
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Guojin Resources Holdings Limited** 國金資源控股有限公司* (the “Company”), you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.



國金資源控股有限公司* Guojin Resources Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 630)

MAJOR AND CONNECTED TRANSACTION; CONTINUING CONNECTED TRANSACTIONS; AND INCREASE IN AUTHORISED SHARE CAPITAL

Financial Adviser to the Company



Optima Capital Limited

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Menlo Capital Limited

A notice convening the special general meeting (the “SGM”) of the Company to be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 5 September 2011 at 10:00 a.m. is set out on pages SGM – 1 to SGM – 4 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company’s principal place of business in Hong Kong at Units 3303-3304, Level 33, Tower 1, Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

12 August 2011

* For identification purposes only

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DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Shares by the Purchaser pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 23 January 2011 (as amended and restated on 27 July 2011) entered into among the Company, the Purchaser and the Vendors in relation to the Acquisition
“AFEX”	AFEX International (HK) Limited, a company incorporated under the laws of Hong Kong and an indirectly wholly-owned subsidiary of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Capital Reorganisation”	the proposed share capital reorganisation of the Company, details of which are set out in the announcement of the Company dated 21 June 2011 and the circular of the Company dated 12 August 2011
“Caps”	the maximum annual caps in respect of the Service Fee and the Performance Bonus in respect of the Continuing Connected Transactions

DEFINITIONS

“Class I Medical Devices”	medical devices classified as Class I devices by the FDA which are subject to the least regulatory control and general controls, such as provisions that relate to adulteration; misbranding; device registration and listing; premarket notification; banned devices; notification, including repair, replacement, or refund; records and reports; restricted devices; and good manufacturing practices. Class I devices are not intended for use in supporting or sustaining life or to be of substantial importance in preventing impairment to human health, and they may not present a potential unreasonable risk of illness or injury
“Class III Medical Devices”	medical devices classified as Class III devices by the FDA which need premarket approval, a scientific review to ensure the device’s safety and effectiveness, in addition to general controls of Class I. Class III devices are usually those that support or sustain human life, are of substantial importance in preventing impairment of human health, or which present a potential, unreasonable risk of illness or injury
“Company”	Guojin Resources Holdings Limited (stock code: 630), a company incorporated in Bermuda with limited liability and, the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“Completion Date”	the date of the Completion
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration of HK\$120 million for the Acquisition
“Continuing Connected Transactions”	the provision of the Services contemplated under the Performance Incentive Agreement
“Conversion Price”	HK\$0.105 per Share (subject to anti-dilutive adjustments from the date of the Acquisition Agreement, including share consolidation and sub-division, bonus issue, right issue at discount etc.)

DEFINITIONS

“Conversion Shares”	up to 1,071,428,571 Shares (subject to adjustments) which may fall to be allotted and issued upon full conversion of the Convertible Notes at the initial Conversion Price
“Convertible Notes”	the convertible notes in the principal amount of HK\$112.5 million to be issued by the Company to the Vendors to satisfy part of the Consideration
“Director(s)”	the director(s) of the Company
“Dongguan De Yue”	東莞德越電子塑膠製品有限公司 (Dongguan De Yue Electronic and Plastic Products Company Limited [#]), a wholly-foreign-owned enterprise in the PRC
“Dongguan Yi Deng Ke”	東莞益登科塑膠製品有限公司 (Dongguan Yi Deng Ke Plastic Products Company Limited [#]), a wholly-foreign-owned enterprise in the PRC
“DVD”	digital video disc
“Enlarged Group”	the Group as enlarged by the Target Companies upon Completion
“FDA”	the Food and Drug Administration of the United States
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising Mr. Leung Ka Kui, Johnny, Mr. Chan Kam Kwan, Jason and Mr. Lau Man Tak, being all the independent non-executive Directors, established for the purpose of, among other things, advising the Independent Shareholders in respect of (i) the Acquisition Agreement and the transactions contemplated thereunder including but not limited to the issue of the Convertible Notes and the Conversion Shares; and (ii) the Performance Incentive Agreement and the transactions contemplated thereunder including but not limited to the issue of the Performance Incentive Shares and the Caps

DEFINITIONS

“Independent Third Party(ies)”	independent third party(ies) who is/are independent of and not connected with the Company and its connected persons
“Independent Shareholders”	Shareholders other than the Vendors, the Ugent Bondholders, Kingsway and their respective associates who are required to abstain from voting on the proposed resolution approving the Acquisition Agreement, the Performance Incentive Agreement, the Caps, the increase in authorised share capital of the Company and the transactions contemplated thereunder at the SGM under the Listing Rules
“JEL”	Jackin Enterprises Limited, a company incorporated under the laws of the BVI with limited liabilities and wholly owned by Ugent
“Kingsway”	Kingsway Financial Services Group Limited, a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being one of the underwriters in relation to the Rights Issue
“Latest Practicable Date”	10 August 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Menlo Capital” or “Independent Financial Adviser”	Menlo Capital Limited, a licensed corporation for type 6 (advising on corporate finance) regulated activity under SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Acquisition Agreement and the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder
“Mr. Lai”	Mr. Lai Chiu Fai, the ultimate beneficial owner of Vendor 4 and the cousin of Mr. Yip (instead of an Independent Third Party as disclosed in the announcement dated 25 January 2011)
“Mr. Lee”	Mr. Lee Siew Yuen, one of the shareholders of Vendor 3 and an Independent Third Party

DEFINITIONS

“Newco”	Apex Solution Group Limited, a company incorporated in the BVI with limited liability and holds all the entire issued share capital of Titron Industries (including its wholly-owned subsidiary Yong Li), Titron Manufacturing, Titron International and Titron Precision (including its wholly-owned subsidiary Dongguan Yi Deng Ke) following completion of the Reorganisation
“Newco Group”	Newco and its subsidiaries
“New Purchaser Group”	the Target Companies, the Purchaser and any of their subsidiaries from time to time upon and after Completion
“New Share(s)”	new ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
“OEM”	Original Equipment Manufacturer
“Performance Bonus”	the performance bonus to which the Service Provider will be entitled to in relation to the Services pursuant to the Performance Incentive Agreement
“Performance Incentive Agreement”	the conditional agreement dated 4 March 2011 (as amended and restated on 27 July 2011) entered into among the Company, the Purchaser and the Service Provider in relation to the provision of the Services
“Performance Incentive Shares”	up to 3,200 million Shares (subject to adjustments) which may fall to be allotted and issued to the Vendors at the initial issue price of HK\$0.105 per share (subject to adjustment) to satisfy part of the Performance Bonus
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Energy Best Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company, being the purchaser under the Acquisition Agreement to be used as the immediate holding company of the Newco and Dongguan De Yue upon Completion

DEFINITIONS

“Record Date”	being the date by reference to which entitlements to the Rights Issue will be determined
“Redemption”	the proposed redemption of the Ugent Bonds in accordance with the terms of the subscription agreement dated 6 March 2009
“Redemption Agreements”	six agreements each dated 20 June 2011 signed among the Company, Ugent and each of the Ugent Bondholders respectively in relation to the Redemption, details of which are set out in the announcement of the Company dated 21 June 2011 and the circular of the Company dated 12 August 2011
“Redemption Shares”	4,151,240,001 New Shares to be issued at the redemption price of HK\$0.05 under the Redemption
“Reorganisation”	a reorganisation undertaken by the Vendors, whereby the Newco has become the legal and beneficial owner of 100% of the issued shares in the capital of Titron Industries, Titron Manufacturing, Titron International and Titron Precision
“Rights Issue”	the proposed issue of Rights Shares by the Company on the basis of eleven (11) Rights Shares for every ten (10) Shares held on the Record Date, details of which are set out in the announcement of the Company dated 21 June 2011 and the circular of the Company dated 12 August 2011
“Rights Shares”	the New Shares to be issued and allotted under the Rights Issue
“Sale Shares”	the entire issued share capital of the Newco and the entire registered capital of Dongguan De Yue
“Service Fee”	the service fee of HK\$200,000 per month to which the Service Provider will be paid in relation to the Services pursuant to the Performance Incentive Agreement
“Service Provider”	Atlas Medical Limited, a company incorporated in Hong Kong with limited liability and owned as to 50% by Vendor 1 and 50% by Mr. Yip for the purpose of providing the Services pursuant to the Performance Incentive Agreement

DEFINITIONS

“Services”	services to be provided by the Service Provider to the Purchaser, details of which are set out in the paragraph headed “The Performance Incentive Agreement” in the Letter from the Board of this circular
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Acquisition Agreement, the Performance Incentive Agreement, the Caps, the increase in authorised share capital of the Company and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Caps”	the maximum amount of the Performance Bonus which could be satisfied in the Performance Incentive Shares for each of the financial year ended 31 December 2011 to 31 December 2016
“Shareholder(s)”	holder(s) of the issued Shares
“Share Options”	share options granted by the Company which remained outstanding as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Target Companies”	Newco, Titron Industries Group, Titron Manufacturing, Titron International, Titron Precision Group and Dongguan De Yue
“Titron Group”	the subsidiaries of the Purchaser from time to time including the Target Companies after Completion
“Titron Industries”	Titron Industries Limited, a company incorporated in Hong Kong with limited liability
“Titron Industries Group”	Titron Industries and its wholly-owned subsidiary, Yong Li

DEFINITIONS

“Titron International”	Titron International Limited, a company incorporated in Hong Kong with limited liability
“Titron Manufacturing”	Titron Manufacturing Limited, a company incorporated in Hong Kong with limited liability
“Titron Precision”	Titron Precision Limited, a company incorporated in Hong Kong with limited liability
“Titron Precision Group”	Titron Precision and its wholly-owned subsidiary, Dongguan Yi Deng Ke
“Ugent”	Ugent Holdings Limited, a company incorporated under the laws of the BVI with limited liability and an indirect wholly-owned subsidiary of the Company
“Ugent Bondholders”	Qshare Holding Limited, Integrated Asset Management (Asia) Limited, Value Creation Partners Company Limited, Mr. Lo Ming Chi, Charles, Mr. Ou Tian Xiong and Ms. Fu Wai Ling
“Ugent Bonds”	the 12% convertible bonds in the principal amount of HK\$177,000,000 issued by Ugent to The China Fund Inc. pursuant to the subscription agreement dated 6 March 2009
“United States”	the United States of America
“Vendor 1” or “Mr. Lye”	Mr. Lye Khay Fong
“Vendor 2” or “Mr. Yip”	Mr. Yip Wai Lun, Alvin, the Chairman and Managing Director of the Company and one of the underwriters in relation to the Rights Issue
“Vendor 3”	Titron Group Holdings Limited, a company incorporated in the BVI with limited liability and owned as to 46.25% by Vendor 1, 46.25% by Mr. Yip and 7.5% by Mr. Lee
“Vendor 4”	Chelin International Limited, a company incorporated in Hong Kong with limited liability and owned by Mr. Lai
“Vendors”	collectively, Vendor 1, Vendor 2, Vendor 3 and Vendor 4

DEFINITIONS

“Voluntary Liquidation”	the voluntary liquidation of JEL, details of which are set out in the announcement of the Company dated 8 August 2011
“Yong Li”	永利企業管理諮詢(深圳)有限公司 (Yong Li Enterprise Management Consultancy (Shenzhen) Company Limited [#]), a wholly-foreign-owned enterprise in the PRC
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

[#] *For reference purpose only, the Chinese names of the PRC entities have been translated into English in this circular. In the event of any discrepancies between the Chinese names and the English translation, the Chinese names prevail.*

LETTER FROM THE BOARD



國金資源控股有限公司* Guojin Resources Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 630)

Executive Directors:

Mr. YIP Wai Lun, Alvin

(Chairman and Managing Director)

Ms. LAM Suk Ling, Shirley

Mr. LEE Cheuk Yin, Dannis

Registered office:

Clarendon House,

2 Church Street,

Hamilton HM 11,

Bermuda

Independent Non-executive Directors:

Mr. LEUNG Ka Kui, Johnny

Mr. CHAN Kam Kwan, Jason

Mr. LAU Man Tak

Principal place of business

in Hong Kong:

Units 3303-3304, Level 33,

Tower 1, Enterprise Square Five,

38 Wang Chiu Road,

Kowloon Bay, Kowloon,

Hong Kong

12 August 2011

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION;
CONTINUING CONNECTED TRANSACTIONS;
AND
INCREASE IN AUTHORISED SHARE CAPITAL**

INTRODUCTION

On 25 January 2011, the Board announced that the Company and the Purchaser entered into the Acquisition Agreement with the Vendors pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the entire issued share capital of Titron Industries, Titron Manufacturing, Titron International and Titron Precision and registered capital of Dongguan De Yue for a total consideration of HK\$120 million. On 21 June 2011 and 27 July 2011, the Board announced that the Company, the Purchaser and the Vendors agreed to amend certain terms of the Acquisition Agreement. The final terms of the Acquisition Agreement are set out in below paragraph headed “The Acquisition Agreement”.

* For identification purposes only

LETTER FROM THE BOARD

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, Mr. Yip, being the Chairman and Managing Director of the Company and one of the Vendors, owned 3,000,000 Shares (through his 46.25% interest in Vendor 3), representing approximately 0.2% of the existing issued share capital of the Company. Thus, Mr. Yip is a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to requirements for reporting, announcement and approval by the Independent Shareholders at the SGM by way of poll under the Listing Rules.

Pursuant to the Acquisition Agreement, the Company, the Purchaser and the Service Provider entered into the Performance Incentive Agreement on 4 March 2011. On 21 June 2011 and 27 July 2011, the Board announced that the Company, the Purchaser and the Service Provider agreed to amend certain terms of the Performance Incentive Agreement, pursuant to which the Service Provider shall, subject to Completion, provide the Services to the Purchaser during the term, in consideration of which the Service Provider will be paid a monthly fee of HK\$200,000 and the Performance Bonus equivalent to 30% of the excess of the combined profit before tax of the Titron Group over HK\$10 million for each of the six financial years ending 31 December 2016.

The Service Provider is a company incorporated in Hong Kong and Mr. Yip is one of the shareholders of the Service Provider. Accordingly, the provision of the Services by the Service Provider to the Purchaser upon Completion will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the aggregate annual amounts of the Continuing Connected Transactions will exceed the relevant percentage ratios as provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions will be subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

The purposes of this circular are to provide you with, among other things, (i) further details on the Acquisition Agreement; (ii) further details on the Performance Incentive Agreement and the Caps; (iii) details of the increase in authorised share capital of the Company; (iv) a letter of advice from Menlo Capital in relation to the Acquisition, the Continuing Connected Transactions and the Caps; (v) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Acquisition, the Continuing Connected Transactions and the Caps; (vi) the financial information of the Group; (vii) the financial information of the Newco Group and Dongguan De Yue; (viii) the unaudited pro forma financial information of the Enlarged Group; (ix) the notice of the SGM together with the proxy form; and (x) other information as required under the Listing Rules.

