,470) |
| Net amount due from/(to) related parties | 1,984,663 | (4,572,485) | (4,192,460) |
| Due from a director | — | 2,047 | (1,010,946) |
| Trade payables | 571,505 | 1,031,512 | (341,507) |
| Other payables and accruals | 3,289,677 | 1,622,067 | 2,226,908 |
| Net cash generated from operating activities | 5,003,870 | 873,971 | 3,337,581 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | (5,003,924) | (250,000) | (3,285,725) |
| Interest received | 49 | 315 | 186 |
| Net cash used in investing activities | (5,003,875) | (249,685) | (3,285,539) |
| (Decrease)/increase in cash and cash equivalents | (5) | 624,286 | 52,042 |
| Cash and cash equivalents at beginning of year | 1,375 | 1,370 | 625,656 |
| Cash and cash equivalents at end of year | 1,370 | 625,656 | 677,698 |
| Analysis of balances of cash and cash equivalents | | | |
| Cash and bank balances | 1,370 | 625,656 | 677,698 |

Major non-cash transactions

- (i) During the year ended 31st March 2001, the Group purchased certain used heading and threading machines from a related company for a consideration of HK\$1,537,000 (note 6(ii)).
- (ii) During the years ended 31st March 2001, 2002 and 2003, a related company transferred certain property, plant and equipment with a net book value of HK\$2,203,565, HK\$2,033,883 and HK\$1,543,500 respectively to the Group (note 6(iii)).

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

As at 31st March 2001, 2002 and 2003, the Group's current liabilities exceeded its current assets by HK\$8,552,223, HK\$7,798,473 and HK\$4,207,363 respectively. Superior Screws Manufacturers Limited, a related company, had undertaken to provide continuing financial support to the Group to enable it to meet its liabilities as they fall due and to enable the Group to continue operations in foreseeable future.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary. A subsidiary is an entity in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiary have been changed to ensure consistency with the policies adopted by the Group.

(c) Revenue recognition

Revenue represents the invoiced value for the manufacturing and trading of fasteners and surface treatment services rendered net of value-added tax. Revenue from the manufacturing and trading of fasteners is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer upon delivery of goods. Revenue from rendering of services is recognised when services are performed.

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (*cont'd*)

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation for leasehold improvement is calculated on the straight-line method to write off the cost over the lease term. Depreciation of other property, plant and equipment is calculated on the following rates to write off the cost of each asset to their residual values:

| | |
|------------------------|---|
| Leasehold improvement | Shorter of useful lives or over the lease periods |
| Plant and machinery | 10% diminishing balance method |
| Furniture and fixtures | 20% diminishing balance method |
| Motor vehicles | 20% diminishing balance method |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Repairs and maintenance are charged to the consolidated income statement during the financial year in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related assets.

(e) Impairment of long lived assets

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(f) Operating leases

Leases where a significant portion of the risks and rewards of ownership is retained by the leasing company are accounted for as operating leases. Payments made under operating leases, net of any incentives received from the leasing company, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(g) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (*cont'd*)

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events that it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

(k) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES (*cont'd*)

(l) Share capital

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(m) Translation of foreign currency

The Group uses Hong Kong dollars as its reporting currency.

Companies within the Group maintain their books and records in their respective local reporting currencies. Income statement of the subsidiary is translated into the Group's reporting currency at the weighted average exchange rates for the year and balance sheet is translated at the exchange rates ruling on 31st March. Exchange differences arising from the translation of the balance sheet and income statement of the subsidiary are taken to shareholders' equity.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(n) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Details of financial instruments are set out in note 15.

2. OPERATING (LOSS)/PROFIT

Operating (loss)/profit of the Group is arrived at after charging the following:

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|--------------|--------------|--------------|
| Cost of inventories sold | 8,930,813 | 19,377,592 | 23,564,144 |
| Staff costs (note 4) | 923,500 | 1,928,461 | 2,298,022 |
| Depreciation on property, plant and equipment | | | |
| — owned assets | 533,187 | 528,645 | 819,776 |
| — leased assets under finance leases | 101,139 | 297,903 | 339,442 |
| Operating lease rental on property | 235,944 | 325,744 | 321,487 |
| Auditors' remuneration — auditors of the Group | 40,000 | 40,000 | 40,000 |

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCE INCOME

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---------------------------------------|---------------|--------------|--------------|
| Interest income on bank deposits | 49 | 315 | 186 |
| Net foreign exchange transaction gain | 11,344 | 6,394 | — |
| | <u>11,393</u> | <u>6,709</u> | <u>186</u> |

4. STAFF COSTS

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|--------------|--------------|--------------|
| Wages and salaries | 923,500 | 1,928,461 | 2,298,022 |
| Number of full-time employees at end of year | <u>160</u> | <u>180</u> | <u>245</u> |

5. TAXATION

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-----------------------|--------------|--------------|----------------|
| Enterprise Income Tax | <u>—</u> | <u>—</u> | <u>200,000</u> |

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of the People's Republic of China (the "PRC"), the country of the Group's main operation, as follows:

| | Note | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|------|------------------|------------------|------------------|
| (Loss)/profit before taxation | | <u>(448,060)</u> | <u>2,211,085</u> | <u>7,461,117</u> |
| Tax calculated at a tax rate of 24% | | (107,534) | 530,660 | 1,790,668 |
| Income not subject to tax | (ii) | — | (423,126) | (1,590,668) |
| Utilisation of previously unrecognised temporary differences | (i) | — | (107,534) | — |
| Temporary differences not recognised | (i) | <u>107,534</u> | <u>—</u> | <u>—</u> |
| Taxation | | <u>—</u> | <u>—</u> | <u>200,000</u> |

- (i) The temporary differences not recognised represent the accumulated tax losses of the subsidiary incurred for the year ended 31st March 2001. Subsequently, the accumulated tax losses have been utilised by the subsidiary in the year ended 31st March 2002.
- (ii) The subsidiary was incorporated in the PRC and is subject to the Enterprise Income Tax (the "EIT") of the PRC at an EIT rate of 24% on taxable profits. Taxation is levied based on financial statements prepared on a calendar year basis. The subsidiary is exempted from PRC EIT in the first two profit making years followed by a 50% reduction for the consecutive three years thereafter. The first profit making year occurred in the calendar year ended 31st December 2001 after offsetting the accumulated tax losses carried forward.
- (iii) Deferred taxation has not been provided as there are no material temporary differences between profit as computed for taxation purposes and profit as stated in the financial statements.

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The following significant transactions with related parties took place during the years ended 31st March 2001, 2002 and 2003 at terms agreed between the parties as follows:

| | Note | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|-------|------------------|------------------|------------------|
| Sales to related companies | (i) | 9,721,362 | 24,411,178 | 33,921,592 |
| Purchase of used heading and threading machines from a related company | (ii) | 1,537,000 | — | — |
| Property, plant and equipment transferred from a related company | (iii) | <u>2,203,565</u> | <u>2,033,883</u> | <u>1,543,500</u> |

- (i) Sales were derived from Superior Screws Manufacturers Limited and Silver Star Electroplating Co., Limited for the manufacturing of fasteners and the provision of surface treatment services rendered by the Group.
- (ii) During the year ended 31st March 2001, the Group purchased certain used heading and threading machines from Superior Cassette Screws Manufacturers Limited ("SCSML") for a consideration of HK\$1,537,000. SCSML is a dormant company which is jointly and equally owned by Mr Lam Tak Shing and Mr Tang Yuk Fung, the directors of the Company.
- (iii) During the years ended 31st March 2001, 2002 and 2003, Superior Screws Manufacturers Limited transferred certain property, plant and equipment with a net book value of HK\$2,203,565, HK\$2,033,883 and HK\$1,543,500 respectively to the Group. These property, plant and equipment were continue to be pledged as security for the relevant finance lease obligations of the transferor.
- (iv) As at 31st March 2001, 2002 and 2003, balances with related parties were non-interest bearing, unsecured and repayable within the next twelve months.
- (v) As at 31st March 2001, 2002 and 2003, balance with a director was non-interest bearing, unsecured and repayable within the next twelve months.
- (vi) Superior Screws Manufacturers Limited had undertaken to provide continuing financial support to the Group to enable it to meet its liabilities as they fall due and to enable the Group to continue operations in the foreseeable future.

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvement HK\$ | Plant and machinery HK\$ | Furniture and fixtures HK\$ | Motor vehicles HK\$ | Total HK\$ |
|--------------------------------------|----------------------------------|--------------------------------|--------------------------------------|---------------------------|-------------------|
| Year ended 31st March 2001 | | | | | |
| Net book value as at 1st April 2000 | — | — | — | — | — |
| Additions | 5,218,103 | 3,318,562 | 207,824 | — | 8,744,489 |
| Depreciation for the year | (260,905) | (331,857) | (41,564) | — | (634,326) |
| Net book value as at 31st March 2001 | <u>4,957,198</u> | <u>2,986,705</u> | <u>166,260</u> | <u>—</u> | <u>8,110,163</u> |
| At 31st March 2001 | | | | | |
| Cost | 5,218,103 | 3,318,562 | 207,824 | — | 8,744,489 |
| Accumulated depreciation | (260,905) | (331,857) | (41,564) | — | (634,326) |
| Net book value | <u>4,957,198</u> | <u>2,986,705</u> | <u>166,260</u> | <u>—</u> | <u>8,110,163</u> |
| Year ended 31st March 2002 | | | | | |
| Net book value as at 1st April 2001 | 4,957,198 | 2,986,705 | 166,260 | — | 8,110,163 |
| Additions | 13,210 | 2,210,742 | 59,931 | — | 2,283,883 |
| Depreciation for the year | (261,566) | (519,744) | (45,238) | — | (826,548) |
| Net book value as at 31st March 2002 | <u>4,708,842</u> | <u>4,677,703</u> | <u>180,953</u> | <u>—</u> | <u>9,567,498</u> |
| At 31st March 2002 | | | | | |
| Cost | 5,231,313 | 5,529,304 | 267,755 | — | 11,028,372 |
| Accumulated depreciation | (522,471) | (851,601) | (86,802) | — | (1,460,874) |
| Net book value | <u>4,708,842</u> | <u>4,677,703</u> | <u>180,953</u> | <u>—</u> | <u>9,567,498</u> |
| Year ended 31st March 2003 | | | | | |
| Net book value as at 1st April 2002 | 4,708,842 | 4,677,703 | 180,953 | — | 9,567,498 |
| Additions | 2,256,248 | 2,337,160 | 148,081 | 87,736 | 4,829,225 |
| Depreciation for the year | (374,378) | (701,487) | (65,807) | (17,546) | (1,159,218) |
| Net book value as at 31st March 2003 | <u>6,590,712</u> | <u>6,313,376</u> | <u>263,227</u> | <u>70,190</u> | <u>13,237,505</u> |
| At 31st March 2003 | | | | | |
| Cost | 7,487,561 | 7,866,464 | 415,836 | 87,736 | 15,857,597 |
| Accumulated depreciation | (896,849) | (1,553,088) | (152,609) | (17,546) | (2,620,092) |
| Net book value | <u>6,590,712</u> | <u>6,313,376</u> | <u>263,227</u> | <u>70,190</u> | <u>13,237,505</u> |

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT (*cont'd*)

- (i) During the years ended 31st March 2001, 2002 and 2003, Superior Screws Manufacturers Limited transferred certain property, plant and equipment with a net book value of HK\$2,203,565, HK\$2,033,883 and HK\$1,543,500 respectively to the Group. The cost, accumulated depreciation and net book value of these property, plant and equipment of the Group as at 31st March 2003 that were pledged as security for the relevant finance lease obligations of Superior Screws Manufacturers Limited amounted to approximately HK\$4,180,000, HK\$1,125,000 and HK\$3,055,000 respectively (2002: HK\$3,080,000, HK\$399,000 and HK\$2,681,000 respectively; 2001: HK\$1,011,000, HK\$101,000 and HK\$910,000 respectively) (note 6(iii)).
- (ii) During the year ended 31st March 2001, the Group purchased certain used heading and threading machines from a related company for a consideration of HK\$1,537,000 (note 6(ii)).

8. SUBSIDIARY

Details of the subsidiary of the Company as at 31st March 2003 are as follows:

| Name | Date and place of incorporation | Principal activity | Paid-in capital | Shareholdings held by the Company |
|----------------|---------------------------------|----------------------------|--|-----------------------------------|
| 卓越螺絲(惠州)工業有限公司 | 20th June 2000, the PRC | Manufacturing of fasteners | HK\$7,000,000 (2002: HK\$4,050,000; 2001: HK\$1,450,000) | 100% |

9. INVENTORIES

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---------------------------|----------------|------------------|------------------|
| Raw materials, at cost | 325,311 | 358,628 | 594,486 |
| Work-in-progress, at cost | — | — | 250,759 |
| Finished goods, at cost | 653,731 | 840,114 | 1,768,590 |
| | <u>979,042</u> | <u>1,198,742</u> | <u>2,613,835</u> |

10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-------------------|---------------|---------------|----------------|
| Other receivables | 1,980 | — | 2,767 |
| Deposits | 47,170 | 75,938 | 613,207 |
| Prepayments | — | — | 9,434 |
| | <u>49,150</u> | <u>75,938</u> | <u>625,408</u> |

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. OTHER PAYABLES AND ACCRUALS

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|----------------------------|------------------|------------------|------------------|
| Other payables | 311,400 | 1,329,914 | 2,333,479 |
| Accrued salaries | 419,504 | 746,867 | 1,008,732 |
| Accrued professional fees | 40,000 | 80,000 | 120,000 |
| Accrued operating expenses | 2,021,467 | 916,495 | 699,003 |
| Other accruals | 497,306 | 1,838,468 | 2,977,438 |
| | <u>3,289,677</u> | <u>4,911,744</u> | <u>7,138,652</u> |

12. SHARE CAPITAL

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|---|---------------|---------------|---------------|
| Authorised: 10,000 ordinary shares of HK\$1 each | <u>10,000</u> | <u>10,000</u> | <u>10,000</u> |
| Issued and fully paid: 2 ordinary shares of HK\$1 each | <u>2</u> | <u>2</u> | <u>2</u> |

13. RESERVES

| | PRC statutory reserve HK\$ | Retained earnings/ (accumulated losses) HK\$ | Total HK\$ |
|-----------------------------------|-------------------------------------|--|------------------|
| Year ended 31st March 2001 | | | |
| Balance at 1st April 2000 | — | 5,998 | 5,998 |
| Net loss for the year | — | (448,060) | (448,060) |
| Balance at 31st March 2001 | <u>—</u> | <u>(442,062)</u> | <u>(442,062)</u> |
| Year ended 31st March 2002 | | | |
| Balance at 1st April 2001 | — | (442,062) | (442,062) |
| Net profit for the year | — | 2,211,085 | 2,211,085 |
| Transfer (note) | 177,898 | (177,898) | — |
| Balance at 31st March 2002 | <u>177,898</u> | <u>1,591,125</u> | <u>1,769,023</u> |
| Year ended 31st March 2003 | | | |
| Balance at 1st April 2002 | 177,898 | 1,591,125 | 1,769,023 |
| Net profit for the year | — | 7,261,117 | 7,261,117 |
| Transfer (note) | 726,982 | (726,982) | — |
| Balance at 31st March 2003 | <u>904,880</u> | <u>8,125,260</u> | <u>9,030,140</u> |

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. RESERVES (cont'd)

In accordance with the “Law of the PRC on Enterprises Operated Exclusively with Foreign Capital” and the PRC subsidiary’s Articles of Association, an appropriation to the Reserve Fund and the Staff and Workers’ Bonus and Welfare Fund from profit after tax having set off accumulated losses of previous years have to be made prior to profit distribution to the equity owners. The appropriation for the Reserve Fund is no less than 10% of the profit after tax and it will cease to accrue when the accumulated appropriation exceeds 50% of the registered capital. The percentage of appropriation to the Staff and Workers’ Bonus and Welfare Fund is decided by the subsidiary.

14. COMMITMENTS

(i) Capital commitments

Capital commitments for property, plant and equipment:

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|-----------------------------------|--------------|--------------|--------------|
| Authorised but not contracted for | — | — | 5,094,340 |

The Group entered into a letter of intention dated 1st October 2002 for the renovation of buildings in Huizhou, the PRC. As at 31st March 2003, 10% of the total construction sum of HK\$5,660,000 was paid as deposits but the formal construction agreement had not been signed.

(ii) Operating lease commitments

As at 31st March 2001, 2002 and 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ |
|--|-------------------|-------------------|-------------------|
| Not later than 1 year | 313,675 | 313,675 | 313,675 |
| Later than 1 year and not later than 5 years | 1,300,234 | 1,374,268 | 1,487,073 |
| Later than 5 years | 10,536,193 | 10,148,484 | 9,722,004 |
| | <u>12,150,102</u> | <u>11,836,427</u> | <u>11,522,752</u> |

CHAIN DRAGON ASIA LIMITED AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL INSTRUMENTS

(i) Financial risk factors

The Group's activities expose it to certain financial risks, including the effects of foreign currency exchange rates and interest rates.

