
STRATEGIC PARTNER

BACKGROUND OF THE STRATEGIC PARTNER

LC Fund II (the “Fund”) is a venture capital investment entity managed by Legend Capital Management Limited (“Legend Capital”). Legend Capital is a subsidiary of Legend Holdings Limited (“Legend Holdings”), a prominent information technology group in the PRC. Legend Holdings is also the controlling shareholder of Lenovo Group Limited and Digital China Holdings Limited, both of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The chairman and the chief executive officer of Legend Capital are Mr. Liu Chuanzhi and Mr. ZHU Linan respectively. Mr. Liu is also president of Legend Holdings and the former chairman and the chief executive officer of Lenovo Group Limited. Mr. Zhu is also the executive vice president of Legend Holdings.

THE STRATEGIC PLACING

Pursuant to the share subscription agreement (the “Subscription Agreement”) dated 28th April, 2005 entered into between the Company and the Fund, the Fund subscribed for and was issued on 17 May, 2005, an aggregate of 89,000 Shares (the “Subscription Shares”), representing approximately 2.88% of the issued share capital of the Company before the Capitalisation Issue and the Share Offer, at a consideration of US\$1.5 million (equivalent to approximately HK\$11.7 million). Immediately after completion of the Capitalisation Issue and the Share Offer, the Fund will hold 10,804,467 Shares, representing approximately 2.16% of the enlarged issued share capital of the Company (assuming the Over-allotment Option is not exercised). These Shares are not subject to re-allocation under the Share Offer. Neither the Company nor each of the Directors has given any profit warranty in favour of the Fund in connection with the issue of the Subscription Shares.

The subscription price for the Subscription Shares was approximately HK\$1.08 per Share, representing approximately 5.26% discount to the Offer Price. The subscription price was determined by Legend Capital and the Company after arm’s length negotiation, and has taken into account the potential synergy and benefits that the strategic cooperation would bring to the Group.

AREAS OF POSSIBLE STRATEGIC COOPERATION

The Company seeks to establish a strategic alliance with Legend Capital and, indirectly, the group of companies under Legend Holdings by way of the issue of the Subscription Shares to the Fund. The Directors consider that, given the Legend Group’s prominent position in the PRC, there could be potential synergy and benefits arising from future possible co-operation with the group of companies under Legend Holdings in the following areas:

- strengthening of research and development capabilities for Group’s new products, such as tax control equipment;
- expansion of the Group’s EMS services to cover the provision of information technology peripheral products to group of companies under Legend Holding; and
- cooperation with the portfolio companies of Legend Capital with a view to getting access to latest technologies developed for the information technology peripheral equipment market.

The Directors believe that the establishment of strategic relationship with Legend Capital will provide valuable opportunity for the Company to further strengthen and accelerate the development of the business and enhance its leadership position in business equipment and tax control equipment markets in the PRC.

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RESTRICTIONS ON THE STRATEGIC PARTNER

The Subscription Shares and any Shares derived therefrom will be subject to a moratorium period of 18 months from the Listing Date (“Moratorium Period”) and the Fund has agreed not to dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) or otherwise create any options, rights, interests or encumbrances in respect of any of its direct or indirect interest in the Subscription Shares and any Shares derived therefrom (taking into account any Shares so held by the registered holder thereof resulting from any increase, consolidation, division, subdivision, capitalization, cancellation or redemption thereof) without the prior written consent of the Company during the Moratorium Period. However if Kytronics should dispose of any Shares within the Moratorium Period, on each occasion that happens, the restriction described above shall be released or, terminated in respect of a portion of those Subscription Shares to be calculated by an agreed formula, the effect of which is to permit the proportionate reduction in shareholding in the Company by both the Fund and Kytronics. This was agreed after arms length negotiations with the Fund in relate to the Moratorium Period, so that the Fund would not be worse off than Kytronics, as controlling Shareholder of the Company, in term of realising its investment in the Company.