LETTER FROM THE BOARD

THE ACQUISITION AGREEMENT

Date: 23 January 2011 (as amended and restated on 27 July 2011)

Parties:

The issuer: The Company

Purchaser: Energy Best Investments Limited, a wholly-owned subsidiary of the Company which is incorporated to be used as the immediate holding company of the Newco and Dongguan De Yue upon Completion

Vendors: Vendor 1 (Mr. Lye Khay Fong);

Vendor 2 (Mr. Yip);

Vendor 3 (Titron Group Holdings Limited); and

Vendor 4 (Chelin International Limited)

The Purchaser is a wholly-owned subsidiary of the Company incorporated in the BVI. Vendor 3 and Vendor 4 are investment holding companies incorporated in the BVI and Hong Kong respectively.

Vendor 3 is owned as to 46.25% by Vendor 1, 46.25% by Vendor 2 and 7.5% by Mr. Lee. Vendor 2 is the Chairman and Managing Director of the Company and thus a connected person of the Company. The ultimate beneficial owner of Vendor 4, Mr. Lai, is an associate of Vendor 2. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Vendor 1 and Mr. Lee are Independent Third Parties.

Assets to be acquired:

Pursuant to the Acquisition Agreement, the assets to be acquired by the Purchaser are the Sale Shares, representing the entire issued share capital of the Newco and the entire registered capital of Dongguan De Yue.

LETTER FROM THE BOARD

The Target Companies comprise the Newco, Titron International, Titron Industries and its wholly-owned subsidiary Yong Li, Titron Manufacturing, Titron Precision and its wholly-owned subsidiary Dongguan Yi Deng Ke and Dongguan De Yue. As at 23 January 2011, Titron International and Titron Precision Group were each owned as to 50% by Vendor 1 and 50% by Vendor 2, Titron Industries and Titron Manufacturing were each wholly owned by Vendor 3, Dongguan De Yue was wholly owned by Vendor 4. Following the completion of the Reorganisation on 5 August 2011, the Newco has become the holding company of Titron International, Titron Industries, Titron Manufacturing and Titron Precision. Shareholding structure of the Target Companies immediately before Completion and shareholding structure of the New Purchaser Group immediately after Completion are set out in the paragraph headed “Shareholding structure of the Target Companies” below.

The Newco is an investment holding company. The principal activities of Titron Industries and Titron Manufacturing are manufacturing and trading of DVD boxes, cosmetics display products and OEM products. Titron International is principally engaged in trading of medical devices, and Titron Precision and its wholly-owned subsidiary Dongguan Yi Deng Ke will be engaged in manufacturing and trading of medical devices. Dongguan De Yue is principally engaged in manufacturing and trading of DVD boxes, media packaging and OEM products. Yong Li is principally engaged in support services for operations and accounts management.

Upon Completion, each of the Target Companies will become direct or indirect wholly-owned subsidiaries of the Company, and the results of each member of the Target Companies will be consolidated into the financial statements of the Group. Further information relating to the businesses of the New Purchaser Group is set out in the paragraph headed “Information on the New Purchaser Group” below.

Consideration

The Consideration is to be satisfied by the following manner:

- (i) as to HK\$7.5 million payable by the Purchaser in cash on a date being six months from the Completion Date; and
- (ii) as to HK\$112.5 million payable to the Vendors (or their respective nominee(s)) by way of allotment and issue of the Convertible Notes upon Completion.

LETTER FROM THE BOARD

The Consideration was arrived at after arm's length negotiations among the Company, the Purchaser and the Vendors and was determined taking into consideration the historical performance of the existing traditional manufacturing business and the growth potential of the medical devices manufacturing business of the Target Companies as detailed in the paragraph headed "Reasons for the Acquisition" below. Based on the audited financial information extracted from each of the accountants' report of the Newco Group and Dongguan De Yue contained in Appendix II and Appendix III respectively to this circular, the aggregate net profit of the Newco Group and Dongguan De Yue for the year ended 31 December 2010 is approximately HK\$9.8 million. After adjusting the transactions between the Newco Group and Dongguan De Yue which mainly represented inter-company sales and purchases, the aggregate net profit of the Newco Group and Dongguan De Yue is approximately HK\$9.4 million for the year ended 31 December 2010. The Consideration values the entire equity interests of the Newco Group and Dongguan De Yue at HK\$120,000,000 and represents a price-earnings multiple of approximately 12.8 times of the aforesaid adjusted aggregate net profit of the Newco Group and Dongguan De Yue of approximately HK\$9.4 million for the year ended 31 December 2010. The Company intends to fund the cash consideration of the Acquisition by internal resources.

It is agreed among the Vendors that the cash consideration of HK\$7.5 million, net of the related expenses, will be shared by the Vendor 1, Vendor 2 and Mr. Lai equally. For the allocation of principal amount of the Convertible Notes, please refer to the section headed "Shareholding structure of the Company" below.

Terms of the Convertible Notes

The principal terms of the Convertible Notes to be issued by the Company are set out as follows:

Principal amount:	HK\$112.5 million
Maturity date:	31 December 2015
Conversion Price:	HK\$0.105 per Share (subject to anti-dilutive adjustments from the date of the Acquisition Agreement, including share consolidation and sub-division, bonus issue, rights issue at discount etc.)
Redemption:	Unless previously converted or purchased or redeemed in accordance with the terms of the Convertible Notes, the Company shall redeem the Convertible Notes on the maturity date at 100% of the principal amount of the Convertible Notes then outstanding.

LETTER FROM THE BOARD

Interest:	The Convertible Notes will be entitled to a payment equivalent to the amount of any cash dividends declared by the Company as if they were fully converted into ordinary shares payable at the same time as any such dividend payment.
Listing:	The Convertible Notes will not be listed on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the approval of the listing of and permission to deal in the Conversion Shares.
Voting:	The Convertible Notes shall not carry any voting right.
Transferability:	Freely transferable provided if such transferee is a connected person of the Company (as defined in the Listing Rules), the Company shall notify the Stock Exchange and comply with all applicable requirements under the Listing Rules.
Conversion period:	Commencing on the date of issue of the Convertible Notes and ending 10 Business Days prior to the maturity date of the Convertible Notes
Events of Default:	Include without limitation (i) non-payment of principal amount within 10 Business Days of the due date; (ii) non-performance of any other covenant or agreement which is not remedied within 10 Business Days; (iii) certain events such as insolvency, winding up and bankruptcy and involuntary cessation of business; (iv) cross-default in relation to indebtedness of the Company or material subsidiaries; (v) any enforcement of security against the Company or any of its material subsidiaries; (vi) the delisting of the Company or the suspension of trading of Shares for more than 45 consecutive trading days etc.

LETTER FROM THE BOARD

Conversion
restriction:

Save for the Convertible Notes in the principal amount of HK\$40 million to be retained by the Vendors for the purpose of satisfying any claims under the warranties pursuant to the Acquisition Agreement, the Vendors undertake to use all reasonable endeavours to exercise the conversion rights attaching to the balance of the Convertible Notes as soon as practicable after the Completion provided that any such conversion of the Convertible Notes will not (i) trigger a mandatory offer obligation under Rule 26 of the Takeovers Code by all or any of the Vendors (whether or not such mandatory offer obligation is triggered by the fact that the number of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes, including any Shares acquired or owned by any parties acting in concert with the Vendors or any of them, represents 30% (or such other percentage as may be stated in Rule 26 of the Takeovers Code in effect from time to time) or more of the voting rights at the general meetings of the Company) or otherwise pursuant to other provisions of the Takeovers Code; or (ii) result in the Company being not able to maintain the minimum public float of 25% (or any other percentage as required by the Listing Rules from time to time) of the issued shares of the Company after such conversion.

The 1,071,428,571 Conversion Shares (based on the principal amount of the Convertible Notes of HK\$112.5 million and the initial Conversion Price of HK\$0.105 per Conversion Share) to be issued upon full conversion of the Convertible Notes represent (i) approximately 71.3% of the existing share capital of the Company; and (ii) approximately 41.6% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Notes. The issue of the Conversion Shares will be subject to a specific mandate to be sought from the Independent Shareholders at the SGM. The aforesaid number of Conversion Shares to be converted has not taken into account the adjustment to be made to the initial Conversion Price as a result of the Rights Issue and the Redemption. Nevertheless, it is agreed among the Company, the Purchaser and the Vendors that in the event the adjusted conversion price, arising as a result of the Redemption and the Rights Issue pursuant to the terms of the Convertible Notes, is less than HK\$0.05 per Conversion Share, the adjusted conversion price shall be fixed at HK\$0.05 per Conversion Share. Shareholders' attention is drawn to the section below headed "Shareholding structure of the Company assuming the Capital Reorganisation, the Rights Issue and the Redemption having become effective" for the effects on shareholding based on the aforesaid adjusted conversion price of the Conversion Shares of HK\$0.05 per Conversion Share.

LETTER FROM THE BOARD

Conversion Price

The initial Conversion Price of HK\$0.105 per Share represents:

- (i) a premium of approximately 101.9% over the closing price of HK\$0.052 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 29.5% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange on 17 June 2011, being the last trading day of the Shares prior to the date of the supplemental agreement to the Acquisition Agreement;
- (iii) a discount of approximately 29.5% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including 17 June 2011 of HK\$0.149 per Share; and
- (iv) a discount of approximately 31.4% to the average of the closing prices of the Shares as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 17 June 2011 of HK\$0.153 per Share.

The initial Conversion Price was determined with reference to the then prevailing market price of the Shares prior to 17 June 2011, the date of the supplemental agreement to the Acquisition Agreement.

It is agreed among the Company, the Purchaser and the Vendors that in the event the adjusted Conversion Price, arising as a result of the Redemption and the Rights Issue pursuant to the terms of the Convertible Notes, is less than HK\$0.05 per Conversion Share, the adjusted Conversion Price shall be fixed at HK\$0.05 per Conversion Share.

Conditions Precedent

Completion shall be conditional upon the fulfillment or waiver of the following conditions:

- (i) the Purchaser being reasonably satisfied with the results of the due diligence review to be conducted on the Target Companies;
- (ii) the Vendors being reasonably satisfied with the results of the due diligence review to be conducted on the Company;

LETTER FROM THE BOARD

- (iii) a copy of the pro forma combined profit and loss accounts of the Target Companies for the year ended 31 December 2010 having been delivered to the Purchaser showing a profit after taxation of not less than HK\$7.2 million and a net asset value of not less than HK\$25 million;
- (iv) the passing by the Independent Shareholders at the SGM of the necessary resolution to approve the Acquisition Agreement and the transactions contemplated thereunder, including without limitation, (a) the increase in authorised share capital (if necessary); (b) the issue of the Convertible Notes, the Conversion Shares to be issued upon the conversion of the Convertible Notes; (c) the entering into of the Performance Incentive Agreement; (d) the issue of the Performance Incentive Shares and the transactions contemplated thereunder, as required by the Listing Rules;
- (v) the Purchaser having received a legal opinion issued by a firm of PRC lawyers appointed by the Purchaser covering, among other matters, the due incorporation and establishment, and the business and operation, of Dongguan De Yue, Yong Li and Dongguan Yi Deng Ke, in such form and substance to the reasonable satisfaction of the Purchaser;
- (vi) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares and the Performance Incentive Shares;
- (vii) if applicable, the approval of the Bermuda Monetary Authority in respect of the increase in authorised share capital of the Company and the allotment and issue of the Conversion Shares and the Performance Incentive Shares;
- (viii) the warranties given by the Vendors in the Acquisition Agreement remaining true and accurate in all material respects;
- (ix) the warranties given by the Company in the Acquisition Agreement remaining true and accurate in all material respects;
- (x) the Shares continuing to be listed for trading on the Stock Exchange and there being no indication from the Stock Exchange that the Company will be delisted from trading on the Stock Exchange;

LETTER FROM THE BOARD

- (xi) there having been no suspension of trading of the Shares on the Stock Exchange of more than 10 consecutive trading days at any time prior to Completion, other than in connection with the Acquisition Agreement and the transactions contemplated thereunder;
- (xii) the banking facilities available to the Target Companies not having been withdrawn or terminated;
- (xiii) all necessary authorizations, licences, consents and approvals required to be obtained from banks, landlords, third parties and relevant governmental authorities, if any, in respect of the transactions contemplated under the Acquisition Agreement having been obtained; and
- (xiv) completion of the Reorganisation.

The Purchaser may at any time by notice in writing to the Vendors waive any conditions set out in (i), (iii), (v), (viii) and (xii). The Vendors may at any time by notice in writing to the Purchaser waive any conditions set out in (ii), (ix) and (xi). If any of the above conditions has not been satisfied (or, as the case may be, waived by the Purchaser or the Vendors) at or before 12:00 noon on 31 October 2011 or such later date as the Purchaser and the Vendors may agree, the Acquisition Agreement shall cease and determine and neither party under the Acquisition Agreement shall have any obligations and liabilities thereunder save for any antecedent breaches.

As at the Latest Practicable Date, conditions (iii), (vii) and (xiv) have been fulfilled and there is no intention by the Board to waive any of the above conditions precedent.

As Completion is subject to fulfillment of a number of conditions precedent, the Acquisition may or may not be proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

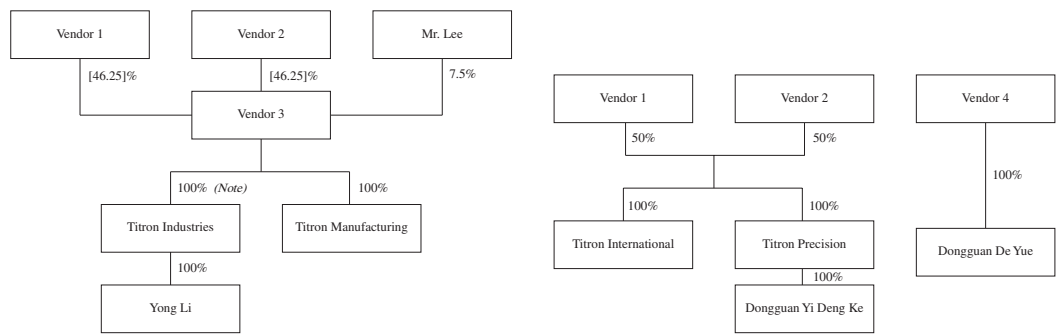
Completion

Completion shall take place on the date falling the third Business Day after all the conditions set out in the paragraph headed “Conditions Precedent” above have been fulfilled (or, as the case may be, waived).