Risk management is carried out by the Board of Directors. The Board of Directors identifies, evaluates and hedges, where applicable, financial risks in close co-operation with the Group.

(a) Foreign exchange risk

The Group operates in the PRC and is exposed to foreign exchange risk primarily with respect to Hong Kong dollars and Renminbi.

(b) Interest rate risk

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

(c) Credit risk

The Group has no significant concentrations of credit risk from third parties as its revenue is derived principally from related companies.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of available adequate credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining a sufficient level of cash for working capital purposes and flexibility in funding by arranging credit lines through related companies, where necessary.

(ii) Fair value estimation

Financial assets of the Group include cash and bank balances, other receivables, deposits and prepayments and amounts due from a related party and a director. Financial liabilities of the Group include trade payables, other payables and accruals and amounts due to related parties.

There are no material differences between the fair values and carrying amounts of the Group's financial assets and financial liabilities.

TAXATION

This following is a discussion of certain tax matters arising under the current tax laws in Singapore and Bermuda and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force as at the date of the Latest Practicable Date, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur.

The discussion is limited to a general description of certain tax consequences in Singapore and Bermuda with respect to holding and disposal of the Shares by Singapore investors, and does not purport to be a comprehensive nor exhaustive description of all the tax considerations that may be relevant to a decision to purchase the Shares. Prospective investors should consult their tax advisors regarding Singapore and Bermuda tax and other tax consequences of owning and disposing the Shares. It is emphasised that neither our Company, our Directors nor any other persons involved in the Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of our Shares.

BERMUDA TAXATION

The Company is incorporated in Bermuda.

In Bermuda there are no taxes on profits, dividend income or capital gains on transfer of shares.

Dividend paid by the Company to shareholders resident outside Bermuda will not be subject to withholding tax.

Further details are set out under “*Appendix G — Summary of Bermuda Company Law*” on page G-3 of this Prospectus.

SINGAPORE TAXATION

Income Tax

General

Taxpayers who are residents of Singapore for tax purposes, are subject to Singapore income tax on income that is accrued in or derived from Singapore and, with certain exceptions, on foreign income received in Singapore.

Corporations which are not residents of Singapore are subject to income tax on income that is accrued in or derived from Singapore, and with certain exceptions, on foreign income received in Singapore. Individuals who are not residents of Singapore are, with certain exceptions, subject to income tax on income accrued in or derived from Singapore.

A company is a resident in Singapore if the control and management of its business is exercised in Singapore. An individual is a resident in Singapore if he resides in Singapore or if he is physically present in Singapore or exercises an employment in Singapore (other than as a director of a company) for 183 days or more during the calendar year preceding the relevant years of assessment.

The corporate tax rate in Singapore is 22% with effect from Year of Assessment 2003 (i.e. the financial year ended in 2002). In addition, three quarters of up to the first S\$10,000 of a company’s chargeable income and one-half of up to the next S\$90,000 are exempt from corporate tax. The remaining chargeable income (after tax exemption) will be taxed at 22%. The above tax exemption does not apply to Singapore dividends received by companies. In the Budget Statement 2003 announced on 28 February 2003, the Finance Minister has reaffirmed the Government’s intention to reduce the corporate tax rate to 20% by Year of Assessment 2005.

For an individual who is a resident in Singapore, the rate of tax will vary according to the individual's level of chargeable income but is subject to a maximum rate of 22% with effect from Year of Assessment 2003, i.e. calendar year 2002. In the Budget Statement 2003 announced on 28 February 2003, the Finance Minister has also reaffirmed the Government's intention to reduce the top individual tax rate to 20% by Year of Assessment 2005.

Dividends Distributions

As the Company will not be a resident of Singapore for tax purposes, dividends paid by the Company would be considered as sourced outside Singapore (i.e. foreign-sourced). As Singapore adopts the territorial basis of taxation, foreign source income is subject to Singapore income tax when received by a taxpayer in Singapore.

On 28 February 2003, the Finance Minister announced in his Budget statement 2003 that foreign-sourced dividend received in Singapore on or after 1 June 2003 by a taxpayer resident in Singapore would be exempt from tax provided that the following qualifying conditions are met:

- (a) in the year the foreign-sourced dividend income is received in Singapore, the headline tax rate of the foreign jurisdiction from which the income is received is at least 15%; and
- (b) the foreign-sourced dividend income has been subject to tax in the foreign jurisdiction from which they were received.

When the conditions are not met, foreign-sourced dividend income will be taxed when received in Singapore.

In respect of a dividend paid to a person resident in Singapore by a company resident in a foreign jurisdiction from which the dividend is received, tax paid or payable by that company on the dividend in that foreign jurisdiction includes:

- (a) the income tax on the dividend that the person resident in Singapore is subject to tax in that foreign jurisdiction (generally referred to the withholding tax); and
- (b) the income tax paid or payable in that foreign jurisdiction by the payer company (i.e. underlying tax) on its income out of which the dividend is paid.

Dividends paid on the Shares will not meet the abovementioned qualifying conditions. Thus, dividends paid on the Shares received by an individual who is resident in Singapore will be liable to tax in Singapore to the extent that they are received in Singapore. Such dividends received in Singapore by an individual who is not a resident in Singapore remain exempt from Singapore income tax.

Similarly, dividends paid on the Shares received by corporate taxpayers in Singapore will be liable to tax to the extent that they are received in Singapore.

Gains on Disposal of the Shares

Singapore does not impose tax on capital gains. However, where the gains are considered as income from the carrying on of a trade, such gains are regarded as income and is subject to tax.

Any profits from the disposal of the Shares if regarded as capital gains are not taxable in Singapore. Where the seller is regarded as having derived the gains of an income nature, the disposal profits would be taxable.

Bonus shares

A capitalisation of profits followed by the issue of new shares, credited as fully paid, pro rata to shareholders (bonus shares) does not represent a distribution of dividends by a company to its shareholders. Therefore, a Singapore resident shareholder receiving bonus shares should not be subject to income tax in respect of such shares.

Stamp Duty

There is no stamp duty payable on the subscription of the Shares.

Stamp duty is payable on the instrument of transfer of the Shares at the rate of S\$2.00 for every S\$1,000 of the market value of the Shares registered in Singapore.

The purchaser is liable for stamp duty, unless there is an agreement to the contrary. No stamp duty is payable if no instrument of transfer is executed or if the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is received in Singapore.

The above stamp duty is not applicable to electronic transfers of the Shares through the CDP.

Estate Duties

Singapore estate duty is imposed on the value of immovable property owned by individuals who are not domiciled in Singapore at death, subject to certain specific exemption. Movable property of individuals who are not domiciled in Singapore is exempt from estate duty. Singapore estate duty is imposed on the value of immovable property situated in Singapore and on movable property wherever it may be situated owned by individuals who are domiciled in Singapore at death, subject to certain specific exemption.

The Company maintains a share register in Singapore as well as in Bermuda. As such, the Shares should be regarded as movable property situated in Singapore for estate duty purposes.

Singapore estate duty is payable at 5% on the first S\$12,000,000 of the individual's Singapore chargeable assets and the remainder at 10%, subject to certain specific exemptions. For example, the following are not included in the estate for the purpose of calculating the estate duty:

- (a) The first S\$9,000,000 of the aggregate value of residential houses which the deceased owned; and
- (b) S\$600,000 of the aggregate value of all other property (including the value of the Shares).

Individuals, whether or not domiciled in Singapore, should consult their own tax advisors regarding the Singapore estate duty consequences of their ownership of the Shares.

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SUMMARY OF THE CONSTITUTION OF THE COMPANY

The discussion below provides information about certain provisions of our Memorandum of Association and Bye-Laws and the laws of Bermuda. This description is only a summary and is qualified by reference to Bermuda law and our Bye-Laws.

The instruments that constitute and define the Company are the Memorandum of Association and the Bye-Laws of the Company.

1. MEMORANDUM OF ASSOCIATION AND REGISTRATION NUMBER

The registration number with which the Company was incorporated is 33437. Our Memorandum of Association states that the liability of shareholders of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that our Company is an exempted company as defined in the Companies Act. Our Memorandum of Association also sets out the objects for which our Company was formed, including acting as a holding and investment company, and the powers of our Company, including the powers set out in the First Schedule to the Companies Act. As an exempted company, our Company will be carrying on business outside Bermuda from a place of business within Bermuda.

2. DIRECTORS

(a) Ability of interested directors to vote

Subject to the Companies Act and any further disclosure required thereby, if a general notice to our Board of Directors is given by a Director or officer declaring that he is a director or officer or has an interest in a person and is to be regarded as interested in any transaction or arrangement made with that person, it shall be a sufficient declaration of interest in relation to any transaction or arrangement so made. Our Directors shall not vote in respect of any contract proposed contract or arrangement in which he has a personal material interest, although he may be counted in the quorum present at the meeting.

(b) Remuneration

Fees payable to non-executive Directors shall be a fixed sum (not being a commission on or a percentage of profits or turnover of the Company) as shall from time to time be determined by the Company in general meeting. Fees payable to Directors shall not be increased except at a general meeting convened by a notice specifying the intention to propose such increase.

The Board may grant special remuneration to any Director who, being called upon, shall perform any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, as the Board may determine.

The remuneration of a Managing Director, Joint Managing Director, Deputy Managing Director or an Executive Director of our Company or a Director appointed to any other office in the management of our Company may from time to time be fixed by our Board of Directors and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as our Board of Directors may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director of our Company.

We are required to obtain shareholders' approval for any payments to our Directors of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which our Directors are contractually entitled).

(c) Borrowing

Our Board of Directors may, at its discretion, exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge our undertaking, property and uncalled capital or any part thereof.

(d) Retirement Age Limit

There is no retirement age limit for Directors.

(e) Shareholding Qualification

There is no shareholding qualification for Directors in the Bye-Laws of the Company.

3. Share rights and restrictions

Our Company currently has one class of shares, namely, ordinary shares. Under the Companies Act, only persons who are registered on our register of members are recognised as our shareholders. Shareholders who are named as depositors in the depository register maintained by CDP will not be recognised as shareholders under Bermuda law and will hold their shares and exercise their rights through CDP.

(a) Dividends and distribution

We may, by ordinary resolution, declare dividends at a general meeting, but we may not pay dividends in excess of the amount recommended by our Board of Directors. All dividends we declare must be paid out of our profits, which would generally comprise retained earnings, or pursuant to Section 40(2)(a) of the Companies Act, which permits the application of the share premium attributable to our issued shares to the payment of dividends in the form of shares. Our Board of Directors may also declare an interim dividend without the approval of our shareholders. All dividends are paid pro rata among the shareholders in proportion to the amount paid up on each shareholder's ordinary shares, unless the rights attaching to an issue of any share provide otherwise. All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by our Board of Directors for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by our Board of Directors and shall revert to our Company.

Our Board of Directors may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. Our Board of Directors may also deduct from any dividend or bonus payable to any shareholder all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

(b) Voting rights

A shareholder is entitled to attend, speak and vote at any general meeting in person and a shareholder who is the holder of two or more shares may appoint not more than two proxies to attend on the same occasion. Notwithstanding the foregoing provision, CDP may appoint more than two proxies or a corporate representative to attend and vote at the same general meeting. A proxy need not be a shareholder.

The Bye-Laws do not provide for cumulative voting for entire shareholders and directors.

4. Change in capital

Under the Companies Act, changes in the capital structure of our Company (for example, an increase, a consolidation or a sub-division of our share capital) require shareholder approval at general meetings which requires a minimum period of 14 days with resolutions being passed by a simple majority. However, we are required to obtain our shareholders' consent by way of a special resolution for any reduction of our share capital, redemption reserve, fund or any share premium account or other undistributable reserve, subject to the conditions prescribed by law.

The Bye-Laws provide a distinction between an "ordinary resolution" and a "special resolution", a distinction which is not made in the Companies Act. A resolution shall be an "ordinary resolution" when it has been passed by a simple majority of the votes cast by our shareholders at a general meeting held in accordance with these presents and of which not less than 14 days' notice has been duly given. A resolution shall be a "special resolution" when it has been passed by a majority of 3/4 of the votes cast by our shareholders at a general meeting of which not less than 21 days' notice, specifying (without prejudice to the power contained in these presents to amend the same) the intention to propose the resolution as a Special Resolution, has been duly given.

5. Variation of rights of existing shares or classes of shares

Subject to the Companies Act, if at any time our share capital is divided into different classes of shares, all or any of the special rights attached to any class (unless otherwise provided for by the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of these Bye-Laws relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum shall be not less than two persons holding or representing by proxy or by corporate representative one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy or by duly authorised corporate representative may demand a poll. This provisions will also apply to the variation or abrogation of the special rights attached to the shares of any class as if each group of shares of the class differently treated formed a separate class the rights whereof are to be varied or abrogated.

The relevant Bye-Law does not impose more significant conditions than the Companies Act in this regard.

6. Limitations on shareholders regarded as non-residents of Bermuda

There are no limitations on the rights of our shareholders who are regarded as non-residents of Bermuda to hold or vote their shares. As the Company has been designated by the Bermuda Monetary Authority as non-resident of Bermuda for exchange control purposes, the Company is free to acquire, hold and sell foreign currency and securities without restriction.

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SUMMARY OF BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, which does not purport to contain all applicable qualifications and exemptions and does not purport to be a complete review of all matters of Bermuda company law or a comparison of provisions that may differ from the laws of other jurisdictions, with which interested parties may be more familiar.

(i) **Share capital**

The Bermuda Act provides for the giving of financial assistance by a company for the acquisition of its own or its holding company's shares in specific circumstances.

The Bermuda Act provides that where a company issues shares at a premium whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium on those shares shall be transferred to an account, to be called "the share premium account" and the provisions of the Bermuda Act relating to a reduction of share capital shall, except as provided in section 40 of the Bermuda Act, apply as if the share premium account were paid up share capital of the company. An exception is made to this rule in the case of an exchange of shares where the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company. Contributed surplus is a North American concept recognised under the generally accepted accounting principles of the Canadian Institute of Chartered Accountants which accounting principles are applied in Bermuda.

The Bermuda Act permits a company to issue preference shares and under certain circumstances to convert those preference shares into redeemable shares.

(ii) **Alteration of share capital**

A company may if authorised by a general meeting of the shareholders of the company and by its Bye-Laws, alter the conditions of its memorandum of association to increase its share capital, divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions, consolidate and divide all or any of its share capital into shares of a larger amount than is fixed by the memorandum of association, make provision for the issue and allotment of shares which do not carry any voting rights, cancel shares which have not been taken or agreed to be taken by any person, diminish the amount of its share capital by the amount of the shares so cancelled and change the currency denomination of its share capital. With the exception of an increase in capital, cancellation of shares and redenomination of currency of capital, there are no filing requirements for any of the above-mentioned alterations.

Furthermore, a company may, if authorised by a general meeting of the shareholders, reduce its share capital. There are certain requirements, including a requirement prior to the reduction to publish a notice in an appointed newspaper stating the amount of the share capital as last determined by the company, the amount to which the share capital is to be reduced and the date on which the reduction is to have effect.

The Bermuda Act provides that a company shall not reduce the amount of its share capital if on the date the reduction is to be effected there are reasonable grounds for believing that the company is, and after the reduction would be, unable to pay its liabilities as they become due.

The Bermuda Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied.

The Bermuda Act requires that as soon as practicable after the allotment of any of its shares a company must complete and have ready for delivery share certificates in relation to those shares allotted unless the conditions of issue of the shares otherwise provide. A certificate under the common seal of the company shall be prima facie evidence of the title of the shareholder to the shares. The Bermuda Act prohibits bearer shares.

(iii) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, in certain circumstances, the prohibition from giving financial assistance may be excluded such as where the company's principal purpose in giving that assistance is not to give it for the purpose of any such acquisition, or the giving of the assistance for that purpose is but an incidental part of some larger purpose of the company, and the assistance is given in good faith in the interests of the company. In addition, a company is only prohibited from granting financial assistance if on the date from which the financial assistance is to be given, there are reasonable grounds for believing that the company is, or after the giving of such financial assistance would be, unable to pay its liabilities as they become due.

(iv) Purchase by the company of its own shares and warrants

The Bermuda Act permits the company, if authorised to do so by its memorandum of association or by its bye-laws, to purchase its own shares. It should be noted that the company is authorised by its bye-laws, subject to certain approvals, to purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares, profits otherwise available for dividend or distribution (see "Dividends and distributions" below) or out of the proceeds of a new issue of shares made for the purpose. Any premium payable on a repurchase over the par value of the shares to be repurchased must be provided for out of the profits otherwise available for dividends, out of the company's share premium account, or out of contributed surplus. A purchase by the company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. The Bermuda Act provides that no purchase by the company of its own shares may be effected if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares purchased pursuant to the Bermuda Act shall be treated as cancelled and the amount of the company's issued capital shall be diminished by the nominal amount of those shares accordingly. It shall not be taken as reducing the amount of the company's authorised share capital.