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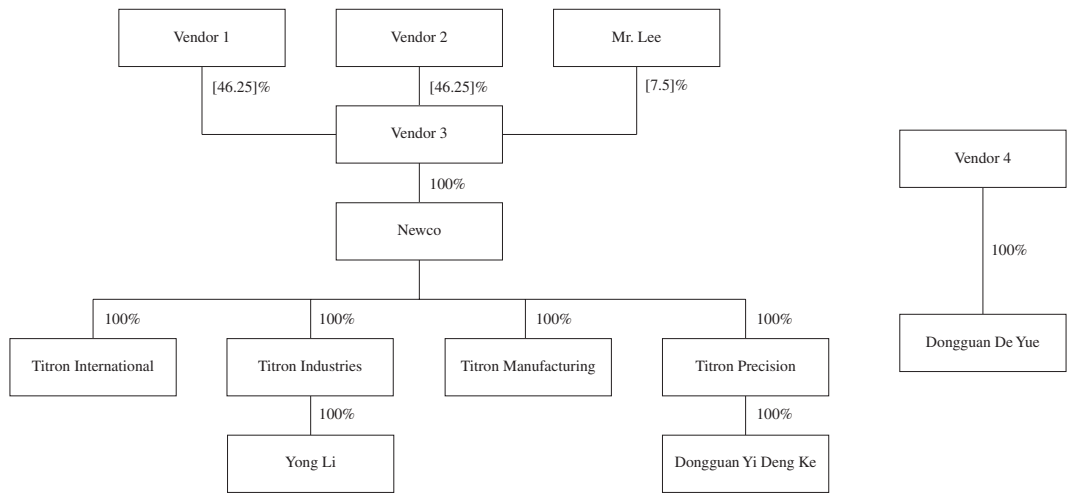
SHAREHOLDING STRUCTURE OF THE TARGET COMPANIES

Set out below is the shareholding structure of the Target Companies before the completion of the Reorganisation and Completion:



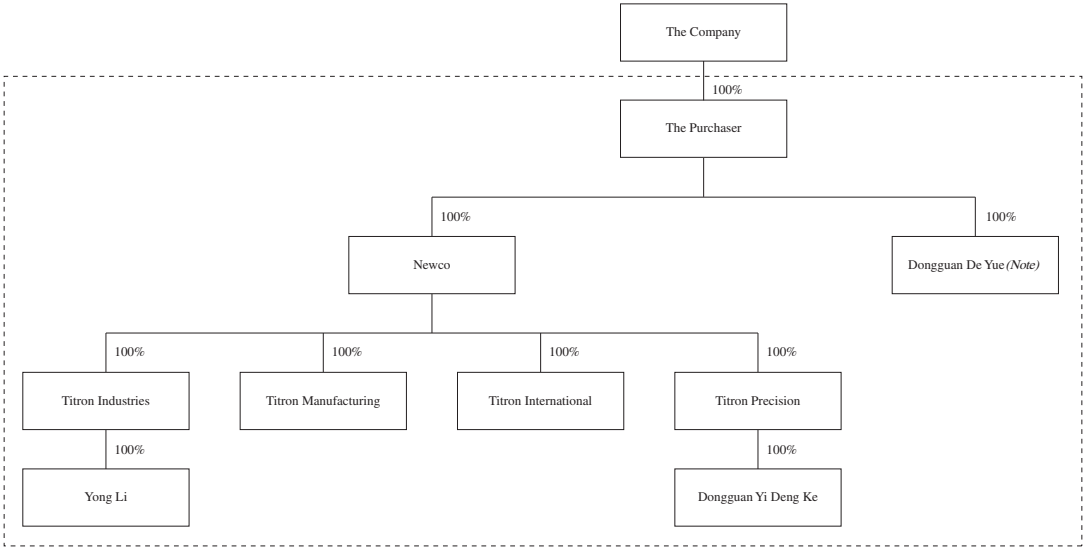
Note: Out of 1,000 issued ordinary shares of Titron Industries, 999 shares are held by Vendor 3 and 1 share is held by Vendor 1.

Set out below is the shareholding structure of the Target Companies after completion of the Reorganisation and before Completion:



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Set out below is the shareholding structure of the New Purchaser Group immediately after Completion:



Note: Dongguan De Yue may be held directly by Titron Manufacturing if agreed between the Purchaser and the Vendors not less than three Business Days prior to Completion.

INFORMATION ON THE NEW PURCHASER GROUP

Target Companies and the Purchaser

The Purchaser is a wholly-owned subsidiary of the Company which is incorporated to be used as the immediate holding company of the Target Companies upon Completion. The principal assets of the Purchaser upon Completion will be its investments in (i) the Newco which is the registered and beneficial owner of the entire issued share capital/registered capital of Titron Industries, Titron International, Titron Manufacturing and Titron Precision; and (ii) Dongguan De Yue.

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The Newco was incorporated in the BVI on 5 July 2011. Titron Industries was incorporated in Hong Kong on 3 December 1999 and holds the entire interest in Yong Li, being a wholly-foreign-owned enterprise established in the PRC on 2 September 2009. Vendor 2 is one of the founders of Titron Industries, Titron Manufacturing, Titron International and Titron Precision. As at the date of the Acquisition Agreement, the issued share capital of Titron Industries was HK\$1,000 and the registered capital of Yong Li amounted to RMB100,000. Titron International was incorporated in Hong Kong on 6 February 2002 and has issued share capital of HK\$1,000. Titron Manufacturing was incorporated in Hong Kong on 17 June 2008 and has issued share capital of HK\$1,000. Titron Precision was incorporated in Hong Kong on 25 November 2010 and holds the entire interest in Dongguan Yi Deng Ke, being a wholly-foreign-owned enterprise established in the PRC on 1 March 2011 and has registered capital of HK\$8,000,000. Titron Precision has not commenced any business since its incorporation and has issued share capital of HK\$1,000. Dongguan De Yue is a wholly-foreign-owned enterprise established in the PRC on 8 May 2007 with registered capital of HK\$10,800,000.

The principal activities of the Target Companies include (i) manufacturing and trading of DVD boxes and related components; (ii) manufacturing and trading of plastic products; and (iii) manufacturing and trading of medical devices. The Target Companies first engaged in the medical manufacturing business by producing high-precision, high-cavitation tooling to a large medical company in the US from 2005 to 2008 and commenced the business of manufacturing and trading of medical devices through Titron Industries and Titron International in 2009. Upon the establishment of Titron Precision and its wholly-foreign-owned enterprise, Dongguan Yi Deng Ke, the business of manufacturing and trading of medical devices will be mainly taken up by Titron International, Titron Precision and Dongguan Yi Deng Ke.

The following information in relation to the business of the Target Companies is provided by the Vendors:

Traditional Manufacturing Business

The Target Companies are specialised in the plastic injection moulding business, and manufacture products on an OEM basis and do not possess their own brand names. They maintain a close working relationship with their customers on the manufacturing process and manufacture various products including, but not limited to, DVD boxes, a variety of household products and cosmetic display units in accordance with the specifications and requirements set out by each of their customers. They cooperate with some well known international brands. One of the subcontractors of the Target Companies of the traditional manufacturing business is a company owned by Mr. Chan Ping Che (and/or his associates) who is interested in 8.8% of the existing share capital of the Company. Upon Completion, the New Purchaser Group will cease to engage this company as subcontractor.

Upon Completion, the Company's plan is to continue to engage in the traditional manufacturing business in tandem with the growing medical device manufacturing business as described below.

LETTER FROM THE BOARD

Medical Devices Manufacturing Business

The Target Companies, including Titron Industries and Titron International, started with fabrication of high-precision, high-cavitation tooling for the medical industry in 2005 when they first entered the medical manufacturing business, which requires precision plastic injection moulding process. In 2005, they cooperated with a Tier 1 tool design house in the United States for augmenting their engineering expertise for high-cavitation tools. The Target Companies were also qualified as approved vendors for supplying high-cavitation tools to a global medical technology company in the United States.

In view of the promising prospects of the medical devices industry, the Target Companies evolved to position themselves in the medical devices manufacturing industry by enhancement of their production facilities and production procedures in order to meet the stringent qualification requirements and approval from regulatory authorities (e.g. FDA). With engineering design experience, high quality practical China-based manufacturing expertise, regulatory and clinical clearances for the products manufactured and high-volume and low-cost manufacturing, the Target Companies are equipped to become a leading manufacturer of medical devices.

In 2009, Titron Industries and Titron International commenced the business of manufacturing and trading of medical devices and were primarily involved in pre-production activities. Titron Industries was engaged in fabrication of moulds for lancet components while Titron International was engaged in qualification of moulds (for lancet components), training of staffs and workers, set-up of production facilities, qualification of assembly lines, conduct of quality audits and pre-production protocols (i.e. documentation etc.).

In the fourth quarter of 2009, Titron International became qualified supplier for the sale of components of disposal lancet devices after passing the compliance audits performed by their customers. Actual production of medical devices commenced in 2010, starting with moulding of lancet components for one lancet model in the first quarter of 2010 and progressing to production of assembled lancet devices (i.e. moulding and assembly of components) for two models in the fourth quarter of 2010. The qualifications held by Titron International include the FDA certification for Class I Medical Devices and the last renewal was approved in January 2011. Class I Medical Devices are subject to the least regulatory control and general controls, such as provisions that relate to adulteration; misbranding; device registration and listing; premarket notification to FDA to demonstrate that the device to be marketed is as safe and effective, that is, substantially equivalent, to a legally marketed device that is not subject to premarket approval. The premarket notification to FDA is required at least 90 days prior to marketing, unless the device is exempt from such requirements; banned devices; notification, including repair, replacement, or refund; records and reports; restricted devices; and good manufacturing practices. Class I Medical Devices are not intended for use in supporting or sustaining life or to be of substantial importance in

LETTER FROM THE BOARD

preventing impairment to human health, and they may not present a potential unreasonable risk of illness or injury. In addition, Titron International was granted ISO 13485:2003 & ISO 9001:2008 certifications for molding and assembly of medical devices components for diabetic care by Intertek Testing Services N.A. since October 2007. These ISO certifications are renewed every 3 years, subject to passing the annual surveillance audits. The initial ISO certifications issued in 2007 have been renewed and are valid till February 2012. Titron International is the qualified vendor for manufacture of medical devices. The Company is not aware of any circumstances which will result in the non renewal of the relevant certifications.

The Target Companies produce components of medical devices, lancet devices, in accordance with specifications and requirements. The components that the Target Companies manufacture are components of disposal lancet devices used by diabetics for testing blood glucose that are precise and highly intuitive in the hands of patients and end-users. In 2010, they started to supply these components to an FDA registered, ISO 13485:2003 certified engineering and manufacturing outsource service company in the United States which is the major customer of Titron International and to the best knowledge of the Directors, is an Independent Third Party. The end customers of this customer are well-recognised pharmaceutical and healthcare companies in United States and Europe. Under the current arrangement, a half yearly forecast will be provided by that customer. The exact amount to be supplied by Titron International will be subject to the specific orders confirmed by the customer, usually on quarterly basis. As at the Latest Practicable Date, the Target Companies have not signed any additional contract with that customer. The Company noted that nearly all of Titron International's revenue depended on that third party customer and there is a risk of over-reliance on a major customer. However, the Company considers such risk of over-reliance should not be a material concern as it is quite common for a business at start up stage. With the assistance of the Service Provider, the Enlarged Group will identify new potential customers after Completion.

According to the statistics of International Diabetics Federation, the estimated global diabetic population will be increased from 246 million in 2010 to 380 million in 2025. In view of the growing diabetic population, the New Purchaser Group aims at positioning itself as a leading manufacturer of diabetic care products, in which all components of diabetic care products including lancet devices, needles, glucometer and testing strips will be manufactured and packaged at the New Purchaser Group's production facilities in the PRC.

With over 10 years experience in the manufacturing business, the Target Companies are equipped with multi-faceted manufacturing capabilities and diverse engineering expertise which are essential for engaging in the medical devices manufacturing business. In addition, with the vision to be a quality, innovation and technology-centric total solutions provider, the Target Companies have also built comprehensive knowledge management framework and professional project management framework. It is expected that the medical devices manufacturing business will become the core business of the New Purchaser Group upon Completion in the coming years.

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As informed by the Vendors, the Target Companies are planning to develop and expand the distribution network into multiple sites including but not limited to hospitals, healthcare groups, nursing homes and distributors of medical products within the healthcare system by linking up the distributors of medical devices or products. Also, the Target Companies target to upgrade themselves to be manufacturer of Class III Medical Devices. Class III Medical Devices need premarket approval, a scientific review to ensure the device's safety and effectiveness, in addition to general controls of Class I. Premarket Approval is the most stringent type of device marketing application required by FDA. Unlike premarket notification, premarket approval is to be based on a determination by FDA that the premarket approval contains sufficient valid scientific evidence that provides reasonable assurance that the device is safe and effective for its intended use or uses. Most Class III Medical Devices require FDA clearance of a premarket notification application (premarket approval or premarket notification) before the device may be marketed. Class III Medical Devices are usually those that support or sustain human life, are of substantial importance in preventing impairment of human health, or which present a potential, unreasonable risk of illness or injury. It is also the plan of the Target Companies to introduce products including a combination of various lancet devices and laparoscopy instruments into the PRC markets.

The Company has been conducting due diligence work on the Target Companies including but not limited to the distribution network. The Company agrees with the information provided by Vendors and notes that the expansion of the distribution network to hospital and other healthcare groups' channel is still on the preliminary planning stage and has not yet materialised up to the Latest Practicable Date.

Set out below is the audited financial information of the Newco Group for each of the three years ended 31 December 2010 and three months ended 31 March 2011 prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the year ended 31 December			For the three months ended 31 March
	2008	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(audited)
Turnover	147,112	143,428	150,086	37,451
Profit before taxation	796	1,970	12,228	1,189
Profit after taxation	522	1,551	11,228	941

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(audited)
Total assets	57,800	84,416	84,099	61,095
Net assets	<u>14,389</u>	<u>15,940</u>	<u>17,221</u>	<u>18,177</u>

LETTER FROM THE BOARD

Set out below is the audited financial information of Dongguan De Yue for the three years ended 31 December 2010 and three months ended 31 March 2011 prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the year ended 31 December			For the three months ended 31 March
	2008	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(audited)
Turnover	–	–	19,261	5,645
Loss before taxation	(46)	(267)	(1,475)	(386)
Loss after taxation	<u>(46)</u>	<u>(267)</u>	<u>(1,475)</u>	<u>(386)</u>

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(audited)
Total assets	3,422	8,227	16,796	17,484
Net assets	<u>3,399</u>	<u>7,830</u>	<u>9,007</u>	<u>9,295</u>

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are engaged in the (i) remanufacturing and sale of computer printing and imaging products; (ii) manufacture and sale of data media products; and (iii) distribution and sale of data media products.

As disclosed in the annual report of the Group for the year ended 31 December 2010, the Group recorded a turnover of approximately HK\$170 million, representing a decrease of approximately 23% compared with approximately HK\$221 million in 2009. The Group's loss attributable to the owners of the Company amounted to approximately HK\$383 million in 2010, which was mainly attributable to the raw material price hike and the substantial wage hike in the PRC. With a view to improving its financial performance, the Group has been actively looking for attractive merger and acquisition opportunities in order to extend its business reach.

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The Group is engaged in the remanufacturing and sales of computer printing and imaging products through AFEX (together with its subsidiaries, the “AFEX Group”). In view of the unsatisfactory performance of AFEX Group’s business as disclosed in the annual report for the year ended 31 December 2010, the Group is currently in the process of discontinuing this division in order to minimize its adverse impact on the Group’s financial position. The revenue and assets of AFEX Group are HK\$48,177,000 for the year 31 December 2010 and HK\$52,305,000 as at 31 December 2010 respectively. Based on its assessment of the business environment, the Company has no intention to continue to engage in the remanufacture of computer printing and imaging products after discontinuing the business of AFEX Group. In addition to AFEX Group, the Company is also in the process of discontinuing the operations of its other subsidiaries which engage in remanufacture of computer printing and imaging products. The Company expects the process of discontinuing the business of the AFEX Group to be completed within the next 3 to 6 months. AFEX is wholly owned by JEL, which is a company incorporated under the laws of the British Virgin Islands with limited liability and is wholly owned by Ugent. On 8 August 2011, the Company announced that the board of directors of JEL resolved to voluntarily liquidate JEL. On the same day, Ugent has approved the Voluntary Liquidation and the appointment of Messrs. Hou Chung Man, and Tang Chung Wah Alan, of SHINEWING Specialist Advisory Services Limited as joint liquidators of JEL. Further announcement will be made by the Company on the progress of the Voluntary Liquidation as and when appropriate.

Nevertheless, the Group will continue the business of manufacturing and sales of data media products and distribution of data media products and target to enhance the operational efficiency in order to improve the profitability of these divisions. The Group has been engaged in manufacturing of data media products for around 20 years by the plastic injection moulding process. Despite the end products produced by the Group and the Target Companies are different, they are in fact engaging in the plastic injection moulding business.

As described in the paragraph headed “Information on the New Purchaser Group” above, the New Purchaser Group provides the opportunity for the Company to position itself in the global medical devices industry by applying the existing skills of the Company. The medical devices industry has high barriers to entry compared with other industries. Economic, regulatory and legal obstacles stand in the way of potential new competitors. Regulatory barriers include lengthy tests and voluminous documentation required by the FDA before submission of a new device application. To launch a new device successfully, a company must also have manufacturing site clearance from the FDA and a well-established marketing network to distribute the product to key institutional and physician buyers. All medical devices must be manufactured under a quality assurance program, be suitable for the intended use, be adequately packaged and properly labeled, and have establishment registration and device listing forms on file with the FDA. Titron International is the qualified vendor to supply components of the disposal lancet devices for an engineering and manufacturing outsource service company in the United States. Over the years, the Target Companies have nurtured a strong culture of optimising cost efficiency through sharing many resources, including engineering expertise, machines and equipment. It is on this platform of shared economies of scale that the Target Companies have grown and successfully developed as a group.

LETTER FROM THE BOARD

The New Purchaser Group is equipped to become a medical devices manufacturer for catering the increasing demand for diabetic care products. The Target Companies are currently manufacturing different models of lancet devices for various end-customers. Lancet devices are used by diabetics to draw blood for testing of glucose level. The fast-growing global population of diabetics offers very promising prospects for Target Companies to grow this segment of its medical device business, especially in the PRC. According to the statistics of International Diabetics Federation, the estimated global diabetic population will be increased from 246 million in 2010 to 380 million in 2025. Given the continuous growth in the diabetic population, it is expected that the business of the New Purchaser Group will continue to expand and the Directors are optimistic about the long term future development of the medical devices manufacturing business.

The Company has known the existence of the Target Companies for a number of years. The Company has been carrying out its due diligence work on the Target Companies including the review of the awards granted from their well-known customers and the resume of the key management of the Target Companies. In assessing the strength of the Target Companies, the Directors had considered the proven track record of the Target Companies with more than 20 years in the manufacturing business, business relationship with some of the Fortune 500 companies including strategic partnership and licensor-licensee arrangements for manufacturing or sale of patented products, professional and experienced management and operations team and strong engineering and quality standards. It is acknowledged that the Target Companies were focused on the spectrum of preparatory activities to lay the foundation for the medical device manufacturing business the major part of 2008 and 2009. These include the fabrication and qualification of new tools, training of workers, setting-up production lines, qualification of assembly processes and audits by end-customers. During this period, there is capital cost incurred in the establishment of medical manufacturing facilities or procurement of equipment. It was only in the first quarter of 2010 that Titron International started manufacturing (molding) of components for one model of lancet devices. Full production which involved the molding and assembly for two models of lancet devices commenced in the fourth quarter of 2010. It is noted that the track record in relation to manufacturing of medical device business is shorter than that of the traditional products. Apart from establishing new channels, networks for distribution of medical equipment/supplies to hospitals, healthcare groups, nursing homes etc. will be leveraged to support this effort. The customer base will be expanded as the reach is extended to these multiple sites. Having considered that the Target Companies have comprehensive network with leaders in the medical industry and the capability to be qualified vendors for the medical devices, the Directors are optimistic about the potential of the Target Companies in that area.

The business of Target Companies is mainly the manufacturing business of plastic related products including (i) traditional DVD boxes and other household products; and (ii) high precision tooling for medical industry, both requiring plastic injection molding process. The Directors believe that the medical device manufacturing business of Target Companies has higher growth potential than the traditional plastic manufacturing business. However, such traditional manufacturing business represents a relatively stable income source of the Target Companies and it is in the interests of the Company to acquire all the Target Companies even though not all of them are engaged in medical device manufacturing business or qualified vendors for medical devices.

LETTER FROM THE BOARD

In light of the historical profitable performance of the traditional manufacturing business and the prospects of medical devices manufacturing business of the New Purchaser Group, the Directors consider that the Acquisition provides a good opportunity for the Group to improve its income stream and turnaround its business. Therefore, the Directors (excluding Mr. Yip who has abstained from voting due to his interests in the Acquisition) are of the view that the terms of the Acquisition Agreement are negotiated on arm's length basis, on normal commercial terms, fair and reasonable and that the Acquisition is in the interests of the Company and its Shareholders as a whole.

The Company does not intend to change its principal business as a result of the Acquisition. Upon Completion, the Company's principal business will include the business engaged by the Target Companies. As mentioned above, the Company is currently in the process of discontinuing the business relating to remanufacturing and sale of computer printing and imaging products. On 8 August 2011, Ugent approved the Voluntary Liquidation and the joint liquidators have been appointed.

The Company announced on 21 June 2011 that it proposed to effect a Capital Reorganisation, Redemption and Rights Issue, details of which are set out in the announcement of the Company dated 21 June 2011 and the circular of the Company dated 12 August 2011. The Capital Reorganisation, Redemption and Rights Issue are inter-conditional on each other. The Redemption and Rights Issue are conditional on the Agreement having been approved by the Independent Shareholders. However, the Acquisition is not conditional on any of the Capital Reorganisation, Redemption or Rights Issue.

Nevertheless, if the Redemption and the Rights Issue were not to proceed, the Company might be insolvent prior to Completion and that the Vendors may choose not to proceed to Completion for the due diligence or breach of warranties reason. It is a commercial decision of the Vendors whether to proceed or not. Notwithstanding the above, in view of the reasons and benefits that may be brought to the Company as elaborated above, the Directors consider that the Acquisition is in the interests of the Company and the Shareholders as a whole.

The estimated net proceeds from the Rights Issue will be approximately HK\$76.7 million (assuming no exercise of Share Options) or HK\$81.0 million (assuming full exercise of Share Options). The Company intends to apply the net proceeds of the Rights Issue for working capital of the Group and the Target Companies following Completion. In the event that the Enlarged Group needs additional funding for future business plan of the New Purchaser Group, the Company may consider other equity fund raising exercise and/or debt financing alternatives.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the effective shareholding of the Company in Target Companies will be 100% and thus the Target Companies will be accounted for as wholly-owned subsidiaries of the Company and the results of each of the Target Companies will be consolidated into the accounts of the Group. Save for the capital commitment of HK\$1.2 million, the Company currently does not anticipate further capital injections into the Target Companies.

LETTER FROM THE BOARD

Set out in Appendix IV to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial effect of the Acquisition on the assets and liabilities of the Group assuming Completion had taken place on 31 December 2010.

Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix IV to this circular, the total assets of the Group would be increased by approximately 112.9% from approximately HK\$141.6 million to approximately HK\$301.5 million; and its total liabilities would be increased by approximately 41.7% from approximately HK\$273.7 million to approximately HK\$387.7 million, as a result of the Acquisition. The Directors consider that the Acquisition will contribute to the revenue and earning base of the Enlarged Group but the quantification of such contribution will depend on the future performance of the Target Companies.

THE PERFORMANCE INCENTIVE AGREEMENT

Date: 4 March 2011 (as amended and restated on 27 July 2011)

Parties:

The issuer: the Company

The principal: the Purchaser

The service provider: Service Provider

The Service Provider is a company incorporated in Hong Kong on 2 March 2011. It is owned as to 50% by Vendor 1 and 50% by Vendor 2. The Service Provider is an associate of Vendor 2 and thus is a connected person of the Company.

Term: the period commencing on the first Business Day after the Performance Incentive Agreement becoming unconditional and ending on 31 December 2016

Role of the Service Provider

The Performance Incentive Agreement is a conditional agreement pursuant to which, the Purchaser will engage the Service Provider to provide the Services to the Purchaser. The Services to be provided by the Service Provider will include principally:

- (i) Assisting in the setting up of a suitable structure for the new medical devices business of the Titron Group;
- (ii) Assisting in providing strategic advice concerning the positioning, and direction and implementation of, the medical devices business to the board and/or senior management of each of the members of the Titron Group;
- (iii) Assisting in identifying sales and/or business opportunities to grow the medical devices business of the Titron Group;

LETTER FROM THE BOARD

- (iv) Assisting in identifying appropriate key personnel to be hired by the Titron Group;
- (v) Assisting in identifying suitable opportunities for mergers and acquisitions to grow the medical devices business of the Titron Group;
- (vi) Reviewing and commenting on, and finalising in conjunction with the senior management of the Purchaser, the annual budget of the Titron Group prepared by the Purchaser;
- (vii) Monitoring the financial performance of the Titron Group against the annual budget; and
- (viii) Attending meetings of the Board to report on the business, finances and prospects of the medical devices business of the Titron Group if so required by the Board and at such times as the Board may reasonably require.

The Services to be provided by the Service Provider to the Company are mainly to assist the Company to further develop medical devices business of Titron Group. The Directors consider that Service Provider has experience in establishing relationship with existing customers. The Service Provider would help increase the successful rate, shorten the time required and lower the cost needed to develop new client base. Reliance on Service Provider is not a material concern at this stage. Through the involvement of the management of the Company, the Company shall be able to develop their competency to operate such business in the long run.

Since the management team of the Service Provider is also the founder of medical devices business of Titron Group with well established relationship with the customers based in the United States, the Company considers the Service Provider as an appropriate choice to the Company. Apart from Mr. Lye and Mr. Yip, the management team is expected to include a senior management personnel. Subject to the then circumstances, the plan is to include two analysts and a secretary in its officer/employee structure. The management team will be responsible for the strategic planning and development of industry-specific contacts. The officers/employees will work out the detailed plans, as well as assist in the execution of the approved plans. The Services are to be provided by the officer, employee or agent. Should there be any change in management of the Service Provider, there shall not be any change of arrangement. In addition, the Service Provider may not assign or transfer any of its rights or obligations under the Performance Incentive Agreement (in whole or in part) to any person without the prior written consent of the Company.

The Service Provider is owned as to 50% by Vendor 1 and 50% by Mr. Yip. The role of Mr. Yip in the Enlarged Group includes formulation of the overall businesses strategy going forward to ensure stable sustainable growth and acquiring sufficient human and financial resources for strategy implementation. The Service Provider's role is specific and revolves around support of the medical business and identifying business opportunities of the medical business. The Services of the Service Provider are not rendered by Mr. Yip alone but also by Vendor 1 and staff of the Service Provider to be recruited.

LETTER FROM THE BOARD

Conditions precedent

The Performance Incentive Agreement is conditional upon:

- (i) the passing by the Independent Shareholders at the SGM of the necessary resolution to approve the Performance Incentive Agreement and the transactions contemplated thereunder, including without limitation, the issue and allotment of the Performance Incentive Shares to the Service Provider (or its nominees) and the Caps as required by the Listing Rules;
- (ii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Performance Incentive Shares;
- (iii) if applicable, the approval of the Bermuda Monetary Authority in respect of the allotment and issue of the Performance Incentive Shares; and
- (iv) the Acquisition Agreement becoming unconditional in all respects, and Completion taking place, in accordance with its terms.

If any of the above conditions are not satisfied on or before 31 October 2011, or such later date as the parties may agree, the Performance Incentive Agreement shall cease and determine and no party shall have any obligation or liability thereunder except for any antecedent breaches of their obligations.

Termination

The Performance Incentive Agreement will terminate automatically on 31 December 2016 and the satisfaction of all parties' obligations in relation to the Performance Bonus.