The company is not prevented from purchasing and may purchase its own warrants. There is no requirement of Bermuda Law that the company's memorandum of association or its bye-laws contain a specific enabling provision authorising any such purchase and the directors may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

A company has power to hold and purchase shares of its holding company. A distinction must be drawn between the purchase of shares in the holding company by the holding company itself and the purchase by a subsidiary. A holding company can only purchase its own shares in accordance with the provisions referred to above. When a subsidiary acquires shares in its holding company, the shares, once purchased, may be voted by the subsidiary for its own benefit.

(v) Transfer of securities

Title to securities of companies whose securities are traded or listed on an appointed stock exchange may, where permitted by regulations made by the Minister or where such transfer is effected through the mechanism required or permitted by an appointed stock exchange, be evidenced and transferred without a written instrument.

(vi) **Dividends and distributions**

The Bermuda Act provides that a company shall not declare or pay a dividend or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Contributed surplus for these purposes is defined as including proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital, the excess value of shares acquired over those issued in a share exchange should the Board elect to treat it as such and donations of cash and other assets to the company.

(vii) **Charges on the assets of the company**

The Bermuda Act established a register of charges at the office of the Registrar of Companies permitting any charges on the assets of a company to be registered. Registration is not mandatory but does govern priority in Bermuda, giving a registered charge priority over any subsequently registered charge and over all unregistered charges save those in effect prior to the coming into effect of the Bermuda Act in July 1983. The register of charges is available for inspection by members of the public. The Bermuda Act also makes provision for the registration of a series of debentures.

(viii) **Management and administration**

The management and administration of a Bermuda company is essentially governed by Part VI of the Bermuda Act and provides that the management and administration of a Bermuda company shall be vested in the hands of not less than two (2) directors duly elected by the shareholders. The Bermuda Act requires that a Bermuda company maintain either (a) a Bermuda resident secretary and a Bermuda resident representative; or (b) a Bermuda resident secretary and a Bermuda resident director; or (c) two (2) Bermuda resident directors, all of whom must be individuals. Exempted companies, the shares of which are listed on an appointed stock exchange, may appoint a resident representative in Bermuda in place of the other Bermuda resident officers, who or which may be either an individual or a corporate entity, whose statutory right, duties and obligations are established by the Bermuda Act.

The Bermuda Act contains no specific restrictions on the power of the directors to resolve to dispose of assets of a company although it specifically requires that every officer (which includes a director and managing director and secretary) of a company, in exercising his powers and discharging his duties, shall act honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, it requires that every officer should comply with the Bermuda Act, regulations passed pursuant to the Bermuda Act and the bye-laws of the company.

(ix) **Accounting requirements under the Bermuda Act**

The Bermuda Act requires that a company shall cause to be kept proper records of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

It further requires that the records of account shall be kept at the registered office of the company or at such other place as the Board thinks fit and shall at all times be open to inspection by the directors. The Bermuda Act also requires that, these records of account also be maintained at the office of the resident representative where the company is listed on an appointed stock exchange and the company has appointed a resident representative. There is a proviso in the Bermuda Act to the effect that if the records of account are kept at some place outside Bermuda, there shall be kept at an office of the company in Bermuda such records as will enable the Board to ascertain with reasonable accuracy the financial position of the company at the end of each three (3) month period. Power is vested in the courts of Bermuda to order the company to make available the records of account to any of the directors of the company should the company for some reason refuse to do so. Furthermore, the Bermuda Act imposes a fine in the event of failure to comply with the aforementioned requirements which fine is limited to the sum of BD\$500.00 (approximately equivalent in value to US\$500.00), for the time being.

(x) **Auditing requirements**

The Bermuda Act requires that the board of every company shall, at least once in every year, lay before the company in general meeting:

- (a) financial statements for the period, which shall include:
 - (a1) a statement of the results of operations for such period;
 - (a2) a statement of retained earnings or deficits;
 - (a3) a balance sheet at the end of such period;
 - (a4) a statement of changes in the financial position for the period;
 - (a5) notes to the financial statements;
 - (a6) such further information as required by the Bermuda Act and the company's memorandum of association and its bye-laws;
- (b) the report of the auditor in respect of the financial statements described above based upon the results of the audit made in accordance with generally accepted accounting principles; and
- (c) the notes referred to in paragraph (a5) above shall include a description of the generally accepted accounting principles used in the preparation of the financial statements and where the accounting principles used are those of a country or jurisdiction other than Bermuda the notes shall disclose this fact and shall name the country or jurisdiction.

Financial statements to be laid before the shareholders in general meeting shall be signed on the balance sheet by two (2) of the directors of the company.

If for some reason it becomes impossible, for reasons beyond the reasonable control of the directors, to lay the financial statements before the shareholders, it shall be lawful for the meeting to adjourn the meeting for a period of up to ninety (90) days or such longer period as the shareholders may agree.

All shareholders of a company are entitled to receive a copy of the financial statements prepared in accordance with the aforementioned requirements, at least seven (7) days before the general meeting of the company at which the financial statements would be tabled. The Bermuda Act also provides that companies listed on an appointed stock exchange (including the Singapore Exchange) may send summarized financial statements instead of the unabridged financial statements mentioned above. Each shareholder can elect to receive unabridged financial statements for that period and/or any subsequent period. The summarized financial statements together with auditors report and notice to elect to receive the unabridged financial statements must be sent to shareholders twenty-one days before the general meeting. A company shall send the full financial statements to a member within seven days of receipt of the member's election to receive the full financial statements.

The summarized financial statements must be derived from the company's financial statements and shall include:

- (a) a summarized report of the unabridged financial statements;
- (b) such further information extracted from the financial statements as the board of directors considers appropriate; and
- (c) a statement that it is only a summarized version of the company's financial statements and does not contain sufficient information to allow as full an understanding of the financial position, results of operations or changes in financial position or cash flows of the company as would be provided by unabridged financial statements.

There are certain exceptions in the case of shareholders not entitled to receive notices of general meetings, joint holders of shares or where the address for a person is not known to the company.

The Bermuda Act also make provision vesting power in the shareholders in general meeting to waive the laying of the financial statements and auditors' report and to waive the appointment of an auditor. In order to do so, it is required that all shareholders and directors of the company agree either in writing or at a general meeting, that in respect of a particular interval no financial statement or auditors' report thereon need be laid before a general meeting.

The Bermuda Act contains specific requirements in section 89 in relation to the appointment and disqualification of an auditor.

By way of general reference, the provisions of sections 83, 84, 87, 88, 89 and 90 govern the preparation and maintenance of accounting records and audited financial statements.

(xi) **Exchange control**

Although incorporated in Bermuda, the company has been classified as non-resident in Bermuda for exchange control purposes by the Bermuda Monetary Authority. Accordingly, the company may convert currency (other than Bermudian currency) held for its account to any other currency without restriction.

Persons, firms or companies regarded as residents of Bermuda for exchange control purposes require specific consent under the Exchange Control Act 1972 of Bermuda, and regulations thereunder, to purchase or sell shares or warrants of the company which are regarded as foreign currency securities by the Bermuda Monetary Authority. Under the terms of the consent given to the company by the Bermuda Monetary Authority, the issue of shares pursuant to this document and any transactions in issued shares between persons, firms or companies regarded as non-resident in Bermuda for exchange control purposes may be effected without further permission from that Authority. Before the company can issue any further shares beyond the consent given from the Bermuda Monetary Authority, the company must first obtain the prior written consent of that Authority.

In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in this document with regard to them.

(xii) **Taxation**

In Bermuda, there are no taxes on profits, income or dividends, nor is there any capital gains tax, estate duty or death duty. Profits can be accumulated and it is not obligatory for a company to pay dividends. The company is required to pay an annual government fee (the "Government Fee"), which is determined on a sliding scale by reference to a company's authorised share capital and share premium account, with the minimum fee being BD\$1,780 and the maximum BD\$27,825 (the BD\$ is treated at par with the US\$). The Government Fee is payable at the end of January in every year and is based on the authorised share capital and share premium account as they stood at 31 August in the preceding year.

The Bermuda Government has enacted legislation under which the Minister of Finance is authorised to give an assurance to an exempted company or a partnership that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital asset, gain or appreciation, then the imposition of any such tax shall not be applicable to such entities or any of their operations. In addition, there may be included an assurance that any such tax or any tax in the nature of estate duty or inheritance tax, shall not be applicable to the shares, debentures or other obligations of such entities. This assurance has been obtained by the Company for a period ending 28 March 2016.

(xiii) **Stamp duty**

The law relating to stamp duties has been fundamentally changed as a result of the enactment of certain legislation that came into force on 1 April 1990. Stamp duty is no longer chargeable in respect of the incorporation, registration or licensing of an exempted company, nor, subject to certain minor exceptions, on their transactions. Accordingly, no stamp duty will be payable on the increase in or the issue or transfer of the share capital of the Company.

(xiv) **Loans to directors**

The Bermuda Act prohibits the making of loans by the company to any of its directors or to their families or companies in which they hold a 20 per cent. interest, without the consent of shareholders of the company holding in the aggregate not less than nine-tenths (9/10) of the total voting rights of all shareholders having the right to vote at any meeting of the shareholders of the company. These prohibitions do not apply to anything done to provide a director with funds to meet expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it shall be repaid within six (6) months of the next annual general meeting if the loan is not approved at such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising.

(xv) **The investigation of the affairs of a company and the protection of minorities**

The Bermuda Act makes specific provision with regard to the foregoing and provides that the Minister of Finance may, at any time of his own volition, appoint one or more inspectors to investigate the affairs of an exempted company and to report thereon in such manner as he may direct. The Bermuda Act requires that such an investigation be conducted in private unless the company requests that it be held in public. Furthermore, any shareholder of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the shareholders, including himself, or where a report has been made to the Minister of Finance under the foregoing, the Registrar on behalf of the Minister, may make an application to the court by petition for an order that the company's affairs are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the

shareholders and that to wind up the company would unfairly prejudice that part of the shareholders but otherwise the facts would justify the making of a winding up order on the ground that it would be just and equitable that the company should be wound up. If the court is of this opinion, then it may, with a view to bringing to an end the matters complained of, make such order as it thinks fit whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any shareholders of the company by other shareholders of the company or by the company and in the case of a purchase by the company, for the reduction accordingly of the company's capital, or otherwise.

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda; however, the Bermuda courts ordinarily would expect to follow English case law precedent which would permit a shareholder to commence an action in the name of the company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of a company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

In addition to the above, the shareholders may be able to bring claims against a company; such claims must, however, be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers to shares of a company against persons (including directors and officers) responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein (see above) but this confers no right of action against the company itself. In addition, the company itself (as opposed to its shareholders) may take action against the officers (including directors) for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company (as mentioned above).

(xvi) Inspection of corporate records

Members of the general public have the right to inspect the public documents of the company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association and documents relating to an increase or reduction of authorised capital. The shareholders have the additional right to inspect the bye-laws of the company, minutes of general (i.e. shareholders) meetings and audited financial statements of the company, which must be presented to the annual general meeting of shareholders. The register of shareholders of the company is also open to inspection by shareholders without charge, and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may establish a branch register outside Bermuda. The company is required to keep at its registered office a register of its directors and officers which is open for inspection by members of the public without charge.

(xvii) Winding up and liquidation provisions of Bermuda legislation

(a) Introduction

The winding up of Bermuda companies is governed by the provisions of the Bermuda Act and by the Companies (Winding Up) Rules 1982 (the "Rules") and may be divided into the following two types:

- (a1) Voluntary winding up which commences with the shareholders' resolution or upon the happening of a specified event (fixed or limited life company) and which itself can be sub-divided into a shareholders' voluntary winding up and a creditors' voluntary winding up; and
- (a2) Compulsory winding up, by petition presented to the courts of Bermuda followed by winding up order.

(b) Voluntary winding up

(b1) Shareholders' voluntary winding up

A shareholders' voluntary winding up is only possible if a company is solvent. A Statutory Declaration of Solvency to the effect that a company is able to meet its debts within twelve (12) months from the date of the commencement of its winding up is sworn by a majority of the company's directors and filed with the Registrar of Companies.

A general meeting of shareholders is then convened which resolves that the company be wound up voluntarily and that a liquidator (responsible for collecting in the assets of the company, determining its liabilities and distributing its assets amongst its creditors and the surplus to the shareholders) be appointed.

Once the affairs of the company are fully wound up, the liquidator prepares a full account of the liquidation which he then presents to the company's shareholders at a general meeting called for that purpose. This special general meeting must be advertised in an appointed newspaper in Bermuda at least one (1) month before it is held and within one (1) week after it is held, the liquidator notifies the Registrar of Companies that the company has been dissolved.

(b2) Creditors' voluntary winding up

A creditors' voluntary winding up may occur where a company is insolvent and a Declaration of Solvency cannot be sworn.

A board meeting is convened which resolves to recommend to the shareholders of the company that the company be placed into a creditors' voluntary winding up. This recommendation is then considered and, if thought fit, approved at a special general meeting of the company's shareholders and, subsequently, at a meeting of the company's creditors.

Notice of the creditors' meeting must appear in an appointed newspaper on at least two (2) occasions and the directors must provide this meeting with a list of the company's creditors and a full report of the position of the company's affairs.

At their respective meetings, the creditors and shareholders are entitled to nominate a person or persons to serve as liquidator(s) and whose responsibilities include collecting in the assets of the company, ascertaining its liabilities and distributing its assets rateably amongst its creditors in accordance with their proofs of debt. In addition to the liquidator, the creditors are entitled to appoint a Committee of Inspection which, under Bermuda Law, is a representative body of creditors who assist the liquidator during the liquidation.

As soon as the affairs of the company are fully wound up, the liquidator prepares his final account explaining the liquidation of the company and the distribution of its assets which he then presents to the company's shareholders in a special general meeting and to the company's creditors in a meeting. Within one (1) week after the last of these meetings, the liquidator sends a copy of the account to the Registrar of Companies in Bermuda who proceeds to register it in the appropriate public records and the company is deemed dissolved three (3) months after the registration of this account.

(c) Compulsory winding up

The courts of Bermuda may wind up a Bermuda company on a petition presented by persons specified in the Bermuda Act and which include the company, itself and any creditor or creditors of the company (including contingent or prospective creditors) and any shareholder or shareholders of the company.

Any such petition must state the grounds upon which the Bermuda court has been asked to wind up the company and may include either one of the following:

- (c1) that the company has by resolution resolved that it be wound up by the Bermuda court;
- (c2) that the company is unable to pay its debts; and
- (c3) that the Bermuda court is of the opinion that it is just and equitable that the company be wound up.

The winding up petition seeks a winding up order and may include a request for the appointment of a provisional liquidator.

Prior to the Winding Up Order being granted and the appointment of the provisional liquidator, (who under Bermuda Law, may or may not be the Official Receiver — a Government appointed officer) an interim provisional liquidator may be appointed to administer the affairs of the company with a view to its winding up until he is relieved of these duties by the appointment of the provisional liquidator. (Often, the interim provisional liquidator is appointed the provisional liquidator).

As soon as the Winding Up Order has been made, the provisional liquidator summons separate meetings of the company's creditors and shareholders in order to determine whether or not he should serve as the permanent liquidator or be replaced by some other person who will serve as the permanent liquidator and also to determine whether or not a Committee of Inspection should be appointed and, if appointed, the shareholders of that Committee. The provisional liquidator notifies the Court of the decisions made at these meetings and the Court makes the appropriate orders.

A permanent liquidator's powers are prescribed by the Act and include the power to bring or defend actions or other legal proceedings in the name and on behalf of the company and the power to carry on the business so far as may be necessary for the beneficial winding up of the company. His primary role and duties are the same as a liquidator in a creditors' voluntary winding up i.e. to distribute the company's assets rateably amongst its creditors whose debts have been admitted.

As soon as the affairs have been completely wound up, the liquidator applies to the courts of Bermuda for an order that the company be dissolved and the company is deemed dissolved from the date of this order being made.

Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

1. PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全国人民代表大会常务委员会关于加强法律解释工作的决议) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

2. Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中华人民共和国宪法) and the Law of Organisation of the People's Courts of the People's Republic of China (中华人民共和国人民法院组织法), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal, administrative and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant,

may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中华人民共和国民事诉讼法) (the "Civil Procedure Law") adopted on 9 April 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

3. Arbitration and enforcement of arbitral awards

The Arbitration Law of the PRC (中华人民共和国仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

4. Foreign exchange control

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China, with the authorisation of the State Council, issued on 28 December 1993 the Notice on the Further Reform of the Foreign Exchange Control System (《中国人民银行关于进一步改革外汇管理体制的通知》) and on 26 March 1994 the Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange (《结汇、售汇及付汇管理暂行规定》) which came into effect on 1 April 1994 respectively. On 29 January 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (《中华人民共和国外汇管理条例》) which took effect on 1 April 1996. On 20 June 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (《结汇、售汇及付汇管理规定》), which took effect on 1 July 1996. On 25 October 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1 December 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

Under the new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the Renminbi exchange rates against major foreign currencies.