The Performance Incentive Agreement may be terminated by notice in writing in the event that:

- (i) a party commits a material breach of the Performance Incentive Agreement and that party not making good such breach within sixty (60) days from the date a written notice is received from another party to remedy such breach;
- (ii) a party becomes insolvent or goes into liquidation (other than a voluntary liquidation for the purposes of reconstruction or amalgamation upon terms previously approved in writing by the other parties) or a receiver or administrator being appointed or on the occurrence of events with similar effect; or
- (iii) the Performance Incentive Agreement may be terminated by the Service Provider if there is a change of control in the Company or the Purchaser.

LETTER FROM THE BOARD

Fees:

Pursuant to the Performance Incentive Agreement, the following remuneration shall be payable to the Service Provider for the Services rendered by it:

(i) Service fee

The Service Provider will be paid a monthly fee of HK\$200,000 in cash.

(ii) Performance Bonus

The Service Provider will also be entitled to receive Performance Bonus equal to 30% of excess of the pro forma combined profit before tax of the Titron Group over HK\$10 million for each of the six financial years ending 31 December 2016. The calculation of the Performance Bonus shall be based on the pro forma consolidated or combined profit before tax of the Titron Group for each of the financial years during the term. Pursuant to the Performance Incentive Agreement, the audited consolidated or combined profit and loss accounts for the Titron Group should conform to the Hong Kong Financial Reporting Standards and the related interpretation of these standards.

The Performance Bonus in each year shall be satisfied 50% in cash by the Purchaser and subject to the Share Caps for each of the financial year ended 31 December 2011 to 31 December 2016, 50% in Performance Incentive Shares to be issued by the Company. If (i) in any financial year the Service Provider would be entitled to the Performance Incentive Shares in excess of the respective equivalent maximum number of the Performance Incentive Shares (the “Capped Amount”), or (ii) the issue of the Performance Incentive Shares would result in the Vendors being required to make a mandatory general offer under Rule 26 of the Takeovers Code (the “Offer Obligation”), or (iii) the issue of the Performance Incentive Shares would result in the minimum public float of the Company as required by the Listing Rules not being maintained, such number of the Performance Incentive Shares equivalent to the Capped Amount or to the extent that no Offer Obligation would be triggered or to the extent that the minimum public float of the Company is maintained (as the case may be) shall be issued and allotted, and the balance of the Performance Bonus in excess of the Capped Amount or the amount which would trigger the Offer Obligation or would result in an insufficient public float of the Company (as the case may be) shall be payable in cash.

LETTER FROM THE BOARD

The Performance Incentive Shares

The Performance Incentive Shares shall be allotted and issued at HK\$0.105 per Share (which is equal to the initial Conversion Price and is subject to the adjustments similar to those of the Convertible Notes). The Capped Amounts under the Performance Incentive Agreement are as follows:

For the year ended 31 December	2011	2012	2013	2014	2015	2016
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Share Caps	1	5	30	70	100	130
	<i>Number of Performance Incentive Shares (million)</i>	<i>Number of Performance Incentive Shares (million)</i>	<i>Number of Performance Incentive Shares (million)</i>	<i>Number of Performance Incentive Shares (million)</i>	<i>Number of Performance Incentive Shares (million)</i>	<i>Number of Performance Incentive Shares (million)</i>
The Capped Amounts	9.5	47.6	285.7	666.7	952.4	1,238.1

A maximum of 3,200 million Performance Incentive Shares (based on the initial issue price of HK\$0.105 per Share) represent approximately (i) 2.1 times of the existing issued share capital of the Company; (ii) 68.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Performance Incentive Shares; and (iii) 55.4% of the issued share capital of the Company as enlarged by the allotment and issue of the Performance Incentive Shares and the issue of the Conversion Shares upon full conversion of the Convertible Notes. The number of Performance Incentive Shares to be issued has not taken into account the adjustment to be made to the issue price of the Performance Incentive Shares as a result of the Rights Issue and the Redemption. It is agreed among the Company, the Purchaser and the Service Provider that in the event the adjusted issue price, arising as a result of Redemption and Rights Issue pursuant to the terms of the Performance Incentive Agreement, is less than HK\$0.05 per Performance Incentive Share, the adjusted issue price shall be fixed at HK\$0.05 per Performance Incentive Share. The Performances Incentive Shares will be allocated as to 50% to Vendor 1 and as to 50% to Mr. Yip. Shareholders' attention is drawn to the section below headed "Shareholding structure of the Company assuming the Capital Reorgansation, the Rights Issue and the Redemption having become effective" for the effects on shareholding based on the aforesaid adjusted issue price of the Performance Incentive Shares of HK\$0.05 per Performance Incentive Share.

The Performance Incentive Shares, when allotted and issued, shall be free from any lien, charge, option or encumbrance and credited as fully paid so as to rank *pari passu* in all respects with all other Shares as at the date of the allotment. Issue of the Performance Incentive Shares includes the right to all dividends, distributions and other payments made or to be made, and right issue or bonus issue payable or to be taken up, the record date for which falls on or after the date of such allotment and issue. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Performance Incentive Shares. The allotment and issue of the Performance Incentive Shares is subject to the approval by the Independent Shareholders at the SGM.

LETTER FROM THE BOARD

If there is a change of control of the Purchaser, the obligation of Company to issue and allot Performance Incentive Shares shall terminate and from such date the Purchaser shall or shall procure that the Titron Group shall pay the Performance Bonus in cash. The calculation of the Performance Bonus will remain unchanged except that it will be paid by the Purchaser (or the Titron Group) and in cash only.

The right of first refusal

Pursuant to the Performance Incentive Agreement, neither Purchaser nor the Company shall sell, transfer, assign or otherwise dispose of the whole or any part of, or any interest in, the share capital or undertaking of any member of the Titron Group or a substantial part of the capital or assets or any undertaking or business of the Titron Group during the term without the consent of the Service Provider. In the event of any such proposed sale, the Service Provider shall have the right of first refusal or the Service Provider shall be entitled to receive in cash on the date of completion of such sale the higher of:

- a. 10% of the consideration received from the third party (the “Third Party Consideration”); and
- b. 30% of any amount of the Third Party Consideration in excess of the aggregate of the Consideration received by the Vendors pursuant to the Acquisition Agreement less any reasonable costs and expenses of the Vendors incurred in connection with the sale of the interests of the Titron Group pursuant to the Acquisition Agreement plus any reasonable costs and expenses incurred by the Group in connection with the sale of the Titron Group or its business interest to the third party.

The right of first refusal or entitlement to receive cash consideration will only apply if the Company decides to sell its interests of Titron Group during the term of the Performance Incentive Agreement. In consideration of providing Services to the Purchaser, the Service Provider has taken into account the length of the Performance Incentive Agreement. During the 6-year term of Performance Incentive Agreement, the Service Provider has been incentivized by the Performance Bonus. In negotiating the terms with the Service Provider, the Company considers reasonable to pay 30% (which is the percentage forming the basis of the Performance Bonus) of the sale proceeds to the Service Provider to compensate the loss of Services if the Company can realize a gain in excess of the Consideration because such higher valuation demanded by the future Titron Group reflects the effort contributed by the Service Provider. To a certain extent, the Third Party Consideration may reflect the value to be added by the Service Provider in the future. The Company considers that valuation based on asset values is not appropriate in valuing the Titron Group’s business which is not asset-based such as property investment companies. It is considered that the future investments to be made by the Company (if any) would be taken into account by the potential buyer (if any) and be reflected in the valuation of the Titron Group as a whole by price-earnings multiple or other appropriate methodologies. Accordingly, the Directors consider the terms of the right of first refusal contained in the Performance Incentive Agreement are fair and reasonable.

LETTER FROM THE BOARD

Other terms:

- (a) the directors of each of the members of the Target Companies will have sole responsibility for the day-to-day running and management of the operations of the Titron Group;
- (b) the Service Provider shall be entitled to appoint 3 directors to the board of each member of the Titron Group;
- (c) the Purchaser undertakes with the Service Provider that, save with the written consent of the Service Provider, it shall irrevocably waive all its rights to dividends and other distributions in respect of the shares in the Titron Group in excess of 40% of the distributable profits of the Titron Group for each financial year of the Titron Group;
- (d) the Service Provider shall provide such information in connection with the Services and the Titron Group as is reasonably required by the Purchaser for it to comply with all the requirements of the Listing Rules and all other applicable rules, codes and regulations in respect of auditing;
- (e) the Service Provider may not assign or transfer any of its rights or obligations under the Performance Incentive Agreement (in whole or in part) to any person without the prior written consent of the Company, which shall not be unreasonably withheld; and
- (f) if, at the time of issue of the Performance Incentive Shares, the issued Shares are, for any reason, no longer listed on the Stock Exchange, or are currently suspended from trading and have been suspended from trading on the Stock Exchange for a period of 30 consecutive trading days (save for any suspension due to the clearing of an announcement by the Stock Exchange relating to any notifiable transactions undertaken by the Company), the Company shall pay, or shall procure the Titron Group shall pay, the Performance Bonus in cash to the Service Provider.

Upon Completion, the Titron Group will be wholly owned by the Company and the Service Provider shall be entitled to appoint 3 directors to the board of each member of the Titron Group. The Company can still have majority control of the board of each member of the Titron Group as there is no restriction on the number of directors of each member of the Titron Group and, therefore, the Company, if thought fit, shall appoint directors to the board of each member of the Titron Group. Accordingly, the aforesaid arrangement will not affect the Company's control over the Titron Group.

LETTER FROM THE BOARD

Since the Company and the Service Provider share a common goal that the Titron Group's medical device business shall deliver promising results in coming years, the Company acknowledged the need of the Service Provider to monitor the financial performance of the Titron Group. The above-mentioned appointment of directors will also enhance the communication channel between the Service Provider and the Titron Group so that the Service Provider will be kept abreast of the latest development of the Titron Group and assist accordingly as and when appropriate. The appointment can also enable the business strategies set out by the Service Provider to be implemented properly.

It is the intention of the Company to carry out its medical device business in the Titron Group. The subsidiaries of the Purchaser shall be incorporated for the purpose of the expansion of the medical device business of the Titron Group and hence such appointment of directors also applies to those subsidiaries. Accordingly, it is logical and reasonable to allow the Service Provider to appoint board members to the Titron Group to achieve the purpose as mentioned above.

The waiver of certain rights to dividend in respect of the shares in the Titron Group is to ensure that the Titron Group can maintain sufficient distributable profits (if any) to pay the Performance Bonus to the Service Provider. The Directors consider the terms reasonable.

There is no explicit restriction on the change of management of the Service Provider provided in the Performance Incentive Agreement. However, the Service Provider may not assign or transfer any of its rights or obligations under the Performance Incentive Agreement (in whole or in part) to any person without the prior written consent of the Company. Pursuant to the Performance Incentive Agreement, the Service Provider shall use reasonable care and skill in performing its obligations under the agreement and will perform the Services within a reasonable time of its being requested to do so by the Company. In addition, the Service Provider is also incentivized by the Performance Bonus. Based on the above, the Directors consider that without explicit restriction on the change of management team of the Service Provider will not have material impact on the current structure of the Performance Incentive Agreement.

LETTER FROM THE BOARD

CAPS OF THE CONTINUING CONNECTED TRANSACTIONS

To comply with Rule 14A.35(2) of the Listing Rules, it is required to specify an annual cap in respect of the Service Fee and the Performance Bonus payable by the Group to the Service Provider under the Performance Incentive Agreement for each of the financial year ended 31 December 2011 to 31 December 2016, which is proposed as follows:

For the year ended 31 December	2011 <i>HK\$ million</i>	2012 <i>HK\$ million</i>	2013 <i>HK\$ million</i>	2014 <i>HK\$ million</i>	2015 <i>HK\$ million</i>	2016 <i>HK\$ million</i>
Cap amounts on the Service Fee	1.6	2.4	2.4	2.4	2.4	2.4
Cap amounts on the Performance Bonus	2	53	130	300	350	400

The proposed Caps for the Service Fee are determined based on the fixed monthly service fee as stipulated in the Performance Incentive Agreement. The proposed Caps for the Performance Bonus are determined with reference to the anticipated expected sales of Titron Group's products and cost structure of the Titron Group, the expansion of the scale of production and future growth of the Titron Group's business in particular, the manufacturing business of the medical devices for the six years ended 31 December 2016. When estimating the sales of traditional manufacturing business of the Titron Group, the Directors have adopted a prudent approach in view of the nature of business. The Directors have made reference to the historical record for the demand and prices of the DVD boxes and other cosmetics display products assuming there will not be material changes in business environment which will lead to substantial changes of the gross profit margin and net profit margin of the business. The medical device business has only started to contribute to the Titron Group's turnover since 2009. When estimating the sales of the medical device manufacturing business, the Directors have identified over 15 potential customers which are principally engaged in medical and healthcare companies based in United States. The criteria used to identify potential strategic alignment are companies with, among others, (i) products needs directly aligned with Titron Group's technical competency of plastic molding and product assembly; (ii) products which can make short-term use of Titron Group's integrated manufacturing platform; (iii) products similar to those already manufactured by the Titron Group; and (iv) products that can be geographically expanded into the PRC or other parts of Asia, areas with which the Titron Group can assist in or be directly responsible for, product distribution. The Directors have also made reference to the historical manufacturing and administrative cost structure of the Titron Group in estimating gross profit margin and net profit margin of the medical device manufacturing business assuming this business could achieve a scale justifying a higher margin. The Directors believe that the medical device manufacturing business of Titron Group has higher growth potential than the relatively stable traditional manufacturing business. The Performance Bonus is calculated as 30% of the excess of the pro forma combined profit before tax of the Titron Group over HK\$10 million which represents the historical contribution of the traditional manufacturing business for the year ended 31 December 2010. The Company considers that compared with the traditional manufacturing products, the business relating to products with high entry barriers such as the medical devices will have higher growth potential. In addition, the Target Companies, by allocating their future efforts and resources to the manufacturing of the medical devices, will likely achieve higher growth in the medical device business. It is expected that the growth of sales of Titron Group shall be mainly driven by medical device business. The basis of the Performance Bonus in substance remunerates the Service Provider's contribution relating to the medical device business. Based on the above, the Directors consider the bases for the proposed Caps are fair and reasonable.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of Conversion Shares (subject to adjustments) upon full conversion of the Convertible Notes; and (iii) immediately after the issue of Conversion Shares (subject to adjustments) upon full conversion of the Convertible Notes and the issue of a maximum of 3,200 million Performance Incentive Shares, based on the initial Conversion Price/issue price of HK\$0.105 per Share and without taking into account of the effect of the Rights Issue and the Redemption:

	As at the Latest Practicable Date		Immediately after the issue of the Conversion Shares (subject to adjustments) upon full conversion of the Convertible Notes (Note 3)		Immediately after the issue of the Conversion Shares (subject to adjustments) upon full conversion of the Convertible Notes and the issue of a maximum of 3,200 million Performance Incentive Shares (Note 4)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Leung Ka Kui, Johnny (Note 1)	290,000	0.02%	290,000	0.01%	290,000	0.01%
Vendors (or their respective nominees) (Note 2)	4,790,000	0.32%	1,076,218,571	41.79%	4,276,218,571	74.04%
Public	1,498,670,505	99.66%	1,498,670,505	58.20%	1,498,670,505	25.95%
	<u>1,503,750,505</u>	<u>100.00%</u>	<u>2,575,179,076</u>	<u>100.00%</u>	<u>5,775,179,076</u>	<u>100.00%</u>
Total public Shareholder (Note 5)	<u>1,500,460,505</u>	<u>99.78%</u>	<u>1,498,670,505</u>	<u>58.20%</u>	<u>1,498,670,505</u>	<u>25.95%</u>

Notes:

- Mr. Leung Ka Kui, Johnny is an independent non-executive Director.
- Set out below is the allocation of the Convertible Notes among the Vendors:

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	Allocation of principal amount of the Convertible Notes		Shareholding as at the Latest Practicable Date		Immediately after the issue of the Conversion Shares upon full conversion of the Convertible Notes (Note 3)		Immediately after the issue of the Conversion Shares (subject to adjustments) upon full conversion of the Convertible Notes and the issue of a maximum of 3,200 million Performance Incentive Shares (Note 4)	
	HK\$	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Vendor 1	29,762,460	26.45%	1,790,000	0.12%	285,242,000	11.07%	1,885,242,000	32.64%
Vendor 2	42,418,905	37.71%	–	–	403,989,571	15.69%	2,003,989,571	34.70%
Vendor 3	–	–	3,000,000	0.20%	3,000,000	0.12%	3,000,000	0.05%
Mr. Lee	8,156,190	7.25%	–	–	77,678,000	3.02%	77,678,000	1.35%
Vendor 4	32,162,445	28.59%	–	–	306,309,000	11.89%	306,309,000	5.30%
Vendors (or their respective nominees)	112,500,000	100.00%	4,790,000	0.32%	1,076,218,571	41.79%	4,276,218,571	74.04%

- Save for the Convertible Notes in the principal amount of HK\$40 million to be retained by the Vendors for the purpose of satisfying any claims under the warranties pursuant to the Acquisition Agreement, the Vendors who are parties acting in concert undertake to use all reasonable endeavours to exercise the conversion rights attaching to the balance of the Convertible Notes as soon as practicable after the Completion provided that any such conversion of the Convertible Notes will not (i) trigger a mandatory offer obligation under Rule 26 of the Takeovers Code by all or any of the Vendors (whether or not such mandatory offer obligation is triggered by the fact that the number of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes, including any Shares acquired or owned by any parties acting in concert with the Vendors or any of them, represents 30% (or such other percentage as may be stated in Rule 26 of the Takeovers Code in effect from time to time) or more of the voting rights at the general meetings of the Company) or otherwise pursuant to other provisions of the Takeovers Code; or (ii) result in the Company being not able to maintain the minimum public float of 25% (or any other percentage as required by the Listing Rules from time to time) of the issued shares of the Company after such conversion.
- Pursuant to the terms of the Performance Incentive Agreement, the Performance Incentive Shares will not be issued to the extent that, (i) the Vendors, together with parties acting in concert with them, directly or indirectly control or would be interested in an aggregate of 30% or more of the issued Shares immediately following the issue of the relevant Shares, or if the Vendors would otherwise be obliged to make a mandatory offer obligation under Rule 26 of the Takeovers Code or otherwise pursuant to other provisions of the Takeovers Code; or (ii) the minimum public float requirement of the Company under the Listing Rules will be breached as a result of such issue.

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5. Shareholders not being a director, chief executive or substantial shareholder of the Company or an associate of a person referred to above are regarded as public Shareholders.
6. The above shareholding table has not taken into account the adjustment to be made to the initial Conversion Price of the Convertible Notes and the initial issue price of the Performance Incentive Shares as a result of the Rights Issue and the Redemption. Shareholders' attention is drawn to the section below headed "Shareholding structure of the Company assuming the Capital Reorganisation, the Rights Issue and the Redemption having become effective".

REASONS FOR THE PERFORMANCE INCENTIVE AGREEMENT

The Vendors and their management team have specialized knowledge and the technical expertise relating to the manufacture in the PRC, and sale into export markets, of high quality precision made medical devices. They also have in-depth understanding on the competitive landscape of the medical devices industry and have the necessary business connections of medical devices business. As described in the paragraph headed "Reasons for the Acquisition" above, the Titron Group will focus on its new medical devices manufacturing business which is highly specialized. Upon Completion, the Directors are of the view that it would be beneficial to the Company to have the Vendors through the Service Provider to assist the Titron Group for development of medical devices manufacturing business and to provide the Titron Group with strategic advice concerning the positioning, and direction and implementation of, the medical devices business. Before founding the Titron business in the early-eighties that evolved into the Titron Group of companies today, Mr. Lye held top management positions with Singapore Airlines. An engineer by training with a master's degree from Cranfield University in the UK, Mr. Lye has extensive experience in international financial management. Mr. Yip is the co-founder of the Titron Group. Educated in the UK, he possesses a strong acumen for business opportunities, a unique entrepreneurial flair and the ability to understand the financial dimensions of business development. With their determined drive and far-sighted vision, Mr. Lye and Mr. Yip have successfully led a forward-thinking, multinational management team with a formidable array of experience and expertise which is consistently applied in the pursuit of new opportunities whilst maintaining the highest standards. The strong foundation laid by Mr. Lye and Mr. Yip has been a key factor in the continued successful growth and evolution of the Titron Group. Accordingly, the Company and the Purchaser entered into the Performance Incentive Agreement with the Service Provider, pursuant to which the Service Provider will provide the Services for the Titron Group after Completion. The Directors believe, with the support of the professional and experienced team of the Service Provider, the medical devices manufacturing business of the Titron Group will be well managed. The entering into of the Performance Incentive Agreement thereupon is essential for the Company to grow the medical device manufacturing business rapidly after Completion.

LETTER FROM THE BOARD

The Directors (excluding Mr. Yip who has abstained from voting due to his interests in the Performance Incentive Agreement) consider that the terms of the Performance Incentive Agreement, including the bases of determining the Service Fee and Performance Bonus, serve to align the interests of the Company and the Shareholders as a whole, and are negotiated on arm's length basis, on normal commercial terms, fair and reasonable and that the Performance Incentive Agreement is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATION

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Mr. Yip, the Chairman and Managing Director of the Company, held 3,000,000 Shares (through his 46.25% interest in Vendor 3) as at the date of the Acquisition Agreement. Thus, Mr. Yip is a connected person of the Company. The ultimate beneficial owner of Vendor 4 is a cousin of Vendor 2 (instead of an Independent Third Party as disclosed in the announcement dated 25 January 2011) and accordingly a connected person of the Company. Mr. Yip is one of the Vendors and one of the shareholders of the Service Provider. By virtue of Mr. Yip's interests in the Acquisition and the Service Provider, the Acquisition also constitutes a connected transaction of the Company and the provision of the Services by the Service Provider to the Purchaser will constitute the continuing connected transactions for the Company under Chapter 14A of the Listing Rules upon Completion. Mr. Yip has material interests in the Acquisition and the Performance Incentive Agreement and is therefore required to abstain from voting on the board resolutions approving the Acquisition Agreement and the Performance Incentive Agreement.

The Acquisition is subject to requirements for reporting, announcement and approval by the Independent Shareholders at the SGM by way of poll under the Listing Rules. As the Caps will exceed the relevant percentage ratios as provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions and the Caps will be subject to requirements for reporting, announcement, annual review and approval by the Independent Shareholders at the SGM by way of poll under the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, save for 3,000,000 Shares in which Vendor 1 and Vendor 2 were beneficially interested through their respective 46.25% interests in Vendor 3, Vendor 1 was also beneficially interested in 1,790,000 Shares. As such, the Vendors were interested in an aggregate of 4,790,000 Shares as at the Latest Practicable Date. The Vendors and their respective associates shall abstain from voting in respect of the proposed ordinary resolution approving the Acquisition and the Continuing Connected Transactions at the SGM. Given that the Redemption Agreements and the underwriting agreement in respect of the Rights Issue are both conditional upon, among other matters, the approval of the Acquisition Agreement by the Shareholders at the SGM, the Ugent Bondholders and Kingsway (being one of the underwriters of the Rights Issue) shall also abstain from voting in respect of the proposed ordinary resolution at the SGM.

The Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the terms of the Acquisition Agreement and the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder. Menlo Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in these regards.

LETTER FROM THE BOARD

ADJUSTMENT TO CONVERSION PRICE OF CONVERTIBLE NOTES AND ISSUE PRICE OF THE PERFORMANCE INCENTIVE SHARES

In accordance with the terms and conditions of the Convertible Notes, the Redemption and Rights Issue will result in an adjustment to the Conversion Price and the issue price of the Performance Incentive Shares. It is agreed among the Company, the Purchaser and the Vendors that in the event the adjusted Conversion Price is less than HK\$0.05 per Conversion Share, the adjusted Conversion Price shall be fixed at HK\$0.05 per Conversion Share. Based on the above, it is expected that the conversion price of the Convertible Notes and the issue price of the Performance Incentive Shares will be adjusted to HK\$0.05. Further announcement will be made by the Company as and when appropriate.

SHAREHOLDING STRUCTURE OF THE COMPANY ASSUMING THE CAPITAL REORGANISATION, THE RIGHTS ISSUE AND THE REDEMPTION HAVING BECOME EFFECTIVE

The shareholding tables below illustrate the shareholding structure of the Company upon issue of the Conversion Shares and the Performance Incentive Shares after taking into account the adjustment to be made to the initial conversion price of the Convertible Notes and the initial issue price of the Performance Incentive Shares as a result of the Rights Issue and the Redemption.

Shareholders should note that the shareholding tables below are prepared for illustrative purpose only, assuming that the Capital Reorganisation, the Rights Issue and the Redemption have become effective and unconditional (as the case may be) and on the basis that the adjusted conversion price of the Convertible Notes and the issue price of the Performance Incentive Shares would be HK\$0.05 per share. Shareholders should also note that the Acquisition is not conditional on any of the Capital Reorganisation, Redemption or Rights Issue.

A. Assuming full exercise of Share Options

Assuming full exercise of Share Options, set out below is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of Redemption Shares and the Rights Shares (assuming 0% acceptance of Rights Issue save for that accepted by Mr. Yip); (iii) immediately after the issue of Redemption Shares, the Rights Shares (assuming 0% acceptance of Rights Issue save for that accepted by Mr. Yip), Conversion Shares upon conversion of the Convertible Notes (save for HK\$40 million to be retained) and Performance Incentive Shares to the extent that the Vendors will be interested in 29.99% of the Company; (iv) immediately after the issue of Redemption Shares, the Rights Shares (assuming 0% acceptance of Rights Issue save for that accepted by Mr. Yip), Conversion Shares upon full conversion of the Convertible Notes and a maximum of 6,720 million Performance Incentive Shares; (v) immediately after the issue of Redemption Shares and the Rights Shares (assuming 100% acceptance of Rights Issue); (vi) immediately after the issue of Redemption Shares, the Rights Shares (assuming 100% acceptance of Rights Issue), Conversion Shares upon conversion of the Convertible Notes (save for HK\$40 million to be retained) and Performance Incentive Shares to the extent that the Vendors will be interested in 29.99% of the Company; and (vii) immediately after the issue of Redemption Shares, the Rights Shares (assuming 100% acceptance of Rights Issue), Conversion Shares upon full conversion of the Convertible Notes and a maximum of 6,720 million Performance Incentive Shares:

LETTER FROM THE BOARD

	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that accepted by Mr. Yip), Conversion Shares upon conversion of the Convertible Notes (save for HK\$40 million to be retained) and Performance Incentive Shares to the extent that the Vendors will be interested in 29.99% of the Company (Note 6, 8)			Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that accepted by Mr. Yip), Conversion Shares upon full conversion of the Convertible Notes and Performance Incentive Shares to the extent that the Vendors will be interested in 29.99% of the Company (Note 7, 8)			Immediately after the issue of Redemption Shares, the Rights Shares (assuming 100%) acceptance of Rights Issue), Conversion Shares upon conversion of the Convertible Notes (save for HK\$40 million to be retained) and Performance Incentive Shares to the extent that the Vendors will be interested in 29.99% of the Company (Note 6, 8)			Immediately after the issue of Redemption Shares, the Rights Shares (assuming 100% acceptance of Rights Issue), Conversion Shares upon full conversion of the Convertible Notes and Performance Incentive Shares to the extent that the Vendors will be interested in 29.99% of the Company (Note 7, 8)		
As at the Latest Practicable Date	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Leung Ka Kui, Johnny (Note 1)	290,000	0.02%	291,542	0.00%	291,542	0.00%	291,542	0.00%	612,238	0.01%	612,238	0.00%
Mr. Yip Wai Lun, Alvin and his associates (Note 2)	3,000,000	0.20%	902,889,220	12.08%	1,868,952,757	19.92%	5,754,516,220	35.00%	1,611,363,537	0.08%	4,857,927,000	29.54%
Vendor 1	1,790,000	0.12%	1,790,000	0.02%	938,970,252	10.01%	3,957,039,200	24.07%	1,579,939,252	0.05%	3,959,008,200	24.08%
Mr. Lee (Note 3)	-	-	-	-	5,256,211	0.06%	163,123,800	0.99%	5,256,211	-	163,123,800	0.99%
Total Vendors	4,790,000	0.32%	904,679,220	12.10%	2,813,179,220	29.99%	9,874,679,220	60.06%	3,196,559,000	0.13%	8,980,059,000	54.61%
Ugent Bondholder 1 (Note 4)	-	-	2,181,160,000	29.19%	2,181,160,000	23.25%	2,181,160,000	13.26%	2,181,160,000	29.19%	2,181,160,000	13.27%
Ugent Bondholder 2 (Note 4)	-	-	820,866,667	10.99%	820,866,667	8.75%	820,866,667	4.99%	820,866,667	10.99%	820,866,667	4.99%
Ugent Bondholder 3 (Note 4)	-	-	328,346,667	4.39%	328,346,667	3.50%	328,346,667	2.00%	328,346,667	4.39%	328,346,667	2.00%
Ugent Bondholder 4 (Note 4)	-	-	328,346,667	4.39%	328,346,667	3.50%	328,346,667	2.00%	328,346,667	4.39%	328,346,667	2.00%
Ugent Bondholder 5 (Note 4)	-	-	328,346,667	4.39%	328,346,667	3.50%	328,346,667	2.00%	328,346,667	4.39%	328,346,667	2.00%
Ugent Bondholder 6 (Note 4)	-	-	164,173,333	2.20%	164,173,333	1.75%	164,173,333	1.00%	164,173,333	2.20%	164,173,333	1.00%
Other Share Options holders Kingsway and/or the subscribers procured by it	-	-	77,914,798	1.05%	77,914,798	0.83%	77,914,798	0.47%	163,621,075	2.19%	163,621,075	0.99%
Other public Shareholders	1,498,670,505	99.66%	839,944,309	11.24%	839,944,309	8.95%	839,944,309	5.11%	-	-	-	-
			1,498,670,505	20.06%	1,498,670,505	15.98%	1,498,670,505	9.11%	3,147,208,061	42.12%	3,147,208,061	29.53%
Total	1,503,750,505	100.00%	7,472,740,375	100.00%	9,381,240,375	100.00%	16,442,740,375	100.00%	10,659,240,375	100.00%	16,442,740,375	100.00%
Total public Shareholders (Note 5)	1,498,670,505	99.66%	3,565,742,946	47.72%	4,386,609,613	46.76%	4,386,609,613	26.68%	5,280,909,137	59.68%	5,280,909,137	32.12%