In general, all organisations and individuals within the PRC, including foreign investment enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises

(including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transaction, the approval of the foreign exchange administration authority is still required before a PRC enterprise may borrow a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or to enter into any other capital account transaction involving the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("CFETC") was formally established and came into operation on 1 January 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1 December 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From 1 December 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

5. Taxation

The applicable income tax laws, regulations, notices and decisions (collectively referred to as "Applicable Foreign Enterprises Tax Law") related to foreign investment enterprises and their investors include the follows:

- (1) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法) adopted by the NPC on 9 April 1991
- (2) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法实施细则) promulgated by the State Council, which came into effect on 1 July 1991
- (3) Notice Relating to taxes Applicable to Foreign Investment Enterprises/Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares (国家税务总局关于外商投资企业/外国企业和外籍个人取得股票(股权)转让收益和股息所得税收问题的通知) promulgated by State Tax Bureau on 21 July 1993

- (4) Amendments to the Income Tax Law Applicable to Individuals of the PRC (修改中华人民共和国个人所得税法的决定) promulgated by Standing Committee of NPC on 31 October 1993
- (5) Notice on Relevant Policies Concerning Individual Income Tax (关于个人所得税若干政策问题的通知) issued by Ministry of Finance and the State Tax Bureau on 13 May 1994

(a) *Income tax on foreign investment enterprises*

According to the Applicable Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) is required to pay a national income tax at a rate of 30% of their taxable income and a local income tax at a rate of three per cent. of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50% reduction in the income tax payable for the next three years. The income tax concession for foreign investment enterprises engaged in the exploitation of resources such as petroleum, natural gas, rare metals and precious metals are regulated separately by the State Council.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24%. A reduced income tax rate of 15 per cent. may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

(b) *Value added tax*

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例) promulgated by the State Council came into effect on 1 January 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例实施细则), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13 or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(c) *Business tax*

With effect from 1 January 1994, business that provide services (except entertainment business), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from three to five per cent. of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

(d) *Tax on dividends from PRC enterprise with foreign investment*

According to the Applicable Foreign Enterprises Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable Foreign Enterprises Tax Law.

6. Wholly foreign-owned enterprise

Wholly foreign-owned enterprises are governed by the Law of the people's Republic of China Concerning Enterprises with Sole Foreign Investments (《中华人民共和国外资企业法》), which was promulgated on 12 April 1986 and was subsequently amended on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and was subsequently amended on 12 April 2001 (together the "Foreign Enterprises Law").

(a) *Procedures for establishment of a wholly foreign-owned enterprise*

The establishment of a wholly foreign-owned enterprise will have to be approved by MOFTEC (or its delegated authorities). If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to MOFTEC (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business licence from SAIC before it can commence business.

(b) *Nature*

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprise Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOFTEC (or its delegated authorities) in accordance with relevant regulations.

(c) *Profit distribution*

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10 per cent. of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

7. Environmental Protection Regulations

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have cause severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate the any losses or damages suffered as a result of such environmental pollution.

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FOREIGN EXCHANGE CONTROLS

The following is a description of the exchange controls that exist in the countries which our Group operates in:

PRC

Prior to 31 December 1993, enterprises in the PRC requiring foreign currency were required to obtain approval from the State Planning Committee and the Ministry of Foreign Trade and Economic Cooperation before it could convert Renminbi into foreign currency, and such conversion had to be effected at the official rate prescribed by the State Administration for Foreign Exchange ("SAFE"). Renminbi reserved by foreign investment enterprises could also be converted into foreign currency at swap centres with the prior examination and verification by SAFE. The exchange rates used by swap centres were largely determined by the supply of and demand for foreign currencies and Renminbi.

On 28 December 1993, the People's Bank of China announced that the dual exchange rate system for Renminbi against foreign currencies would be abolished with effect from 1 January 1994 and be replaced by the unified exchange rate system. Under the new system, the People's Bank of China publishes the Renminbi exchange rate against the United States dollar daily. The daily exchange rate is set by reference to the Renminbi/United States dollar trading price on the previous day on the "inter-bank foreign exchange market".

On 1 April 1996, the Foreign Exchange Control Regulations of China (as amended on 14 January 1997) came into effect. On 20 June 1996, the People's Bank of China issued the Announcement on the Implementation of Sale and Purchase of Foreign Exchange for the Foreign Investment Enterprises which allows foreign investment enterprises to settle their foreign exchange related transactions at designated banks or at swap centres from 1 July 1996. On 20 June 1996, the Regulations on Sale and Purchase of and Payment in Foreign Exchange were promulgated by the People's Bank of China and came into effect on 1 July 1996.

On 25 October 1998, the People's Bank of China and SAFE issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1 December 1998, foreign exchange transactions for foreign investment enterprises may only be conducted at designated banks. In addition, some of the swap centres would be abolished, while the others which are already linked up with the China Foreign Exchange Trading Centre (the "CFETC") by the computerised network will be merged with the CFETC and subcentres to the CFETC.

In summary, the present position under the PRC law relating to foreign exchange control, taking into account the promulgation of the recent new regulations and the extent the existing provisions stipulated in previous regulations do not contradict these new regulations, are as follows:

1. The previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the exchange rates against major foreign currencies.
2. The PRC enterprises are generally required to sell their foreign exchange earnings to designated banks unless specifically approved otherwise and purchase foreign exchange at designated banks for current account transactions.
3. Foreign investment enterprises, however, may have their own foreign currency account and are permitted to retain a certain percentage of their recurrent exchange earnings.

4. Foreign investment enterprises which require foreign exchange for their ordinary trading activities such as trade services and payment of interest on foreign debts may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper payment notices or supporting documents.
5. Foreign investment enterprises may require foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as distributing profits to their foreign investors. They can withdraw funds in their foreign exchange bank accounts kept with designated foreign exchange banks, subject to the due payment of tax on such dividends. Where the amount of the funds in foreign exchange is insufficient, the enterprise may, upon the presentation of the resolutions of the Directors on the profit distribution plan of the particular enterprise, purchase foreign exchange from designated foreign exchange banks.
6. Foreign investment enterprises may apply to the Bank of China or other designated foreign exchange banks to remit the profits out of the PRC to the foreign parties to equity or cooperative joint ventures or the foreign investors in wholly foreign-owned enterprises if the requirements provided by the PRC laws, rules and regulations are met.

As both Superior Huizhou and Superior Metal are deemed as foreign investment enterprises and wholly foreign-owned enterprises, paragraphs 3 to 6 of this Appendix I are applicable to them.

RULES OF THE SUPERIOR EMPLOYEE SHARE OPTION SCHEME

1. NAME OF THE SCHEME

The Scheme shall be called the “Superior Employee Share Option Scheme”.

2. DEFINITIONS

In the Scheme, unless the context otherwise requires, the following words and expressions shall have the following meanings:

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| “Act” | The Companies Act, Chapter 50 of Singapore, as amended or modified from time to time. |
| “Associate” | Shall have the meaning assigned to it in the Listing Rules (as may be amended, modified or supplemented from time to time). |
| “Associated Company” | A company in which at least 20% but not more than 50% of its shares are held by the Company or the Group and over which the Company has control. |
| “Associated Company Employee” | Any confirmed employee (including directors) of an Associated Company selected by the Committee to participate in the Scheme. |
| “Auditors” | The auditors of the Company for the time being. |
| “Board” | The board of Directors of the Company for the time being. |
| “Bye-Laws” | The Bye-Laws of our Company, as amended from time to time. |
| “CDP” | The Central Depository (Pte) Limited. |
| “Committee” | A committee of Directors who are duly authorised and appointed by the Board pursuant to Rule 16 to administer the Scheme for the time being and where the Company has established a Remuneration Committee pursuant to the Code of Corporate Governance (which was accepted by the Ministry of Finance on 4 April 2001), the Remuneration Committee shall administer the Scheme. |
| “Company” or “Superior Fastening” | Superior Fastening Technology Limited, an exempted company incorporated in Bermuda with limited liability. |
| “Controlling Shareholder” | A shareholder who: <ul style="list-style-type: none"> (a) holds directly or indirectly fifteen (15) per cent. or more of the issued share capital of the Company; or (b) in fact exercises control over the Company. |
| “Date of Grant” | The date on which an Option is granted to a Participant pursuant to Rule 7. |

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| “Director” | A person holding office as a director for the time being of the Company. |
| “GM” | General Meeting. |
| “Executive Director” | A director who is an employee of the Group and who performs an executive function. |
| “Exercise Price” | The price at which a Participant shall subscribe for each Share upon the exercise of an Option, as determined in accordance with Rule 9, or such adjusted price as may be applicable pursuant to Rule 10. |
| “Financial Year” | Each period of twelve (12) months or more or less than twelve (12) months, at the end of which the balance of accounts of the Company are prepared and audited, for the purpose of laying the same before an annual general meeting of the Company. |
| “Grantee” | The person to whom an offer of an Option is made. |
| “Group” | The Company, its Subsidiaries and Associated Companies (as they may exist from time to time). |
| “Group Employee” | Any confirmed employee of the Group (including an Executive Director) selected by the Committee to participate in the Scheme in accordance with Rule 4. |
| “Listing Rules” | The rules constituted in the Listing Manual of the SGX-ST (as may be amended, modified or supplemented from time to time). |
| “Market Day” | A day on which the SGX-ST is open for trading of securities. |
| “Market Price” | The average of the last dealt prices for a Share determined by reference to the daily Official List published by the SGX-ST for a period of five (5) consecutive Market Days immediately prior to the relevant Offer Date provided always that in the case of a Market Day on which the Shares of the Company are not traded on the SGX-ST, the last dealt price for Shares on such Market Day shall be deemed to be the last dealt price of the Shares on the immediately preceding Market Day on which the Shares were traded, rounded up to the nearest whole cent in the event of fractional prices. |
| “Non-executive Director” | A director of the Company and/or its subsidiaries, other than one who performs an executive function. |
| “Offer Date” | The date on which an offer to grant an Option is made pursuant to the Scheme. |
| “Option” | The right to subscribe for Shares granted or to be granted to a Group Employee pursuant to the Scheme and for the time being subsisting. |

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| “Option Period” | <p>Subject as provided in Rules 11 and 15, the period for the exercise of an Option being a period commencing after the first anniversary of the Offer Date and expiring on (and including) the date immediately preceding the tenth anniversary of the Offer Date or such other shorter period determined by the Committee.</p> <p>Provided that where the Exercise Price for the Shares comprised in an Option is set at a discount to the Market Price, such Option may not be exercised before the second anniversary of such Offer Date.</p> |
| “Participant” | The holder of an Option. |
| “Record Date” | The date as at the close of business on which the Shareholders must be registered in order to participate in any dividends, rights, allotments or other distributions. |
| “Scheme” | The Superior Employee Share Option Scheme as modified or amended from time to time. |
| “\$” or “S\$” | Singapore dollars. |
| “SGX-ST” | The Singapore Exchange Securities Trading Limited. |
| “Shares” | Ordinary shares of HK\$0.17 each in the capital of the Company. |
| “Shareholders” | The registered holders for the time being of the Shares (other than the CDP) or in the case of Depositors, Depositors who have Shares entered against their names in the Depository Register. |
| “Subsidiary” | A company which is for the time being a subsidiary of the Company as defined by Section 5 of the Act. |

The terms “Depositor”, “Depository Register” and “Depository Agent” shall have the meanings ascribed to them respectively by Section 130A of the Act.

Words denoting the singular shall, where applicable, include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine and neuter gender. References to persons shall include corporations.

Any reference in the Scheme to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Act or any statutory modification thereof and used in this Scheme shall, where applicable, have the same meaning assigned to it under the Act. Any reference in this Scheme to a time of day shall be a reference to Singapore time unless otherwise stated.

3. NAME OF THE SCHEME

The Scheme shall be called the “Superior Employee Share Option Scheme”.

4. OBJECTIVES OF THE SCHEME

The Scheme will provide an opportunity for Group Employees who have contributed significantly to the growth and performance of the Group (including Executive Directors) and who satisfy the eligibility criteria as set out in Rule 4 of the Scheme, to participate in the equity of the Company.

The Scheme is primarily a share incentive scheme. It recognises the fact that the services of such Group Employees and Non-executive Directors are important to the success and continued well-being of the Group. Implementation of the Scheme will enable the Company to give recognition to the contributions made by such Group Employees. At the same time, it will give such Group Employees an opportunity to have a direct interest in the Company at no direct cost to its profitability and will also help to achieve the following positive objectives:

- (a) to motivate participants to optimise their performance standards and efficiency and to maintain a high level of contribution to our Group;
- (b) to retain key employees and Executive Directors whose contributions are essential to the long-term growth and prosperity of our Group;
- (c) to instil loyalty to, and a stronger identification by participants with the long-term prosperity of, our Company;
- (d) to attract potential employees with relevant skills to contribute to our Group and to create value for our Shareholders; and
- (e) to align the interests of participants with the interests of our Shareholders.

5. ELIGIBILITY

The following persons shall be eligible to participate in the Scheme at the absolute discretion of the Committee:

- (a) Confirmed Group Employees (including Executive Directors) who have attained the age of twenty-one (21) years on or prior to the relevant Offer Date and are not undischarged bankrupts and have not entered into a composition with their respective creditors, and who have, as of the Date of Grant, been in the employment of the Group for a period of at least twelve (12) months, or such shorter period as the Committee may determine;
- (b) Non-executive Directors who have attained the age of twenty-one (21) years on or prior to the relevant Offer Date and are not undischarged bankrupts and have not entered into a composition with their respective creditors; and
- (c) Lam Tse Shing, whose participation in the Scheme and the grant of Options to whom, including the actual number and terms (including the exercise price, the basis used in computing the exercise price, the price fixing period as well as the justifications for any discounts to the prevailing market price of the Shares which may be given), have been approved by independent Shareholders in general meeting in separate resolutions prior to each such grant.

Controlling Shareholders and their Associates, other than Lam Tse Shing, are not entitled to participate in the Scheme.

Directors and employees of the Company's parent company and its subsidiaries (other than the Company and the Company's subsidiaries) are not entitled to participate in the Scheme.

There will be no restriction on the eligibility of any Participant to participate in any other share option or share incentive schemes implemented by any other companies within the Group.

Subject to the Act and any requirement of SGX-ST, the terms of eligibility of participation in the Scheme may be amended from time to time at the absolute discretion of the Committee, which would be exercised judiciously.

6. MAXIMUM ENTITLEMENT

Subject to Rule 4 and Rule 10, the aggregate number of Shares in respect of which Options may be offered to a Grantee for subscription in accordance with the Scheme shall be determined at the discretion of the Committee who shall take into account criteria such as rank, past performance, years of service and potential development of the participant.

Notwithstanding the above, the actual number of new Shares in respect of Options and the terms for any grant of Options under the Scheme to Lam Tse Shing shall be approved by the independent Shareholders in a separate resolution for each such person subject to the following:

- (a) the number of Options available to Lam Tse Shing shall not exceed ten (10) per cent. of the total number of Shares which may be issued pursuant to the exercise of the Options under the Scheme.

7. LIMITATION ON SIZE OF THE SCHEME

The aggregate nominal amount of Shares over which the Committee may grant Options on any date, when added to the nominal amount of Shares issued and issuable in respect of all Options granted under the Scheme shall not exceed fifteen (15) per cent. of the issued share capital of the Company on the day immediately preceding the Offer Date of the Option.

8. OFFER DATE

- 8.1 The Committee may, save as provided in Rule 4, Rule 5 and Rule 6, offer to grant Options to such Grantees as it may select in its absolute discretion at any time during the period when the Scheme is in force, except that no Options shall be granted during the period of thirty (30) days immediately preceding the date of announcement of the Company's interim and/or final results (whichever the case may be). In addition, in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is made, offers to grant Options may only be made on or after the second Market Day on which such announcement is released.
- 8.2 An offer to grant the Option to a Grantee shall be made by way of a letter (the "Letter of Offer") in the form or substantially in the form set out in Schedule A, subject to such amendments as the Committee may determine from time to time.

9. ACCEPTANCE OF OFFER

- 9.1 An Option offered to a Grantee pursuant to Rule 7 may only be accepted by the Grantee within thirty (30) days after the relevant Offer Date and not later than 5.00 p.m. on the thirtieth (30th) day from such Offer Date (a) by completing, signing and returning to the Company the Acceptance Form in or substantially in the form set out in Schedule B, subject to such modification as the Committee may from time to time determine, accompanied by payment of S\$1.00 as consideration or such other amount and such other documentation as the Committee may require and (b) if, at the date on which the Company receives from the Grantee the Acceptance Form in respect of the Option as aforesaid, he remains eligible to participate in the Scheme in accordance with these Rules.
- 9.2 If a grant of an Option is not accepted strictly in the manner as provided in this Rule 8, such offer shall, upon the expiry of the thirty (30) day period, automatically lapse and shall forthwith be deemed to be null and void and be of no effect.
- 9.3 The Company shall be entitled to reject any purported acceptance of a grant of an Option made pursuant to this Rule 8 or Exercise Notice given pursuant to Rule 12 which does not strictly comply with the terms of the Scheme.

- 9.4 Options are personal to the Grantees to whom they are granted and shall not be sold, mortgaged, transferred, charged, assigned, pledged or otherwise disposed of or encumbered in whole or in part or in any way whatsoever without the Committee's prior written approval, but may be exercised by the Grantee's duly appointed personal representative as provided in Rule 11.6 in the event of the death of such Grantee.
- 9.5 The Grantee may accept or refuse the whole or part of the offer. If only part of the offer is accepted, the Grantee shall accept the offer in multiples of 1,000 Shares. The Committee shall, within fifteen (15) Market Days of receipt of the Acceptance Form and consideration, acknowledge receipt of the same.
- 9.6 In the event that a grant of an Option results in a contravention of any applicable law or regulation, such grant shall be null and void and be of no effect and the relevant Participant shall have no claim whatsoever against the Company.
- 9.7 Unless the Committee determines otherwise, an Option shall automatically lapse and become null, void and of no effect and shall not be capable of acceptance if:
- (a) it is not accepted in the manner as provided in Rule 8.1 within the thirty (30) day period; or
 - (b) the Participant dies prior to his acceptance of the Option; or
 - (c) the Participant is adjudicated a bankrupt or enters into composition with his creditors prior to his acceptance of the Option; or
 - (d) the Grantee being a Group Employee ceases to be in the employment of the Group or (being an Executive Director or Non-executive Director) ceases to be a Director of the Company, in each case, for any reason whatsoever prior to his acceptance of the Option; or
 - (e) the Company is liquidated or wound-up prior to the Grantee's acceptance of the Option.

10. EXERCISE PRICE

- 10.1 Subject to any adjustment pursuant to Rule 10, the Exercise Price for each Share in respect of which an Option is exercisable shall be determined by the Committee at its absolute discretion, and fixed by the Committee at:
- (a) the Market Price; or
 - (b) a price which is set at a discount to the Market Price, the quantum of such discount to be determined by the Committee in its absolute discretion and approved by Shareholders in a separate resolution, provided that the maximum discount which may be given in respect of any option shall not exceed 20 per cent. of the Market Price in respect of that Option.
- 10.2 In making any determination under Rule 9.1(b) on whether to give a discount and the quantum of such discount, the Committee shall be at liberty to take into consideration such criteria as the Committee may, at its absolute discretion, deem appropriate, including but not limited to:
- (a) the performance of the Company, its Subsidiaries and Associated Companies, as the case may be;
 - (b) the years of service and individual performance of the eligible Group Employee;
 - (c) the contribution of the eligible Group Employee to the success and development of the Company and/or the Group; and
 - (d) the prevailing market conditions.
- 10.3 Where the Exercise Price as determined above is less than the nominal value of the Share, the Exercise Price shall be the nominal value.

11. ALTERATION OF CAPITAL

11.1 If a variation in the issued share capital of the Company (whether by way of a capitalisation of profits or reserves or rights issue or reduction (including any reduction arising by reason of the Company purchasing or acquiring its issued Shares), subdivision, consolidation or distribution, or otherwise howsoever) should take place, then:

- (a) the Exercise Price in respect of the Shares comprised in the Option to the extent unexercised; and/or
- (b) the nominal value, class and/or number of Shares comprised in the Option to the extent unexercised and the rights attached thereto; and/or
- (c) the maximum entitlement in any one Financial Year; and/or
- (d) the nominal value, class and/or number of Shares in respect of which additional Options may be granted to Participants,

may, at the option of the Committee, be adjusted in such manner as the Committee may determine to be appropriate including retrospective adjustments where such variation occurs after the date of exercise of an Option but the Record Date relating to such variation precedes such date of exercise and, except in relation to a capitalisation issue, upon the written confirmation of the Auditors (acting only as experts and not as arbitrators), that in their opinion, such adjustment is fair and reasonable.

11.2 Notwithstanding the provisions of Rule 10.1 above, no such adjustment shall be made (a) which would result in the Shares to be issued upon the exercise of an Option being issued at a discount to the nominal value and if such an adjustment would but for this sub-Clause have so resulted, the Exercise Price payable shall be the nominal value of a Share, (b) if as a result, the Participant receives a benefit that a Shareholder does not receive; and (c) unless the Committee after considering all relevant circumstances considers it equitable to do so.

11.3 The issue of securities as consideration for an acquisition of any assets by the Company or a private placement of securities or the cancellation of issued Shares purchased or acquired by the Company by way of a market purchase of such Shares, in accordance with the Listing Rules, undertaken by the Company on the SGX-ST during the period when a share repurchase mandate granted by the Shareholders (including any renewal of such mandate) is in force, will not be regarded as a circumstance requiring adjustment under the provisions of this Rule 10.

11.4 The restriction on the number of Shares to be offered to any Grantee under Rule 5 above, shall not apply to the number of additional Shares or Options over additional Shares issued by virtue of any adjustment to the number of Shares and/or Options pursuant to this Rule 10.

11.5 Upon any adjustment required to be made, the Company shall notify each Participant (or his duly appointed personal representative(s)) in writing and deliver to him (or, where applicable, his duly appointed personal representative(s)) a statement setting forth the new Exercise Price thereafter in effect and the nominal value, class and/or number of Shares thereafter comprised in the Option so far as unexercised and the maximum entitlement in any one Financial Year.

12. OPTION PERIOD

12.1 Options granted with the Exercise Price set at Market Price shall only be exercisable, in whole or in part (provided that an Option may be exercised in part only in respect of 1,000 Shares or any multiple thereof), at any time, by a Participant after the first anniversary of the Offer Date of that Option, Provided always that the Options shall be exercised before the tenth anniversary of the relevant Offer Date, or such earlier date as may be determined by the Committee, failing which all unexercised Options shall immediately lapse and become null and void and a Participant shall have no claim against the Company.

- 12.2 Options granted with the Exercise Price set at a discount to Market Price shall only be exercisable, in whole or in part (provided that an Option may be exercised in part only in respect of 1,000 Shares or any multiple thereof), at any time, by a Participant after the second anniversary from the Offer Date of that Option, Provided always that the Options shall be exercised before the tenth anniversary of the relevant Offer Date, or such earlier date as may be determined by the Committee, failing which all unexercised Options shall immediately lapse and become null and void and a Participant shall have no claim against the Company.
- 12.3 An Option shall, to the extent unexercised, immediately lapse and become null and void and a Participant shall have no claim against the Company:
- (a) subject to Rules 11.3, 11.4 and 11.5, upon the Participant ceasing to be in the employment of the Company or any of the companies within the Group for any reason whatsoever; or
 - (b) upon the bankruptcy of the Participant or the happening of any other event which result in his being deprived of the legal or beneficial ownership of such Option; or
 - (c) in the event of misconduct on the part of the Participant, as determined by the Committee in its absolute discretion.

For the purpose of Rule 11.3(a), a Participant shall be deemed to have ceased to be so employed as of the date the notice of termination of employment is tendered by or is given to him, unless such notice shall be withdrawn prior to its effective date.

- 12.4 If a Participant ceases to be employed by the Group by reason of his:
- (a) ill health, injury or disability, in each case, as certified by a medical practitioner approved by the Committee;
 - (b) redundancy;
 - (c) retirement at or after a normal retirement age; or
 - (d) retirement before that age with the consent of the Committee,
- or for any other reason approved in writing by the Committee, he may, at the absolute discretion of the Committee exercise any unexercised Option within the relevant Option Period and upon the expiry of such period, the Option shall immediately lapse and become null and void.
- 12.5 If a Participant ceases to be employed by a Subsidiary or Associated Company:
- (a) by reason of the Subsidiary or Associated Company, by which he is principally employed ceasing to be a company within the Group or the undertaking or part of the undertaking of such Subsidiary or Associated Company, being transferred otherwise than to another company within the Group; or
 - (b) for any other reason, provided the Committee gives its consent in writing,
- he may, at the absolute discretion of the Committee, exercise any unexercised Options within the relevant Option Period and upon the expiry of such period, the Option shall immediately lapse and become null and void.
- 12.6 If a Participant dies and at the date of his death holds any unexercised Option, such Option may, at the absolute discretion of the Committee, be exercised by the duly appointed legal personal representatives of the Participant within the relevant Option Period and upon the expiry of such period, the Option shall immediately lapse and become null and void.
- 12.7 If a Participant, who is also an Executive Director or a Non-executive Director, ceases to be a Director for any reason whatsoever, he may, at the absolute discretion of the Committee, exercise any unexercised Option within the relevant Option Period and upon the expiry of such period, the Option shall immediately lapse and become null and void.

13. EXERCISE OF OPTIONS, ALLOTMENT AND LISTING OF SHARES

- 13.1 An Option may be exercised, in whole or in part (provided that an Option may be exercised in part only in respect of 1,000 Shares or any multiple thereof), by a Participant giving notice in writing to the Company in or substantially in the form set out in Schedule C (the "Exercise Notice"), subject to such amendments as the Committee may from time to time determine. Every Exercise Notice must be accompanied by a remittance for the full amount of the aggregate Exercise Price in respect of the Shares which have been exercised under the Option, the relevant CDP charges (if any) and any other documentation the Committee may require. All payments shall be made by cheque, cashier's order, bank draft or postal order made out in favour of the Company. An Option shall be deemed to be exercised upon the receipt by the Company of the said notice duly completed and the receipt by the Company of the full amount of the aggregate Exercise Price in respect of the Shares which have been exercised under the Option.
- 13.2 Subject to:
- (a) such consents or other actions required by any competent authority under any regulations or enactments for the time being in force as may be necessary (including any approvals required from the SGX-ST and the Bermuda Monetary Authority); and
 - (b) compliance with the Rules of the Scheme, the Act, the Companies Act 1981 of Bermuda (as amended) and the Memorandum of Association and Bye-Laws of the Company,
- the Company shall, as soon as practicable after the exercise of an Option by a Participant but in any event within ten (10) Market Days after the date of the exercise of the Option in accordance with Rule 12.1, allot the Shares in respect of which such Option has been exercised by the Participant and within five (5) Market Days from the date of such allotment, despatch the relevant share certificates to CDP for the credit of the securities account of that Participant by ordinary post or such other mode of delivery as the Committee may deem fit.
- 13.3 The Company shall as soon as practicable after the exercise of an Option, apply to the SGX-ST or any other stock exchange on which the Shares are quoted or listed for permission to deal in and for quotation of the Shares which may be issued upon exercise of the Option and the Shares (if any) which may be issued to the Participant pursuant to any adjustments made in accordance with Rule 10.
- 13.4 Shares which are all allotted on the exercise of an Option by a Participant shall be issued, as the Participant may elect, in the name of CDP to the credit of the securities account of the Participant maintained with CDP or the Participant's securities sub-account with a CDP Depository Agent.
- 13.5 Shares allotted and issued upon the exercise of an Option shall be subject to all provisions of the Memorandum of Association and Bye-Laws of the Company and shall rank *pari passu* in all respects with the then existing issued Shares in the capital of the Company except for any dividends, rights, allotments or other distributions, the Record Date for which is prior to the date such Option is exercised.
- 13.6 Except as set out in Rule 12.2 and subject to Rule 10, an Option does not confer on a Participant any right to participate in any new issue of Shares.
- 13.7 The Company shall keep available sufficient unissued Shares to satisfy the full exercise of all Options for the time being remaining capable of being exercised.

14. ALTERATIONS AND AMENDMENTS TO THE SCHEME

14.1 Any or all of the provisions of the Scheme may be modified and/or altered at any time and from time to time by resolution of the Committee except that:

- (a) any modification or alteration which shall alter adversely the rights attaching to any Option granted prior to such modification or alteration and which in the opinion of the Committee, materially alters the rights attaching to any Option granted prior to such modification or alteration may only be made with the consent in writing of such number of Participants who, if they exercised their Options in full, would thereby become entitled to not less than three-quarters (3/4) in nominal amount of all the Shares which would fall to be issued and allotted upon exercise in full of all outstanding Options;
- (b) any modification or alteration which would be to the advantage of Participants under the Scheme shall be subject to the prior approval of Shareholders at a general meeting; and
- (c) no modification or alteration shall be made without the prior approval of the SGX-ST or (if required) any other stock exchange on which the Shares are quoted or listed, and such other regulatory authorities as may be necessary.

For the purposes of Rule 13.1(a), the opinion of the Committee as to whether any modification or alteration would alter adversely the rights attaching to any Option shall be final and conclusive.

14.2 Notwithstanding anything to the contrary contained in Rule 13.1, the Committee may at any time by resolution (and without any other formality save for the prior approval of the SGX-ST) amend or alter the Scheme in any way to the extent necessary to cause the Scheme to comply with any statutory provision or the provisions or the regulations of any regulatory or other relevant authority or body (including the SGX-ST).

14.3 Written notice of any modification or alteration made in accordance with this Rule shall be given to all Participants.

15. DURATION OF THE SCHEME

15.1 The Scheme shall continue to be in force at the discretion of the Committee, subject to a maximum period of ten (10) years, commencing on the date on which the Scheme is adopted by Shareholders in the GM. Subject to compliance with any applicable laws and regulations in Singapore, the Scheme may be continued beyond the above stipulated period with the approval of the Shareholders by ordinary resolution at a general meeting and of any relevant authorities which may then be required.

15.2 The Scheme may be terminated at any time by the Committee or by resolution of the Shareholders at a general meeting subject to all other relevant approvals which may be required and if the Scheme is so terminated, no further Options shall be offered by the Company hereunder.

15.3 The termination, discontinuance or expiry of the Scheme shall be without prejudice to the rights accrued to Options which have been granted and accepted as provided in Rule 8, whether such Options have been exercised (whether fully or partially) or not.

16. TAKE-OVER AND WINDING UP OF THE COMPANY

16.1 In the event of a take-over offer being made for the Company, Participants (including Participants holding Options which are then not exercisable pursuant to the provisions of Rule 11.1 and 11.2) holding Options as yet unexercised shall, notwithstanding Rule 11 and Rule 12 but subject to Rule 15.5, be entitled to exercise such Options in full or in part in the period commencing on the date on which such offer is made or, if such offer is conditional, the date on which the offer becomes or is declared unconditional, as the case may be, and ending on the earlier of:

- (a) the expiry of six (6) months thereafter, unless prior to the expiry of such six (6) month period, at the recommendation of the offeror and with the approvals of the Committee and the SGX-ST, such expiry date is extended to a later date (being a date falling not later than the date of expiry of the Option Period relating thereto); or
- (b) the date of the expiry of the Option Period relating thereto,

whereupon any Option then remaining unexercised shall immediately lapse and become null and void.

Provided always that if during such period the offeror becomes entitled or bound to exercise the rights of compulsory acquisition of the Shares under the provisions of the Act and, being entitled to do so, gives notice to the Participants that it intends to exercise such rights on a specified date, the Option shall remain exercisable by the Participants until such specified date or the expiry of the Option Period relating thereto, whichever is earlier. Any Option not so exercised by the said specified date shall lapse and become null and void. Provided that the rights of acquisition or obligation to acquire stated in the notice shall have been exercised or performed, as the case may be. If such rights of acquisition or obligations have not been exercised or performed, all Options shall, subject to Rule 11.3, remain exercisable until the expiry of the Option Period.

16.2 If, under any applicable law, the court sanctions a compromise or arrangement proposed for the purposes of, or in connection with, a scheme for the reconstruction of the Company or its amalgamation with another company or companies, Participants (including Participants holding Options which are then not exercisable pursuant to the provisions of Rule 11.1 and 11.2) shall notwithstanding Rule 11 and Rule 12 but subject to Rule 15.5, be entitled to exercise any Option then held by them during the period commencing on the date upon which the compromise or arrangement is sanctioned by the court and ending either on the expiry of sixty (60) days thereafter or the date upon which the compromise or arrangement becomes effective, whichever is later (but not after the expiry of the Option Period relating thereto), whereupon any unexercised Option shall lapse and become null and void, Provided always that the date of exercise of any Option shall be before the tenth anniversary of the Offer Date.

16.3 If an order or an effective resolution is passed for the winding up of the Company on the basis of its insolvency, all Options, to the extent unexercised, shall lapse and become null and void.

16.4 In the event if a members' solvent voluntary winding-up (other than for amalgamation or reconstruction), Participants (including Participants holding Options which are then not exercisable pursuant to the provisions of Rule 11.1 and 11.2) shall, subject to Rule 15.5, be entitled within thirty (30) days of the passing of the resolution of such winding-up (but not after the expiry of the Option Period relating thereto) to exercise in full any unexercised Option, after which such unexercised Option shall lapse and become null and void.

16.5 If in connection with the making of a general offer referred to in Rule 15.1 above or the scheme referred to in Rule 15.2 above or the winding up referred to in Rule 15.4 above, arrangements are made (which are confirmed in writing by the Auditors, acting only as experts and not as arbitrators, to be fair and reasonable) for the compensation of Participants, whether by the continuation of their Options or the payment of cash or the grant of other options or otherwise, a Participant holding an Option, which is not then exercisable, may not, at the discretion of the Committee, be permitted to exercise that Option as provided for in this Rule 15.

- 16.6 To the extent that an Option is not exercised within the periods referred to in this Rule 15, it shall lapse and become null and void.