LETTER FROM THE BOARD

B. Assuming no exercise of Share Options

Assuming no exercise of Share Options, set out below is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of Redemption Shares and the Rights Shares (assuming 0% acceptance of Rights Issue save for that accepted by Mr. Yip); (iii) immediately after the issue of Redemption Shares, the Rights Shares (assuming 0% acceptance of Rights Issue save for that accepted by Mr. Yip), Conversion Shares upon conversion of the Convertible Notes (save for HK\$40 million to be retained) and Performance Incentive Shares to the extent that the Vendors will be interested in 29.99% of the Company; (iv) immediately after the issue of Redemption Shares, the Rights Shares (assuming 0% acceptance of Rights Issue save for that accepted by Mr. Yip), Conversion Shares upon full conversion of the Convertible Notes and a maximum of 6,720 million Performance Incentive Shares; (v) immediately after the issue of Redemption Shares and the Rights Shares (assuming 100% acceptance of Rights Issue); (vi) immediately after the issue of Redemption Shares, the Rights Shares (assuming 100% acceptance of Rights Issue), Conversion Shares upon conversion of the Convertible Notes (save for HK\$40 million to be retained) and Performance Incentive Shares to the extent that the Vendors will be interested in 29.99% of the Company; and (vii) immediately after the issue of Redemption Shares, the Rights Shares (assuming 100% acceptance of Rights Issue), Conversion Shares upon full conversion of the Convertible Notes and a maximum of 6,720 million Performance Incentive Shares:

LETTER FROM THE BOARD

	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that	Immediately after the issue of Redemption Shares, the Rights Shares (assuming 0%) acceptance of Rights Issue save for that
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LETTER FROM THE BOARD

Notes:

1. Mr. Leung Ka Kui, Johnny, is an independent non-executive Director who holds Share Options to subscribe for 1,542 Shares.
2. Mr. Yip's associates include Vendor 3 and Mr. Lai. These 3,000,000 Shares are held by Vendor 3 which is owned as to 46.25% by Vendor 1, 46.25% by Mr. Yip and 7.5% by Mr. Lee. The ultimate beneficial owner of Vendor 4, Mr. Lai, is an associate of Mr. Yip.
3. Mr. Lee owns 7.5% interests in Vendor 3.
4. The Ugent Bondholders would not be entitled to the Rights Issue.
5. Kingsway confirms that none of it or the subscribers procured by it will become substantial shareholders of the Company upon completion of the Rights Issue. Kingsway has procured certain independent subscribers as at the Latest Practicable Date.
6. Save for the Convertible Notes in the principal amount of HK\$40 million to be retained by the Vendors for the purpose of satisfying any claims under the warranties pursuant to the Acquisition Agreement, the Vendors undertake to use all reasonable endeavours to exercise the conversion rights attaching to the balance of the Convertible Notes as soon as practicable after the Acquisition Completion provided that any such conversion of the Convertible Notes will not (i) trigger a mandatory offer obligation under Rule 26 of the Takeovers Code by all or any of the Vendors (whether or not such mandatory offer obligation is triggered by the fact that the number of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes, including any Shares acquired or owned by any parties acting in concert with the Vendors or any of them, represents 30% (or such other percentage as may be stated in Rule 26 of the Takeovers Code in effect from time to time) or more of the voting rights at the general meetings of the Company) or otherwise pursuant to other provisions of the Takeovers Code; or (ii) result in the Company being not able to maintain the minimum public float of 25% (or any other percentage as required by the Listing Rules from time to time) of the issued shares of the Company after such conversion.

Pursuant to the terms of the Performance Incentive Agreement, the Performance Incentive Shares will not be issued to the extent that, (i) the Vendors, together with parties acting in concert with them, directly or indirectly control or would be interested in an aggregate of 30% or more of the issued Shares immediately following the issue of the relevant Shares, or if the Vendors would otherwise be obliged to make a mandatory offer obligation under Rule 26 of the Takeovers Code or otherwise pursuant to other provisions of the Takeovers Code; or (ii) the minimum public float requirement of the Company under the Listing Rules will be breached as a result of such issue.

7. Under both scenarios, the columns under which (i) immediately after the issue of Redemption Shares, the Rights Shares (assuming 0% acceptance of Rights Issue save for that accepted by Mr. Yip), Conversion Shares upon full conversion of the Convertible Notes and a maximum of 6,720 million Performance Incentive Shares; and (ii) immediately after the issue of Redemption Shares, the Rights Shares (assuming 100% acceptance of Rights Issue), Conversion Shares upon full conversion of the Convertible Notes and a maximum of 6,720 million Performance Incentive Shares are for illustration purpose only.

LETTER FROM THE BOARD

8. In accordance with the terms and conditions of the Convertible Notes, the Redemption and Rights Issue will result in an adjustment to the conversion price of the Convertible Notes and the issue price of the Performance Incentive Shares.

It is agreed among the Company, the Purchaser and the Vendors that in the event the adjusted conversion price is less than HK\$0.05 per Conversion Share, the adjusted conversion price shall be fixed at HK\$0.05 per Conversion Share. Based on the above, it is expected that the conversion price of the Convertible Notes and the issue price of the Performance Incentive Shares will be adjusted to HK\$0.05. Further announcement will be made by the Company as and when appropriate.

The above shareholding table has taken into account the aforesaid adjustment to be made to the Conversion Price of the Convertible Notes and the issue price of the Performance Incentive Shares.

ADJUSTED NUMBER OF CONVERSION SHARES

The number of Conversion Shares (based on the principal amount of the Convertible Notes of HK\$112.5 million and adjusted conversion price of HK\$0.05 per Conversion Share as a result of the Redemption and the Rights Issues) to be issued upon full conversion of the Convertible Notes is 2,250 million, which represents (i) approximately 23.5% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Notes and the issue of the Redemption Shares and the Rights Shares (assuming no exercise of the Share Options); and (ii) approximately 13.8% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Notes, the issue of the Redemption Shares and the Rights Shares (assuming no exercise of the Share Options) and the allotment and issue of a maximum of 6,720 million Performance Incentive Shares at the adjusted issue price of HK\$0.05.

ADJUSTED NUMBER OF PERFORMANCE INCENTIVE SHARES

The maximum number of Performance Incentive Shares (based on the adjusted issue price of HK\$0.05 per Performance Incentive Share as a result of the Redemption and the Rights Issues) to be allotted and issued is 6,720 million, which represents (i) approximately 47.9% of the issued share capital of the Company as enlarged by the allotment and issue of a maximum of 6,720 million Performance Incentive Shares and the issue of the Redemption Shares and the Rights Shares (assuming no exercise of the Share Options); and (ii) approximately 41.3% of the issued share capital of the Company as enlarged by the allotment and issue of a maximum of 6,720 million Performance Incentive Shares, the issue of the Redemption Shares and the Rights Shares (assuming no exercise of the Share Options) and the issue of the Conversion Shares upon full conversion of the Convertible Notes at the adjusted conversion price of HK\$0.05.

LETTER FROM THE BOARD

INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$400,000,000 divided into 4,000,000,000 Shares, of which 1,503,750,505 Shares were issued and fully paid-up.

In the event that the Capital Reorganisation takes effect in accordance with its terms, there would be sufficient authorised and unissued share capital of the Company to satisfy the issue of the Conversion Shares and the Performance Incentive Shares. To cater for the possibility that the Capital Reorganisation does not proceed for whatever reason, the Directors propose to increase the authorised share capital of the Company from HK\$400,000,000 to HK\$2,000,000,000 divided into 20,000,000,000 Shares by the creation of an additional 16,000,000,000 Shares, each ranking *pari passu* in all respects with the existing Shares, with effect from the Completion Date.

In the event that the Capital Reorganisation is materialised, the authorised share capital of the Company will not be increased and will remain at HK\$400,000,000 which will be divided into 40,000,000 New Shares of HK\$0.01 each.

Save for the issue of the Rights Shares, the Redemption Shares, the Conversion Shares, the Performance Incentive Shares and any Shares which may fall to be issued upon exercise of the Share Options, the Directors have no present intention to allot and issue other new Shares.

SGM

The SGM, the notice of which is set out on pages SGM – 1 to SGM – 4 of this circular, will be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 5 September 2011 at 10:00 a.m., to consider and, if thought fit, approve the Acquisition Agreement, the Performance Incentive Agreement, the Caps, the increase in authorised share capital of the company and the transactions contemplated thereunder including the issue of the Convertible Notes and the Conversion Shares; and the issue and allotment of Performance Incentive Shares. The voting on the proposed ordinary resolution will be taken by way of poll.

LETTER FROM THE BOARD

Shareholders should note that there is only one ordinary resolution to be proposed at the SGM to approve both the Acquisition Agreement and the Performance Incentive Agreement (including the Caps) and the increase in authorised shares capital of the Company because the transactions contemplated under the Performance Incentive Agreement are part and parcel of the Acquisition and was negotiated with the Vendors in conjunction with the Acquisition and the increase in authorised share capital of the Company is to cater for the issue of the Conversion shares and the Performance Incentive shares in case the Capital Reorganisation does not take place. As disclosed above, it is one of the conditions precedent of the Acquisition Agreement that Shareholders' approval be obtained in respect of both the Acquisition Agreement and the Performance Incentive Agreement. The Board considers that such arrangement (i.e. only one ordinary resolution to be proposed at the SGM) is in the interests of the Company and the Shareholders as a whole as the Acquisition shall proceed together with the Performance Incentive Agreement and the increase in authorised share capital of the Company in order for the Group to achieve all the benefits thereunder.

Whether or not you intend to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's principal place of business in Hong Kong at Unit 3303-3304, Level 33, Tower 1, Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.

Completion and return of proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors (excluding Mr. Yip who has abstained from voting due to his interests in the Acquisition Agreement and the Performance Incentive Agreement) consider that the terms of the Acquisition Agreement and the Performance Incentive Agreement and the Caps are fair and reasonable and that the Acquisition and the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition Agreement, the Performance Incentive Agreement, the Caps, the increase in authorised share capital of the Company and the transactions contemplated thereunder including the issue of Convertible Notes and the Conversion Shares; and the issue and allotment of Performance Incentive Shares.

Your attention is drawn to the recommendation of the Independent Board Committee (as set out on pages 52 to 53 of this circular) and the letter of advice from Menlo Capital (as set out on pages 54 to 90 of this circular) regarding the terms of the Acquisition Agreement and the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of Menlo Capital, considers that the terms of the Acquisition Agreement and the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition and the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition Agreement, the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder including the issue of Convertible Notes and the Conversion Shares and the issue and allotment of Performance Incentive Shares.

GENERAL INFORMATION

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

By order of the Board
Guojin Resources Holdings Limited
Yip Wai Lun, Alvin
Chairman and Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



國金資源控股有限公司*

Guojin Resources Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 630)

12 August 2011

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 12 August 2011 (the “Circular”), of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Acquisition Agreement and the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder and to advise you as to whether, in our opinion, such terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Acquisition and the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

Menlo Capital has been appointed as the independent financial adviser to advise us and you regarding the terms of the Acquisition Agreement and the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are contained in its letter set out on pages 54 to 90 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Acquisition Agreement and the Performance Incentive Agreement, the Caps and the transactions contemplated and the advice of Menlo Capital, we consider that the terms of the Acquisition Agreement as well as the Performance Incentive Agreement and the Caps, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition and Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition Agreement, the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder including the issue of Convertible Notes and the Conversion Shares and the issue and allotment of Performance Incentive Shares.

Yours faithfully,

For and on behalf of the

Independent Board Committee of

Guojin Resources Holdings Limited

Mr. Leung Ka Kui

*Independent Non-executive
Director*

Mr. Chan Kam Kwan, Jason

*Independent Non-executive
Director*

Mr. Lau Man Tak

*Independent Non-executive
Director*

LETTER FROM MENLO CAPITAL

The following is the full text of the letter from Menlo Capital which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



MENLO CAPITAL LIMITED

Room 1807, West Tower, Shun Tak Centre
168 Connaught Road Central, Hong Kong

12 August 2011

*To: The Independent Board Committee and the Independent Shareholders of
Guojin Resources Holdings Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the Performance Incentive Agreement (as amended and restated on 27 July 2011 respectively), the Caps and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 12 August 2011 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 25 January 2011, the Board announced that the Company and the Purchaser entered into the Acquisition Agreement with the Vendors pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the entire issued share capital of Titron Industries, Titron Manufacturing, Titron International and Titron Precision and registered capital of Dongguan De Yue, for a total consideration of HK\$120 million. On 21 June 2011 and 27 July 2011, the Board announced that the Company, the Purchaser and the Vendors agreed to amend certain terms of the Acquisition Agreement.