17. ADMINISTRATION OF THE SCHEME

- 17.1 The Scheme shall be administered by the Committee in its absolute discretion with such powers and duties as are conferred on it by the Board.
- 17.2 The Committee shall have the power, from time to time, to make or vary such regulations (not being inconsistent with the Scheme) for the implementation and administration of the Scheme as it thinks fit.
- 17.3 Any decision of the Committee, made pursuant to any provision of the Scheme (other than a matter to be certified by the Auditors), shall be final and binding (including any decisions pertaining to disputes as to the interpretation of the Scheme or any rule, regulation, or procedure thereunder or as to any rights under the Scheme).
- 17.4 A Director who is a member of the Committee shall not be involved in its deliberation in respect of Options to be granted to him.

18. NOTICES

- 18.1 Any notice given by a Participant to the Company shall be sent by post or delivered to the registered office of the Company or such other address as may be notified by the Company to the Participant in writing.
- 18.2 Any notice or documents given by the Company to a Participant shall be sent to the Participant by hand or sent to him at his home address stated in the records of the Company or the last known address of the Participant, and if sent by post shall be deemed to have been given on the day immediately following the date of posting.

19. TERMS OF EMPLOYMENT UNAFFECTED

- 19.1 The Scheme or any Option shall not form part of any contract of employment between the Company, any Subsidiary or Associated Company (as the case may be) and any Participant and the rights and obligations of any individual under the terms of the office or employment with such company within the Group shall not be affected by his participation in the Scheme or any right which he may have to participate in it or any Option which he may hold and the Scheme or any Option shall afford such an individual no additional rights to compensation or damages in consequence of the termination of such office or employment for any reason whatsoever.
- 19.2 The Scheme shall not confer on any person any legal or equitable rights (other than those constituting the Options themselves) against the Company, any Subsidiary and/or Associated Company directly or indirectly or give rise to any cause of action at law or in equity against the Company, any Subsidiary or Associated Company.

20. TAXES

All taxes (including income tax) arising from the exercise of any Option granted to any Participant under the Scheme shall be borne by the Participant.

21. COSTS AND EXPENSES OF THE SCHEME

- 21.1 Each Participant shall be responsible for all fees of CDP relating to or in connection with the issue and allotment of any Shares pursuant to the exercise of any Option in CDP's name, the deposit of share certificate(s) with CDP, the Participant's security account with CDP or the Participant's securities sub-account with his Depository Agent and all taxes referred to in Rule 19 which shall be payable by the relevant Participant.

- 21.2 Save for such costs and expenses expressly provided in the Scheme to be payable by the Participants, all fees, costs, and expenses incurred by the Company in relation to the Scheme including but not limited to the fees, costs and expenses relating to the issue and allotment of the Shares pursuant to the exercise of any Option shall be borne by the Company.

22. DISCLAIMER OF LIABILITY

Notwithstanding any provisions herein contained and subject to the Companies Act 1981 of Bermuda (as amended), the Board, the Committee and the Company shall not under any circumstances be held liable for any costs, losses, expenses and damages whatsoever and howsoever arising in respect of any matter under or in connection with the Scheme including but not limited to the Company's delay or failure in issuing and allotting the Shares or in applying for or procuring the listing of and quotation for the Shares on the SGX-ST or any other stock exchanges on which the Shares are quoted or listed.

23. DISPUTES

Any disputes or differences of any nature in connection with the Scheme shall be referred to the Committee and its decision shall be final and binding in all respects.

24. CONDITION OF OPTION

Every Option shall be subject to the condition that no Shares shall be issued pursuant to the exercise of an Option if such issue would be contrary to any law or enactment, or any rules or regulations of any legislative or non-legislative governing body for the time being in force in Singapore or any other relevant country.

25. GOVERNING LAW

The Scheme shall be governed by and construed in accordance with the laws of the Republic of Singapore. The Company and the Participants, by accepting the offer of the grant of Options in accordance with the Scheme, submit to the exclusive jurisdiction of the courts of the Republic of Singapore.

26. DISCLOSURE IN ANNUAL REPORT

The Company shall make the following disclosure in its annual report:

- (a) The names of the members of the Committee;
- (b) The information required in the table below for the following Participants (which for the avoidance of doubt, shall include Participants who have exercised all their Options in any particular Financial Year):
 - (i) Participants who are Directors of the Company;
 - (ii) Lam Tse Shing; and
 - (iii) Participants, other than those in (i) and (ii) above who receive five (5) per cent. or more of the total number of Options available under the Scheme.

| Name of Participant | Options granted during financial year under review (including terms) | Aggregate Options granted since commencement of the Scheme to end of financial year under review | Aggregate Options exercised since commencement of the Scheme to end of financial year under review | Aggregate Options outstanding as at end of financial year under review |
|---------------------|--|--|--|--|
| | | | | |

- (c) The number and proportion of Options granted at the following discounts to average market value of the Shares in the financial year under review:
 - (i) options granted at up to 10 per cent. discount; and
 - (ii) options granted at between 10 per cent. but not more than 20 per cent. discount.

27. ABSTENTION FROM VOTING

Participants who are Shareholders are to abstain from voting on any Shareholders' resolution relating to the Scheme.

SUPERIOR EMPLOYEE SHARE OPTION SCHEME

LETTER OF OFFER

Serial No: _____

Private and Confidential

Date:

To: **[Name]**
[Designation]
[Address]

Dear Sir/Madam,

1. We have the pleasure of informing you that, pursuant to the Superior Employee Share Option Scheme ("ESOS"), you have been nominated to participate in the ESOS by the Committee (the "Committee") appointed by the Board of Directors of Superior Fastening Technology Limited (the "Company") to administer the ESOS. Terms as defined in the ESOS shall have the same meaning when used in this letter.
2. Accordingly, in consideration of the payment of a sum of S\$1.00, an offer is hereby made to grant you an option (the "Option"), to subscribe for and be allotted _____ Shares at the price of S\$ _____ for each Share.
3. The Option is personal to you and shall not be mortgaged, transferred, charged, pledged, assigned or otherwise disposed of by you, in whole or in part, except with the prior approval of the Committee.
4. The Option shall be subject to the terms of the Scheme, a copy of which is available for inspection at the business address of the Company.
5. If you wish to accept the offer of the Option on the terms of this letter, please sign and return the enclosed Acceptance Form with a sum of S\$1.00 not later than _____ a.m./p.m. on _____, failing which this offer will lapse.

Yours faithfully,
For and on behalf of
Superior Fastening Technology Limited

Name:
Designation:

SUPERIOR EMPLOYEE SHARE OPTION SCHEME**ACCEPTANCE FORM**

Serial No: _____

Date:

To: The Committee,
 Superior Employee Share Option Scheme,
 Superior Fastening Technology Limited
 [address]

| | | |
|---|---|-----------|
| Closing Time and Date for Acceptance of Offer | : | _____ |
| Number of Shares Offered | : | _____ |
| Exercise Price for each Share | : | S\$ _____ |
| Total Amount Payable (exclusive of the relevant CDP charges) | : | S\$ _____ |

I have read your Letter of Offer dated _____ and agree to be bound by the terms of the Letter of Offer and the Superior Employee Share Option Scheme referred to therein. Terms defined in your Letter of Offer shall have the same meanings when used in this Acceptance Form.

I hereby accept the Option to subscribe for _____ Shares at S\$ _____ for each Share. I enclose cash for S\$1.00 in payment for the purchase of the Option/I authorise my employer to deduct the sum of S\$1.00 from my salary in payment for the purchase of the Option.

I understand that I am not obliged to exercise the Option.

I also understand that I shall be responsible for all the fees of CDP relating to or in connection with the allotment and issue of any Shares in CDP's name, the deposit of share certificates with CDP, my securities account with CDP or my securities sub-account with a CDP Depository Agent (as the case may be) (collectively, the "CDP charges").

I confirm that as at the date hereof:

- (a) I am not less than 21 years old not an undischarged bankrupt nor have I entered into a composition with any of my creditors;
- (b) I satisfy the eligibility requirements to participate in the Scheme as defined in Rule 4 of the Scheme; and
- (c) I satisfy the other requirements to participate in the Scheme as set out in the Rules of the Scheme.

I confirm that my acceptance of the Option will not result in the contravention of any applicable law or regulation in relation to the ownership of shares in the Company or options to subscribe for such shares.

I agree to keep all information pertaining to the grant of the Option to me confidential.

I further acknowledge that you have not made any representation or warranty or given me any expectation of employment or continued employment to induce me to accept the offer and that the terms of the Letter of Offer and this Acceptance Form constitute the entire agreement between us relating to the offer.

Please print in block letters

Name in full : _____

Designation : _____

Address : _____

Nationality : _____

*NRIC/Passport No. : _____

Signature : _____

Date : _____

* *Delete accordingly*

Notes:

1. Option must be accepted in full or in multiples of 1,000 Shares.
2. The Acceptance Form must be forwarded to the Company Secretary in an envelope marked "Private and Confidential".
3. The Participant shall be informed by the Company of the relevant CDP charges payable at the time of the exercise of an Option.

SUPERIOR EMPLOYEE SHARE OPTION SCHEME

FORM OF EXERCISE OF OPTION

To: The Committee,
 Superior Employee Share Option Scheme,
 Superior Fastening Technology Limited
 [address]

| | | |
|---|---|-------|
| Total number of ordinary shares of HK\$0.17 each (the “ <u>Shares</u> ”) offered at S\$_____ for each Share (the “ <u>Exercise Price</u> ”) under the Scheme on _____ (Date of Grant) | : | _____ |
| Number of Shares previously allotted thereunder | : | _____ |
| Outstanding balance of Shares to be allotted thereunder | : | _____ |
| Number of Shares now to be subscribed | : | _____ |

1. Pursuant to your Letter of Offer dated _____ and my acceptance thereof, I hereby exercise the Option to subscribe for _____ Shares in Superior Fastening Technology Limited (the “Company”) at S\$_____ for each Share.
2. I enclose a *cheque/cashier’s order/banker’s draft/postal order no. _____ for S\$_____ by way of subscription for the total number of the said Shares.
3. I agree to subscribe for the said Shares subject to the terms of the Letter of Offer, the Superior Employee Share Option Scheme and the Memorandum of Association and Bye-Laws of the Company.
4. I declare that I am subscribing for the said Shares for myself and not as a nominee for any other person.
5. I request the Company to allot and issue the Shares in the name of The Central Depository (Pte) Limited (“CDP”) for credit of my *Securities Account with CDP/Sub-Account with the Depository Agent/CPF investment account with my Agent Bank specified below and I hereby agree to bear such fees or other charges as may be imposed by CDP in respect thereof.

Please print in block letters

Name in full : _____

Designation : _____

Address : _____

Nationality : _____

*NRIC/Passport No. : _____

*Direct Securities Account No. : _____

OR

*Sub-Account No. : _____

Name of Depository Agent : _____

OR

*CPF Investment Account No. : _____

Name of Agent Bank : _____

Signature : _____

Date : _____

* *Delete accordingly*

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TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION

You are invited to apply and subscribe for the 25,000,000 New Shares at the Issue Price for each New Share subject to the following terms and conditions:-

1. **YOUR APPLICATION MUST BE MADE IN LOTS OF 1,000 NEW SHARES AND HIGHER INTEGRAL MULTIPLES THEREOF. YOUR APPLICATION FOR ANY OTHER NUMBER OF NEW SHARES WILL BE REJECTED.**
2. Your application for Offer Shares may be made by way of printed Offer Shares Application Forms or by way of Electronic Applications through ATMs of the Participating Banks ("ATM Electronic Applications") or through the Internet Banking ("IB") websites of the relevant Participating Banks ("IB Applications").

Your application for Internet Placement Shares ("Internet Placement Application") may only be made by way of an application through the IPO website at "www.ePublicOffer.com" if you have a valid membership account with the IPO Website Operator. IB Applications and Internet Placement Applications (collectively, the "Internet Electronic Applications"), together with ATM Electronic Applications, shall be referred to as "Electronic Applications".

Your application for the Placement Shares may only be made by way of Placement Shares Application Forms. **YOU MAY NOT USE CPF FUNDS TO APPLY FOR THE NEW SHARES.**

3. **You (being other than an approved nominee company) are allowed to submit ONLY one application in your own name for:-**
 - (a) **the Offer Shares by any one of the following:-**
 - (i) **Offer Shares Application Form;**
 - (ii) **ATM Electronic Application; or**
 - (iii) **IB Application,**
 - (b) **the Placement Shares by any one of the following:-**
 - (i) **Placement Shares Application Form; or**
 - (ii) **Internet Placement Application.**

If more than one application is submitted for either the Offer Shares or Placement Shares, such separate applications shall be deemed to be multiple applications and shall be rejected.

If you have made an application for Placement Shares, you should not make any application for Offer Shares and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected.

JOINT OR MULTIPLE APPLICATIONS SHALL BE REJECTED. If you submit or procure submissions of multiple share applications for Offer Shares, Placement Shares or both Offer Shares and Placement Shares, you may be deemed to have committed an offence under the Penal Code, Chapter 224 of Singapore and the Securities and Futures Act, Chapter 289 of Singapore, and your applications may be referred to the relevant authorities for investigation. Multiple applications or those appearing to be or suspected of being multiple applications will be liable to be rejected at our discretion.

4. We will not accept applications from any person under the age of 21 years, undischarged bankrupts, sole-proprietorships, partnerships, chops or non-corporate bodies, joint Securities Account holders of CDP and from applicants whose addresses (furnished in their Application Forms or, in the case of Electronic Applications, contained in the records of the relevant Participating Banks or the IPO Website Operator, as the case may be) bear post office box numbers.

In addition, applicants who wish to subscribe for the Placement Shares through the IPO website (a) must not be corporations, sole proprietorships, partnerships or any other business entities; (b) must be over the age of 21 years; (c) must not be undischarged bankrupts; (d) must apply for the Placement Shares in Singapore; (e) must have a mailing address in Singapore; and (f) must be customers who maintain valid membership accounts with the IPO Website Operator.

5. We will not recognise the existence of a trust. Any application by a trustee or trustees must be made in his/their own name(s) and without qualification or, where the application is made by way of an Application Form, in the name(s) of an approved nominee company or approved nominee companies after complying with paragraph 6 below.
6. **WE WILL NOT ACCEPT APPLICATIONS FROM NOMINEES EXCEPT THOSE MADE BY APPROVED NOMINEE COMPANIES ONLY.** Approved nominee companies are defined as banks, merchant banks, finance companies, insurance companies, licensed securities dealers in Singapore and nominee companies controlled by them. Applications made by persons acting as nominees other than approved nominee companies shall be rejected.
7. **IF YOU ARE NOT AN APPROVED NOMINEE COMPANY, YOU MUST MAINTAIN A SECURITIES ACCOUNT WITH CDP IN YOUR OWN NAME AT THE TIME OF YOUR APPLICATION.** If you do not have an existing Securities Account with CDP in your own name at the time of your application, your application will be rejected (if you apply by way of an Application form), or you will not be able to complete your Electronic Application (if you apply by way of an Electronic Application). If you have an existing Securities Account but fail to provide your Securities Account number or provide an incorrect Securities Account number in Section B of the Application Form or in your Electronic Application, as the case may be, your application is liable to be rejected. Subject to paragraph 8 below, your application shall be rejected if your particulars, such as name, NRIC/passport number, nationality and permanent residence status provided in your Application Form or in the records of the relevant Participating Bank or the IPO Website Operator at the time of your Electronic Application, as the case may be, differ from those particulars in your Securities Account as maintained with CDP. If you possess more than one individual direct Securities Account with CDP, your application shall be rejected.
8. **If your address as stated in the Application Form or, in the case of an Electronic Application, contained in the records of the relevant Participating Bank or the IPO Website Operator, as the case may be, is different from the address registered with CDP, you must inform CDP of your updated address promptly, failing which the notification letter on successful allotment will be sent to your address last registered with CDP.**
9. **We reserve the right to reject any application which does not conform strictly to the instructions set out in the Application Form or the instruction for Electronic Applications and in this Prospectus or with the terms and conditions of this Prospectus, which is illegible, incomplete, incorrectly completed or which is accompanied by an improperly drawn up or improper form of remittance. Our Company further reserves the right to treat as valid any applications not completed or submitted or effected in all respects in accordance with the instructions set out in the Application Forms or the instructions for Electronic Applications or the terms and conditions of this Prospectus, and also to present for payment or other processes all remittances at any time after receipt and to have full access to all information relating to, or deriving from, such remittances or the processing thereof.**

10. We reserve the right to reject or to accept, in whole or in part, or to scale down or to ballot any application, without assigning any reason therefor, and we will not entertain any enquiry and/or correspondence on our decision. This right applies to applications made by way of Application Forms and by way of Electronic Applications. In deciding the basis of allotment, we will give due consideration to the desirability of allotting the New Shares to a reasonable number of applicants with a view to establishing an adequate market for the Shares.
11. Share certificates will be registered in the name of CDP and will be forwarded only to CDP. It is expected that CDP will send to you, at your own risk, within 15 Market Days after the close of the Application List, a statement of account stating that your Securities Account has been credited with the number of New Shares allotted to you. This will be the only acknowledgement of application monies received and is not an acknowledgement by us. You irrevocably authorise CDP to complete and sign on your behalf as transferee or renouncee any instrument of transfer and/or other documents required for the issue or transfer of the New Shares allotted to you. This authorisation applies to applications made by way of Application Forms and by way of Electronic Applications.
12. In the event of an under-subscription for the Offer Shares as at the close of the Application List, we will make available that number of Offer Shares not subscribed for to satisfy excess applications for Placement Shares to the extent that there is an over-subscription for Placement Shares as at the close of the Application List.

In the event of an under-subscription for the Placement Shares as at the close of the Application List, we will make available that number of Placement Shares not subscribed for to satisfy excess applications for Offer Shares to the extent that there is an over-subscription for Offer Shares as at the close of the Application List.

In the event of an under-subscription for the Internet Placement Shares to be applied for through the IPO website as at the close of the Application List, we will make available that number of Internet Placement Shares not subscribed for to satisfy excess applications for Placement Shares by way of Placement Shares Application Forms to the extent that there is an over-subscription for such Placement Shares as at the close of the Application List or to satisfy excess applications for the Offer Shares, to the extent that there is an over-subscription for the Offer Shares as at the close of the Application List.

In the event of an over-subscription for Offer Shares and/or Placement Shares (including the Internet Placement Shares) as at the close of the Application List, the successful applications for Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

In all of the above instances, the basis of allotment of the New Shares as may be decided upon by our Company in ensuring a reasonable spread of shareholders of our Company, shall be made public, as soon as is practicable, via an announcement through the SGX-ST and through a paid advertisement in a local newspaper.

13. You irrevocably authorise CDP to disclose the outcome of your application, including the number of New Shares allotted to you pursuant to your application, to our Company, the Manager, the Underwriters, the Joint Lead Placement Agents and any other parties so authorised as the foregoing persons.
14. Any reference to the “you” in this section shall include an individual, a corporation, an approved nominee and trustee applying for the Offer Shares by way of an Offer Share Application Form, an ATM Electronic Application or an IB Application; an individual, a corporation, an approved nominee and trustee applying for the Placement Shares through the Joint Lead Placement Agents by way of a Placement Shares Application Form or the Internet Placement Shares by way of an Internet Placement Application through the IPO website.

15. By completing and delivering an Application Form or by making and completing an Electronic Application by (in the case of an ATM Electronic Application) pressing the “Enter” or “OK” or “Confirm” or “Yes” key on the ATM (as the case may be) or by (in the case of an Internet Electronic Application) clicking “Submit” or “Continue” or “Yes” or “Confirm” on the IB website screen or IPO website screen (as the case may be) in accordance with the provisions of this Prospectus, you:-
- (a) irrevocably offer to subscribe for the number of New Shares specified in your application (or such smaller number for which the application is accepted) at the Issue Price and agree that you will accept such New Shares as may be allotted to you, in each case on the terms of this Prospectus and on the terms of the conditions set out in, this Prospectus and the Memorandum and Articles of Association of our Company;
 - (b) agree that in the event of any inconsistency between the terms and conditions for application set out in this Prospectus and those set out in the IPO website, or the IB websites or ATMs of the Participating Banks, the terms and conditions set out in this Prospectus shall prevail;
 - (c) agree that the aggregate Issue Price for the New Shares applied for is due and payable to our Company forthwith;
 - (d) warrant the truth and accuracy of the information contained, and representations and declarations made, provided in your application, and acknowledge and agree that such information, representations and declarations will be relied on by our Company in determining whether to accept your application and/or whether to allot any New Shares to you; and
 - (e) agree and warrant that if the laws of any jurisdictions outside Singapore are applicable to your application, you have complied with all such laws and none of our Company, the Manager, the Underwriters and/or the Joint Lead Placement Agents will infringe any such laws as a result of the acceptance of your application.
16. Our acceptance of applications will be conditional upon, *inter alia*, we being satisfied that:-
- (a) permission has been granted by the SGX-ST to deal in and for quotation for all our existing Shares and the New Shares on a “when issued” basis on the SGX-Sesdaq;
 - (b) the Management and Underwriting Agreement and the Placement Agreement referred to on pages 102 and 103 of this Prospectus have become unconditional and have not been terminated or cancelled prior to such date as our Company may determine; and
 - (c) the Authority has not served a stop order which directs that no further shares to which this Prospectus relates be allotted.
17. We will not hold any applications in reserve.
18. We will not allot Shares on the basis of this Prospectus later than six months after the date of registration of this Prospectus.
19. Additional terms and conditions for applications by way of Application Forms are set out on pages K-5 to K-7 of Appendix K of this Prospectus.
20. Additional terms and conditions for applications by way of Electronic Applications are set out on pages K-8 to K-14 of Appendix K of this Prospectus.

ADDITIONAL TERMS AND CONDITIONS FOR APPLICATIONS USING PRINTED APPLICATION FORMS

You shall make an application by way of Application Forms made on and subject to the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below as well as those set out under the section on “**TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION**” on pages K-1 to K-4 of Appendix K of this Prospectus, as well as the Memorandum and Articles of Association of our Company.

1. Your application must be made using the **WHITE** Application Forms for Offer Shares and the **BLUE** Application Forms for Placement Shares accompanying and forming part of this Prospectus. We draw your attention to the detailed instructions contained in the respective Application Forms and this Prospectus for the completion of the Application Forms which must be carefully followed. **We reserve the right to reject applications which do not conform strictly to the instructions set out in the Application Forms and this Prospectus or to the terms and conditions of this Prospectus or which are illegible, incomplete, incorrectly completed or which are accompanied by improperly drawn remittances or improper form of remittances.**
2. Your Application Forms must be completed in English. Please type or write clearly in ink using **BLOCK LETTERS**.
3. All spaces in the Application Forms except those under the heading “FOR OFFICIAL USE ONLY” must be completed and the words “NOT APPLICABLE” or “N.A.” should be written in any space that is not applicable.
4. Individuals, corporations, approved nominee companies and trustees must give their names in full. You must make your application, in the case of individuals, in your full names appearing in your identity cards (if applicants have such identification documents) or in your passports and, in the case of corporations, in your full names as registered with a competent authority. If you are a non-individual completing the Application Form under the hand of an official, you must state the name and capacity in which that official signs. If you are a corporation completing the Application Form, you are required to affix your Common Seal (if any) in accordance with your Memorandum and Articles of Association or equivalent constitutive documents. If you are a corporate applicant and your application is successful, a copy of your Memorandum and Articles of Association or equivalent constitutive documents must be lodged with the Share Registrar and Share Transfer office. We reserve the right to require you to produce documentary proof of identification for verification purposes.
5.
 - (a) You must complete Sections A and B and sign page 1 of the Application Form.
 - (b) You are required to delete either paragraph 7(a) or 7(b) on page 1 of the Application Form. Where paragraph 7(a) is deleted, you must also complete Section C of the Application Form with particulars of the beneficial owner(s).
 - (c) If you fail to make the required declaration in paragraph 7(a) or 7(b), as the case may be, on page 1 of the Application Form, your application is liable to be rejected.

6. You (whether you are an individual and corporate applicant, whether incorporated or unincorporated and wherever incorporated or constituted), will be required to declare whether you are a citizen or permanent resident of Singapore or a corporation in which citizens or permanent residents of Singapore or any body corporate constituted under any statute of Singapore have an interest in the aggregate of more than 50 per cent. of the issued share capital of or interests in such corporations. If you are an approved nominee company, you are required to declare whether the beneficial owner of the New Shares is a citizen or permanent resident of Singapore or a corporation, whether incorporated or unincorporated and wherever incorporated or constituted, in which citizens or permanent residents of Singapore or any body corporate whether incorporated or unincorporated and wherever incorporated or constituted under any statute of Singapore have an interest in the aggregate of more than 50 per cent. of the issued share capital of or interests in such corporation.
7. Your application must be accompanied by a remittance in Singapore currency for the full amount payable, in respect of the number of New Shares applied for, in the form of a BANKER'S DRAFT or CASHIER'S ORDER drawn on a bank in Singapore, made out in favour of **"SUPERIOR SHARE ISSUE ACCOUNT"** crossed "A/C PAYEE ONLY", with your name and address written clearly on the reverse side. **We will not accept applications accompanied by ANY OTHER FORM OF PAYMENT.** We will reject remittances bearing "NOT TRANSFERABLE" or "NON TRANSFERABLE" crossings. **No acknowledgement or receipt will be issued by us or the Manager for applications and application monies received.**
8. Unsuccessful applications are expected to be returned (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post within 24 hours of the balloting after the close of the Application List at your own risk. Where your application is accepted in part only, the balance of the application monies will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post at your own risk in the shortest possible time.
9. Capitalised terms used in the Application Forms and defined in this Prospectus shall bear the meanings assigned to them in this Prospectus.
10. By completing and delivering the Application Form in accordance with the provisions of this Prospectus, you agree that:–
 - (a) in consideration of us having distributed the Application Form to you and agreeing to close the Application List at **12.00 noon on 10 December 2003 or such other time or date as we may, in consultation with the Manager, decide** and by completing and delivering the Application Form, you agree that:–
 - (i) your application is irrevocable; and
 - (ii) your remittance will be honoured on first presentation and that any monies returnable may be held pending clearance of your payment without interest or any share of revenue or other benefit arising therefrom;
 - (b) all applications, acceptances and contracts resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and that you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
 - (c) in respect of the New Shares for which your application has been received and not rejected, acceptance of your application shall be constituted by written notification and not otherwise, notwithstanding any remittance being presented for payment by or on our behalf;
 - (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application; and
 - (e) in making your application, reliance is placed solely on the information contained in this Prospectus and none of our Company, the Manager, the Underwriters, the Joint Lead Placement Agents or any other person involved in the Invitation shall have any liability for any information not so contained.

Applications for Offer Shares

1. Your applications for Offer Shares **MUST** be made using the **WHITE** Offer Shares Application Forms and **WHITE** official envelopes "A" and "B". **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. You must:–
 - (a) enclose the **WHITE** Offer Shares Application Form, duly completed and signed, together with your remittance in the **WHITE** envelope "A" provided;
 - (b) in the appropriate spaces on **WHITE** envelope "A":–
 - (i) write your name and address;
 - (ii) state the number of Offer Shares applied for; and
 - (iii) affix adequate Singapore postage;
 - (c) seal **WHITE** envelope "A"; and
 - (d) write, in the appropriate box provided on the larger **WHITE** envelope "B" addressed to **LIM ASSOCIATES (PTE) LTD, 10 COLLYER QUAY #19-08 OCEAN BUILDING, SINGAPORE 049315**, the number of Offer Shares you have applied for; and insert **WHITE** envelope "A" into **WHITE** envelope "B", seal **WHITE** envelope "B" and thereafter **DESPATCH BY ORDINARY POST OR DELIVER BY HAND** at your own risk to **LIM ASSOCIATES (PTE) LTD, 10 COLLYER QUAY #19-08 OCEAN BUILDING, SINGAPORE 049315**, so as to arrive by **12.00 noon on 10 December 2003 or such other time as we may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.
3. Applications that are illegible, incomplete or incorrectly completed or accompanied by improperly drawn remittances are liable to be rejected.

Applications for Placement Shares

1. Your application for Placement Shares **MUST** be made using the **BLUE** Placement Shares Application Forms. **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. The completed and signed **BLUE** Placement Shares Application Form and your remittance, in accordance with the terms and conditions of this Prospectus, for the full amount payable in respect of the number of Placement Shares applied for, with your name and address written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by you. You must affix adequate Singapore postage on the envelope (if despatching by ordinary post) and thereafter the sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND** at your own risk to **LIM ASSOCIATES (PTE) LTD, 10 COLLYER QUAY #19-08 OCEAN BUILDING, SINGAPORE 049315**, to arrive by **12.00 noon on 10 December 2003 or such other time as we may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.
3. Alternatively, you may remit your application monies by electronic transfer to the account of The Bank of East Asia, Limited, account number 9008 3945, in favour of "**SUPERIOR SHARE ISSUE ACCOUNT**" for the number of Placement Shares applied for by **12.00 noon on 10 December 2003 or such other time as we may, in consultation with the Manager, decide.** If you remit your application monies via electronic transfer, you should fax and send a copy of the remittance advice to SBI E2-Capital Pte Ltd at fax number 6227 3936 to arrive by **12.00 noon on 10 December 2003 or such other time as we may, in consultation with the Manager, decide.**

ADDITIONAL TERMS AND CONDITIONS FOR ELECTRONIC APPLICATIONS

The procedures for Electronic Applications are set out on the ATM screens (in the case of ATM Electronic Applications), the IB website screens (in the case of IB Applications) of the relevant Participating Banks and the IPO website (in the case of Internet Placement Applications).

Currently, DBS and the UOB group are the only Participating Banks through which an IB Application can be made on the respective IB websites of DBS and the UOB group.

Internet Placement Applications may be made through the IPO website.

For illustration purposes, the procedures for Electronic Applications through ATMs, the IB website of DBS and the IPO website are set out respectively in the “Steps for ATM Electronic Applications for Offer Shares through ATMs of DBS Bank”, “Steps for IB Applications through the IB website of DBS Bank” and the “Steps for Internet Placement Application for Placement Shares through the IPO website” (the “Steps”) appearing on pages K-13 to K-15 of this Prospectus.

The Steps set out the actions that you must take at an ATM, the IB website of DBS or the IPO website to complete an Electronic Application. Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for Electronic Applications set out below before making an Electronic Application.

Any reference to “you” in the additional terms and conditions for Electronic Applications and the Steps shall refer to you making an application for:–

- (a) Offer Shares through an ATM or the IB website of a relevant Participating Bank; and
- (b) Internet Placement Shares through the IPO website.

To make an ATM Electronic Application:–

- (a) You must have an existing bank account with and be an ATM cardholder of one of the Participating Banks before you can make an ATM Electronic Application at the ATMs. An ATM card issued by one Participating Bank cannot be used to apply for Offer Shares at an ATM belonging to other Participating Banks. Upon the completion of your ATM Electronic Application transaction, you will receive an ATM transaction slip (“Transaction Record”), confirming the details of your ATM Electronic Application. The Transaction Record is for your retention and should not be submitted with any Application Form.
- (b) You must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. If you operate a joint bank account with any of the Participating Banks, you must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. Using your own Securities Account number with an ATM card which is not issued to you in your own name will render your ATM Electronic Application liable to be rejected.

To make an IB Application, you must have an existing bank account with and an IB User Identification (“User ID”) and a Personal Identification Number/Password given by the relevant Participating Bank. Upon completion of your IB Application, there will be an on-screen confirmation (“Confirmation Screen”) of the application which you can print out for your record. This printed record of the Confirmation Screen is for your retention and should not be submitted with any Application Form.

To make an Internet Placement Application, you must be registered as a user of the IPO website and have a User Name (“User Name”) and a Password given by the IPO website. Upon completion of your Internet Placement Application, there will be an on-screen confirmation (“Provisional Allocation Screen”) of the application which you can print out for your record. This printed record of the Confirmation Screen is for your retention and is to accompany your payment for the Internet Placement Shares, and should not be submitted with any Application Form. An electronic mail (email) containing the information in the Provisional Allocation Screen will also be sent to your email account registered with the IPO website.

Further, you must ensure, when making an IB Application or Internet Placement Application that:–

- (a) you are currently in Singapore at the time of making of such application;
- (b) your mailing address for IB with the relevant Participating Bank and the IPO website is in Singapore;
- (c) you are not a US person⁽¹⁾ (as such term is defined in Regulation S under the United States Securities Act of 1933, as amended from time to time),

and you will be asked to declare the above accordingly. Otherwise, your application is liable to be rejected.

Note:–

(1) For details, please refer to definition of “US person” on the IB websites or the IPO website.

Your Electronic Application shall be made on the terms and subject to the conditions of this Prospectus including but not limited to the terms and conditions appearing below and those set out under the section on “TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION” on pages K-1 to K-4 of this Prospectus as well as the Memorandum and Articles of Association of our Company.

1. In connection with your Electronic Application for New Shares, you may be required to confirm statements to the following effect in the course of activating the Electronic Application:–
 - (a) **that you have received a copy of this Prospectus and has read, understood and agreed to all the terms and conditions of application for New Shares and this Prospectus prior to effecting the Electronic Application and agrees to be bound by the same;**
 - (b) **that you consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent resident status, CDP Securities Account number, and share application amount (the “Relevant Particulars”) from your account with that Participating Bank to the Share Registrar, CDP, SCCS, our Company and the Manager (the “Relevant Parties”); and**
 - (c) **that this is your only application and it is made in your own name and at your own risk.**

Your application will not be successfully completed and cannot be recorded as a completed transaction in the ATM unless you press the “Enter” or “OK” or “Confirm” or “Yes” key. By doing so, you shall be treated as signifying your confirmation of each of the above three statements. In respect of statement 1(b) above, your confirmation, by pressing the “Enter” or “OK” or “Confirm” or “Yes” key, shall signify and shall be treated as your written permission, given in accordance with the relevant laws of Singapore including Section 47(2) of the Banking Act (Chapter 19) of Singapore to the disclosure by that Participating Bank of your Relevant Particulars to the Relevant Parties.

2. **BY MAKING AN ELECTRONIC APPLICATION, YOU CONFIRM THAT YOU ARE NOT APPLYING FOR NEW SHARES AS NOMINEE OF ANY OTHER PERSON AND THAT ANY ELECTRONIC APPLICATION THAT YOU MAKE IS THE ONLY APPLICATION MADE BY YOU AS BENEFICIAL OWNER.**
3. For an ATM Electronic Application or IB Application, you must have sufficient funds in your bank account with your Participating Bank at the time you make your ATM Electronic Application or IB Application, failing which your ATM Electronic Application or IB Application will not be completed. **Any ATM Electronic Application or IB Application which does not conform strictly to the instructions set out on the screens of the ATM or IB website through which your ATM Electronic Application or IB Application is being made shall be rejected.**

An applicant who makes an application for New Shares through the IPO website will be advised through the IPO website on the amount payable and the method(s) of payment.

4. You irrevocably agree and undertake to subscribe for and to accept the number of New Shares applied for as stated on the Transaction Record or Confirmation Screen. You also irrevocably agree and undertake to subscribe for and to accept any lesser number of New Shares that may be allotted to you in respect of your Electronic Application. In the event that our Company decides to allot any lesser number of such New Shares or not to allot any New Shares to you, you agree to accept such decision as final.

If your Electronic Application is successful, your confirmation (by your action of pressing the “Enter” or “OK” or “Confirm” or “Yes” key on the ATM, clicking “Confirm” or “OK” on the IB website screen or “Confirm” on the IPO website screen) of the number of New Shares applied for shall signify and shall be treated as your acceptance of the number of New Shares that may be allotted to you and your agreement to be bound by the Memorandum and Articles of Association of our Company.

5. **Our Company will not keep any applications in reserve.** Where your Electronic Application is unsuccessful, the full amount of the application moneys will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within twenty-four hours after the close of the Application List. **Trading on a “WHEN ISSUED” basis, if applicable, is expected to commence after such refund has been made.**

Where your Electronic Application is rejected or accepted in part only, the full amount or the balance of the application moneys, as the case may be, will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank or if you have applied for the Internet Placement Shares through the IPO website, by ordinary post or such other means as the IPO website Operator may agree with you, at your own risk, within 14 Market Days after the close of the Application List provided that the remittance in respect of such application which has been presented for payment or other processes has been honoured and the application monies received in the designated share issue account.

Responsibility for timely refund of application moneys arising from unsuccessful or partially successful Electronic Applications lies solely with the respective Participating Banks or the IPO Website Operator. Therefore, you are strongly advised to consult your Participating Bank or the IPO Website Operator as to the status of your Electronic Application and/or the refund of any moneys to you from unsuccessful or partially successful Electronic Application, to determine the exact number of New Shares allotted to you before trading the New Shares on the SGX-ST. Neither the SGX-ST, the CDP, the SCCS, the Participating Banks, the IPO Website Operator, our Company, or the Manager assume any responsibility for any loss that may be incurred as a result of you having to cover any net sell positions or from buy-in procedures activated by the SGX-ST.

6. If your Electronic Application is made through the ATMs of DBS (including POSBank), OCBC, or the UOB Group, and is unsuccessful, no notification will be sent by such Participating Bank.

If your IB Application made through the IB website of DBS or UOB Group is unsuccessful, no notification will be sent by such Participating Bank.

Any Internet Placement Application made through the IPO website is on a first-come-first-served basis, and is subject to availability at the point of application. If your Internet Placement Application is unsuccessful, an email notification will be sent to the applicant’s registered address with the IPO website.

If you make ATM Electronic Applications through the ATMs of the following banks, you may check the results of your ATM Electronic Applications as follows:–

| Bank | Telephone | Available at | Operating Hours | Service expected from |
|-----------|--|--|--|---------------------------------|
| DBS Bank | 1800 339 6666 (for POSB account holders) 1800 111 1111 (for DBS account holders) 6327 4767 | Internet Banking or Internet Kiosk www.dbs.com | 24 hours | Evening of the balloting day |
| OCBC | 1800 363 3333 | ATM | ATM/Phone Banking 24 hours | Evening of the balloting day |
| UOB Group | 1800 533 5533 1800 222 2121 http://www.uobgroup.com * (for UOB/ICB/FEB) | ATM (Other Transactions — “IPO Enquiry”) | ATM**/Phone Banking 24 hours Internet Banking 24 hours | Evening of the balloting day |

* If you make your IB Applications through the IB website of DBS or the UOB Group, you may check the result through the same channels listed in the table above in relation to ATM Electronic Applications made at ATMs of DBS or the UOB Group.

** If you make your Electronic Application through the ATMs or IB website of the UOB Group, you may check the results of your application through UOB Personal InternetBanking, UOB Group ATMs or UOB PhoneBanking Services.

If you make your Electronic Application through the IPO website, you can check the result of your application through the IPO website. If your application is successful, you will be notified of the results of your application via an email sent to the email address registered with the IPO website.

7. Electronic Applications shall close at **12.00 noon on 10 December 2003** or such other time as our Company may, in consultation with the Manager, decide.
8. You are deemed to have requested and authorised us to:–
 - (a) register the Offer Shares or Placement Shares allotted to you in the name of CDP for deposit into your Securities Account;
 - (b) send the relevant Share certificate(s) to CDP;
 - (c) (for ATM Applications or IB Applications) return or refund (without interest or any share of revenue earned or other benefit arising therefrom) the application moneys, should your ATM Electronic Applications or IB Applications be rejected, by automatically crediting your bank account with your Participating Bank with the relevant amount within twenty-four hours after the close of the Application List;
 - (d) (for ATM Electronic Applications or IB Applications) return or refund (without interest or any share of revenue or other benefit arising therefrom) the balance of the application moneys, should your ATM Electronic Applications or IB Applications be accepted in part only, by automatically crediting your bank account with your Participating Bank with the relevant amount within the shortest possible time after the close of the Application List; and
 - (e) (for Internet Placement Applications) return or refund (without interest or any share of revenue earned or other benefit arising therefrom) of the full application moneys, should your Internet Placement Application be rejected, is expected to be effected to you by ordinary post at your own risk within 14 days after the close of the Application List).

9. You irrevocably agree and acknowledge that your Electronic Application is subject to risks of electrical, electronic, technical and computer-related faults and breakdowns, fires, acts of God and other events beyond the control of the Participating Banks or the IPO Website Operator and if, in any such event, our Company, the Manager and/or the relevant Participating Bank or the IPO Website Operator do not receive your Electronic Application, or data relating to your Electronic Application is lost, corrupted or not otherwise accessible, whether wholly or partially for whatever reason, you shall be deemed not to have made an Electronic Application and you shall have no claim whatsoever against our Company, the Manager and/or the relevant Participating Bank or the IPO Website Operator for New Shares applied for or for any compensation, loss or damage.
10. Our Company does not recognise the existence of a trust. Any Electronic Application by a trustee must be made in your own name and without qualification. Our Company will reject any application by any person acting as nominee.
11. All your particulars in the records of your Participating Bank or the IPO Website Operator at the time you make your Electronic Application shall be deemed to be true and correct and your Participating Bank or the IPO Website Operator and the Relevant Parties shall be entitled to rely on the accuracy thereof. If there has been any change in your particulars after making your Electronic Application, you shall promptly notify your Participating Bank or the IPO Website Operator.
12. **You should ensure that your personal particulars as recorded by both CDP, the relevant Participating Bank or the IPO Website Operator are correct and identical, otherwise, your Electronic Application is liable to be rejected.** You should promptly inform CDP of any change in address, failing which the notification letter on successful allotment will be sent to your address last registered with CDP.
13. By making and completing an Electronic Application, you are deemed to have agreed that:–
 - (a) in consideration of our Company making available the Electronic Application facility, through the Participating Banks or the IPO Website Operator acting as agents of our Company, at the ATMs, the IB websites and the IPO website:–
 - (i) your Electronic Application is irrevocable; and
 - (ii) your Electronic Application, the acceptance of our Company and the contract resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
 - (b) none of our Company, the Manager, the Participating Banks or the IPO Website Operator shall be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery of data relating to your Electronic Application to us or CDP due to breakdowns or failure of transmission, delivery or communication facilities or any risks referred to in paragraph 9 above or to any cause beyond their respective controls;
 - (c) in respect of Offer Shares for which your Electronic Application has been successfully completed and not rejected, acceptance of your Electronic Application shall be constituted by written notification by or on behalf of our Company and not otherwise, notwithstanding any payment received by or on behalf of our Company;
 - (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application; and
 - (e) reliance is placed solely on information contained in this Prospectus and that none of our Company, the Manager, the Joint Lead Placement Agents and Underwriters nor any other person involved in the Invitation shall have any liability for any information not so contained.

Steps for ATM Electronic Applications for Offer Shares through ATMs of DBS Bank (including POSB)

Instructions for ATM Electronic Applications will appear on the ATM screens of the Participating Bank. For illustration purposes, the steps for making an ATM Electronic Application through a DBS Bank or POSB ATM are shown below. Certain words appearing on the screen are in abbreviated form (“A/c”, “amt”, “appln”, “&”, “I/C”, “SGX”, “No.” and “Max” refer to “Account”, “amount”, “application”, “and”, “NRIC”, “SGX-ST”, “Number” and “Maximum”, respectively. Instructions for ATM Electronic Applications on the ATM screens of Participating Banks (other than DBS Bank (including POSB)) may differ slightly from those represented below.

Step 1: Insert your personal DBS Bank or POSB ATM Card.

- 2: Enter your Personal Identification Number.
- 3: Select “CASHCARD & MORE SERVICES”.
- 4: Select “ESA-IPO SHARE/INVESTMENTS”.
- 5: Select “ELECTRONIC SECURITY APPLN (IPOS/BONDS/ST-NOTES)” to “SUPERIOR”.
- 6: Read and understand the following statements which will appear on the screen:–

THE OFFER OF SECURITIES (OR UNITS OF SECURITIES) WILL BE MADE IN, OR ACCOMPANIED BY, A COPY OF THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AND IF APPLICABLE, A COPY OF THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT) WHICH CAN BE OBTAINED FROM ANY DBS/POSB BRANCH IN SINGAPORE AND, WHERE APPLICABLE, THE VARIOUS PARTICIPATING BANKS DURING BANKING HOURS, SUBJECT TO AVAILABILITY.

ANYONE WISHING TO ACQUIRE THESE SECURITIES (OR UNITS OF SECURITIES) SHOULD READ THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AS SUPPLEMENTED OR REPLACED, IF APPLICABLE) BEFORE SUBMITTING HIS APPLICATION WHICH WILL NEED TO BE MADE IN THE MANNER SET OUT IN THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AS SUPPLEMENTED OR REPLACED, IF APPLICABLE). A COPY OF THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT, AND IF APPLICABLE, A COPY OF THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT HAS BEEN LODGED WITH AND REGISTERED BY THE MONETARY AUTHORITY OF SINGAPORE WHO ASSUMES NO RESPONSIBILITY FOR ITS OR THEIR CONTENTS.

Press the “Enter” key to confirm that you have read and understood.

- 7: Press the “ENTER” key to acknowledge:–

You have read, understood and agreed to all terms of the application and Prospectus/ Document or Profile Statement, and if applicable, the Replacement or Supplementary Prospectus/Document or Profile Statement.

You consent to disclose your name, NRIC/Passport No., address, nationality, CDP Securities A/c No., CPF Investment A/c No. and securities application amount from your Bank Account(s) to share registrars, SGX, SCCS, CDP, CPF and the issuer/ vendor(s).

For FIXED and MAX price security application, this is your only application and it is made in your own name and at your own risk.

The maximum price for each Share is payable in full on application and subject to refund if the final price is lower.

For TENDER securities applications, this is your only application at the selected tender price and it is made in your own name and at your own risk.

You are not a US Person as referred to in the Prospectus/Document or Profile Statement and if applicable, the Replacement or Supplementary Prospectus/ Document or Profile Statement.

- 8: Select your nationality.
- 9: Select the DBS Bank account (Autosave/Current/Savings/Savings Plus) or the POSB account (current/savings) from which to debit your application moneys.
- 10: Enter the number of securities you wish to apply for using cash.
- 11: Enter your own 12-digit CDP Securities Account number. (Note: This step will be omitted automatically if your CDP Securities Account number has already been stored in DBS Bank's records).
- 12: Check the details of your securities application, your NRIC or passport number and CDP Securities Account number and number of securities on the screen and press the "ENTER" key to confirm your application.
- 13: Remove the Transaction Record for your reference and retention only.

STEPS FOR AN IB APPLICATION THROUGH THE IB WEBSITE OF DBS BANK

For illustrative purposes, the steps for making an IB Application through the DBS Bank IB website are shown below. Certain words appearing on the screen are in abbreviated form ("A/C", "amt", "&", "I/C", "SGX" and "No." refer to "Account", "Amount", "and", "NRIC", "SGX-ST", and "Number" respectively).

- Step 1: Click on to DBS Bank website (www.dbs.com).
- 2: Login to Internet Banking.
 - 3: Enter your User ID and PIN.
 - 4: Select "Electronic Security Application (ESA)".
 - 5: Click "Yes" to proceed and to warrant that you have observed and complied with all applicable laws and regulations.
 - 6: Select your country of residence.
 - 7: Click on "SUPERIOR" and click the "Submit" button.
 - 8: Click "Confirm" to confirm:–
 - (a) **You have read, understood and agreed to all terms of application and the Prospectus or Profile Statement and if applicable, the Supplementary or Replacement Prospectus/Document or Profile Statement.**
 - (b) **You consent to disclose your name, I/C or Passport No., address, nationality, CDP Securities Account number, CPF Investment Account number (if applicable) and securities application amount from your DBS/POSBank Account(s) to registrars of securities, SGX, SCCS, CDP, CPF Board and issuer/vendor(s).**
 - (c) **You are not a US Person (as such term is defined in Regulation S under the United States Securities Act of 1993, as amended).**
 - (d) **This application is made in your name and at your own risk.**
 - (e) **For FIXED/MAX price securities application, this is your only application. For TENDER price securities application, this is your only application at the selected tender price.**
 - 9: Fill in details for share application and click "Submit".
 - 10: Check the details of your share application, your NRIC or passport number and click "OK" to confirm your application.
 - 11: Print Confirmation Screen (optional) for your reference & retention only.

STEPS FOR AN INTERNET PLACEMENT APPLICATION THROUGH THE IPO WEBSITE

For illustrative purposes, the steps for making an Internet Placement Application through the IPO website is shown below. Certain words appearing on the screen are in abbreviated form (“A/C”, “&”, “I/C” and “No.” refer to “Account”, “NRIC” and “Number” respectively).

- Step 1: Click on to the IPO website (www.ePublicOffer.com).
- 2: Login to the IPO website by entering your User Name and Password.
 - 3: Select the counter SUPERIOR from the list of current counters offered by clicking “APPLY NOW”.
 - 4: Click “I Agree” to proceed and to warrant that you have observed and complied with all applicable laws and regulations and agree to the terms and conditions stated on the IPO website.
 - 5: View and/or download a copy of the Prospectus.
 - 6: Click the check box provided next to the following statements to confirm your declaration:-
 - (1) **I have read, understood & agreed to these terms and conditions, and the Prospectus/Document or Profile Statement and if applicable, the Replacement or Supplementary Prospectus/Document or Profile Statement in relation to the IPO Shares;**
 - (2) **I consent to the disclosure of my name, I/C or passport number, address, nationality, CDP Securities Account number, and securities application amount to share registrars of the securities, the SGX-ST, SCCS, CDP, the issuer/ vendor(s) of the IPO Shares;**
 - (3) **I am currently resident in Singapore;**
 - (4) **I am not a US Person (as such term is defined in Regulation S under the United States Securities Act of 1933, as amended) and not currently resident in United States;**
 - (5) **I understand that the IPO shares have not been and will not be registered under the United States securities law and, subject to certain exception, may not be offered or sold within the United States, that there will be no public offer of the IPO shares in the United States, and any failure to comply with this restriction may constitute a violation of United States securities laws;**
 - (6) **This application for the IPO shares is made in my own name and at my own risk;**
 - (7) **I am not an associate (as defined in the Listing Manual of the SGX-ST) or a director or substantial shareholder (as defined in the Companies Act (Chapter 50) of Singapore) of the Issuer.**
 - 7: Click “Confirm” when you have completed the above steps.
 - 8: Check details of your application, (including information on your name, your CDP number, your NRIC number, your email address, the amount payable) on the screen and click “CONFIRM” to confirm your application.
 - 9: Print Provisional Allocation Screen and proceed to make payment as described in the Provisional Allocation Screen.

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Superior Fasteners (Singapore) Pte Ltd

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