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The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, Mr. Yip, being the Chairman and Managing Director of the Company and one of the Vendors, owned 3,000,000 Shares (through his 46.25% interest in Vendor 3), representing approximately 0.2% of the existing issued share capital of the Company. Thus, Mr. Yip is a connected person of the Company and the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to requirements for reporting, announcement and approval by the Independent Shareholders at the SGM by way of poll under the Listing Rules.

Pursuant to the Acquisition Agreement, the Company, the Purchaser and the Service Provider entered into the Performance Incentive Agreement on 4 March 2011. On 21 June 2011 and 27 July 2011, the Board announced that the Company, the Purchaser and the Service Provider agreed to amend certain terms of the Performance Incentive Agreement, pursuant to which the Service Provider shall, subject to Completion, provide the Services to the Purchaser during the term, in consideration of which the Service Provider will be paid a monthly fee of HK\$200,000 and the Performance Bonus equivalent to 30% of the excess of the combined profit before tax of the Titron Group over HK\$10 million for each of the six financial years ending 31 December 2016.

The Service Provider is a company incorporated in Hong Kong and Mr. Yip is one of the shareholders of the Service Provider. Accordingly, the provision of the Services by the Service Provider to the Purchaser upon Completion will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the aggregated annual amounts of the Continuing Connected Transactions will exceed the relevant percentage ratios as provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions will be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

An Independent Board Committee comprising Mr. Leung Ka Kui, Johnny, Mr. Chan Kam Kwan, Jason and Mr. Lau Man Tak, all being independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the Acquisition Agreement, the Performance Agreement, the Caps and the transactions contemplated thereunder. We, Menlo Capital have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Acquisition Agreement, the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Acquisition Agreement, the Performance Incentive Agreement, the Caps and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

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II. BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion, we have relied on the statements, information and representations contained or referred to in the Circular and the information provided and representations made to us by the Directors and the management of the Company. We have assumed that all the statements, information and representations contained or referred to in the Circular and all information provided and representations made by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were provided and made and will continue to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information provided and representations made to us by the Directors and the management of the Company.

We consider that the information provided and representations made to us are sufficient for us to form a reasonable basis for our opinion. We are not aware of any reason to suspect any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps as required under Rule 13.80 of the Listing Rules to enable us to reach an informed view and to justify our reliance on the information provided and representations made to us so as to form a reasonable basis for our opinion. The Directors have further confirmed that, having made all reasonable enquiries, and to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, incorrect or misleading. We have not, however, carried out any independent verification of the information provided and representations made to us by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the terms of the Acquisition Agreement, we have taken into consideration the following principal factors:

1. Background of the Acquisition Agreement

On 25 January 2011, the Board announced that the Company and the Purchaser entered into the Acquisition Agreement with the Vendors pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the entire issued share capital of Titron Industries, Titron Manufacturing, Titron International and Titron Precision and registered capital of Dongguan De Yue, for a total consideration of HK\$120 million. On 21 June 2011 and 27 July 2011, the Board announced that the Company, the Purchaser and the Vendors agreed to amend certain terms of the Acquisition Agreement. The Consideration is to be satisfied as to HK\$7.5 million payable by the Purchaser in cash on a date being six months from the Completion Date and as to HK\$112.5 million payable to the Vendor (or their respective nominee(s)) by way of allotment and issue of the Convertible Notes upon Completion.

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2. Information on the Group

(i) Business Review of the Company

The Company is an investment holding company and its subsidiaries are engaged in the (i) remanufacturing and sale of computer printing and imaging products; (ii) manufacture and sale of data media products; and (iii) distribution and sale of data media products.

According to the annual report of the Group for the year ended 31 December 2010 (the “**Annual Report**”), the Group’s main business, namely, the remanufacturing and sales of computer printing and imaging products, being 43% of the Group’s sales, recorded a sharp decline in sales of 50% in 2010. Operating environment for this segment remained extremely competitive in the year. This was particularly the case on the price front as the market was swamped by low value new-mould products. Profit for this segment was hit severely by a few factors, including (i) the rise in its key feedstock, namely empty cartridges; (ii) labour costs, as the Group’s factories are located in the Pearl River Delta (Shenzhen and Zhuhai), the hike was bigger in magnitude nationally; and (iii) high fixed costs as the utilization of production capacity of the factories is low. The business division of manufacturing and sales of data media products registered an increase of 35% in turnover for the year ended 31 December 2010. The business division of distribution of data media products experienced a decline in turnover which has led to a loss of HK\$1 million of the division. The Group held embarked on trading activities for mineral products and recorded a turnover of approximately HK\$16 million in this regard. The activities in that line of business have not proceeded further due to the lack of trading opportunities that would provide the Group with attractive return on minimized credit exposure.

With a view to improving the Group’s financial performance, the Group has been actively looking for attractive merger and acquisition opportunities in order to extend its business reach.

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(ii) Financial Summary

Below is a summary of the audited financial results of the Group for each of the three years ended 31 December 2010 as extracted from the Annual Report and the annual report of the Group for the year ended 31 December 2009 (the “**2009 Annual Report**”):

Table A- Summary of the audited financial results of the Group

	For the year ended 31 December		
	2010	2009	2008
	(Audited)	(Audited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000
Turnover	169,925	221,394	455,531
– Remanufacture and sale of computer printing and imaging products	73,739	148,080	310,298
– Manufacture and sale of data media products	67,880	50,255	104,095
– Distribution of data media products	12,303	23,059	41,138
– Trading and mining of mineral resources	16,003	–	–
Loss for the year attributable to owners of the Company	(383,368)	(278,003)	(159,787)

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	As at 31 December		
	2010	2009	2008
	(Audited)	(Audited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000
Current assets	108,084	268,580	441,750
Non-current assets	33,472	123,203	147,162
Current liabilities	89,715	161,728	374,126
Non-current liabilities	183,999	244,959	36,334
Capital deficiency/Equity attributable to owners of the Company	(131,615)	(14,904)	178,452

Source: Annual Report and 2009 Annual Report

As set out above, the Group recorded a turnover of approximately HK\$170.0 million for the year ended 31 December 2010, representing a decrease of approximately HK\$51.5 million or approximately 23.2% from the preceding financial year. The Group recorded a loss attributable to owners of the Company of approximately HK\$383.4 million for the year ended 31 December 2010 as compared with that of HK\$278.0 million for the year ended 31 December 2009. As explained in the Annual Report, the Group's profitability was mainly impacted by the raw material price hike, namely empty cartridge prices during the year. Like all manufacturers in China, the Group was also hit by the substantial wage hike, which was not only stipulated by law nationally, but was also on a structural uptrend in the medium term.

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK\$221.4 million, representing a decrease of approximately 51.4% as compared with approximately HK\$455.5 million in 2008. The Group's loss attributable to the owners of the Company amounted to approximately HK\$278.0 million in 2009 as compared with approximately HK\$159.8 for the preceding financial year. According to the 2009 Annual Report, the increase in net loss was mainly attributable to (i) the decline in turnover of the business of recycled toner cartridge and computer media production as affected by the financial crisis and disposal of certain subsidiaries and (ii) impairment loss amounted to approximately HK\$82 million due to the decreased trend in selling prices of remanufacture of monochrome toner cartridge products.

As at 31 December 2010, the Group had audited current assets of approximately HK\$108.1 million, audited current liabilities of approximately HK\$89.7 million. Cash and cash equivalent amounted to approximately HK\$37.9 million. As at 31 December 2010, the capital deficiency attributable to owners of the Company amounted to approximately HK\$131.6 million.

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Pursuant to the announcement of the Company dated 8 August 2011 in relation to, among other things, the profit warning, the Company announced that based on the unaudited management accounts and other relevant information currently available, the Board wishes to inform the shareholders of the Company and potential investors that the Group is expected to record (i) a substantial drop of its turnover for the six months ended 30 June 2011 as compared with the turnover for the corresponding period ended 30 June 2010; and (ii) a considerable loss for the six months ended 30 June 2011. However, it is expected that the loss for the six months ended 30 June 2011 would not exceed that for the corresponding period of last year.

The substantial drop in the turnover was mainly attributable to the scaling down of the Group's operations on remanufacture and sale of computer printing and imaging products during the period under review. The aforesaid operations have substantially reduced during the review period because the related sales volume has contracted significantly in face of the gross loss incurred by this division as caused by the lack of economy of scale. In addition, during the period under review the Group failed to identify opportunities in trading of minerals that would provide the Group with reasonable return on minimized credit exposure.

The information contained in the announcement is only based on the preliminary assessment of the unaudited management accounts of the Group for the six months ended 30 June 2011. Details of the Group's results and performance for the six months ended 30 June 2011 are expected to be announced by the Company in August 2011.

3. Information on the Target Companies

(i) Principal business of the Target Companies

Target Companies comprise the Newco, Titron International, Titron Industries and its wholly-owned subsidiary Yong Li, Titron Manufacturing, Titron Precision and its wholly-owned subsidiary Dongguan Yi Deng Ke and Dongguan De Yue. As set out in the Letter from the Board, the principal activities of the Target Companies include (i) manufacturing and trading of DVD boxes and related components; (ii) manufacturing and trading of plastic products; and (iii) manufacturing and trading of medical devices. The Target Companies commenced the business of manufacturing and trading of medical devices through Titron Industries and Titron International in 2009. Upon the establishment of Titron Precision and its wholly-foreign-owned enterprise, Dongguan Yi Deng Ke, the business of manufacturing and trading of medical devices will be mainly taken up by Titron Precision and Dongguan Yi Deng Ke.

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Further details of the Target Companies are as set out below:

Newco

Shareholding structure:	the holding company of Titron International, Titron Industries, Titron Manufacturing and Titron Precision following completion of the Reorganisation
Place and date of incorporation:	BVI, 5 July 2011
Principal activities:	investment holding

Titron International

Shareholding structure:	Owned as to 50% by Vendor 1 and Vendor 2, respectively
Place and date of incorporation:	Hong Kong, 6 February 2002
Principal activities:	trading of medical devices

Titron Industries

Shareholding structure:	Owned as to 100% by Vendor 3
Place and date of incorporation:	Hong Kong, 3 December 1999
Principal activities:	trading of DVD boxes and related components
Principal subsidiary:	Yong Li, incorporated in 2 September 2009 in the PRC, the principal activity of which is the provision of consultation services

Titron Manufacturing

Shareholding structure:	Owned as to 100% by Vendor 3
Place and date of incorporation:	Hong Kong, 17 June 2008
Principal activities:	manufacturing of DVD boxes and related components and trading of plastic products

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Titron Precision

Shareholding structure:	Owned as to 50% by Vendor 1 and Vendor 2, respectively
Place and date of incorporation:	Hong Kong, 25 November 2010
Principal activities:	manufacturing and trading of medical device
Wholly-foreign-owned enterprise:	Dongguan Yi Deng Ke, incorporated in 1 March 2011 in the PRC, the principal activity of which is manufacturing and trading of medical device

Dongguan De Yue

Shareholding structure:	Owned as to 100% by Vendor 4
Place and date of incorporation:	the PRC, 8 May 2007
Principal activities:	manufacturing of DVD boxes and related components and trading of plastic products

(ii) Financial performance of the Newco Group

The Newco Group recorded turnover of approximately HK\$150.1 million, HK\$143.4 million and HK\$147.1 million for each of the three years ended 31 December 2010. Profit for the year and attributable to owners of the Newco Group amounted to approximately HK\$11.2 million, HK\$1.6 million, HK\$0.5 million for each of three the years ended 31 December 2010.

As at 31 March 2011, the Newco Group had net current assets of approximately HK\$9.3 million, current liabilities of approximately HK\$42.3 million and equity of approximately HK\$18.2 million, respectively.

Further information relating to the financial performance of the Newco Group is set out in the section headed “Information on the New Group” in the Letter from the Board.

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(iii) Financial Performance of Dongguan De Yue

Dongguan De Yue recorded revenue and gross profit of approximately HK\$19.3 million and HK\$0.6 million for the year ended 31 December 2010 respectively. Loss for the year amounted to approximately HK\$1.5 million for the year ended 31 December 2010.

As at 31 March 2011, Dongguan De Yue had net current assets of approximately HK\$0.9 million, current liabilities of approximately HK\$8.2 million and equity of approximately HK\$9.3 million, respectively.

Further information relating to the financial performance of Dongguan De Yue is set out in the section headed “Information on the New Group” in the Letter from the Board.

4. Information on medical devices manufacturing business

We noted from the Letter from the Board that the Target Companies cooperated with a Tier 1 tool design house in the United States for augmenting their engineering expertise for high-cavitation tools since 2005. The Target Companies were also qualified as approved vendors for supplying high-cavitation tools to a global medical technology company in the United States.

The Target Companies have evolved to position themselves in the medical device manufacturing industry by enhancement of their production facilities and production procedures in order to meet the stringent qualification requirements and approval from regulatory authorities, such as FDA. As set out in the Letter from the Board, the Target Group started to position itself in the medical industry through an exclusive partnership arrangement with a US supplier of lancet devices for the fabrication of tools, moulding and assembly of lancet devices/components in the PRC for supply to various well-known end-customers.

Subsequently in 2008, the Target Companies began to focus on the manufacturing of medical devices, in particular, lancet devices. In 2009, the Target Companies became qualified suppliers of the sale of components of disposal lancet device after passing the compliance audits performed by their customers and began to supply these components to an FDA registered, ISO 13485:2003 certified, engineering and manufacturing outsource service company in the United States. The end customers of this US supplier are well-recognised pharmaceutical and healthcare companies in the United States and Europe.

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The Target Companies produce components of medical device, lancet devices, in accordance with specifications and requirements. The components that the Target Companies manufacture are components of disposal lancet device used by diabetics for testing blood glucose that are precise and highly intuitive in the hands of patients and end-users.

As set out in the Letter from the Board, the New Group aims at developing and expanding the distribution network into multiple sites including but not limited to hospitals, healthcare groups, nursing homes and distributors of medical products within the healthcare system by linking up the distributors of medical devices or products. Also, the Target Companies target to upgrade themselves to be manufacturer of Class 3 surgical devices. It is also the plan of the Target Companies to introduce products including a combination of various lancet devices and laparoscopy instruments into PRC markets. It is expected that the medical device manufacturing business will become the core business of the New Group upon Completion in the coming years.

As set out in its website, FDA, in particular the Center for Devices and Radiological Health (CDRH), is responsible for regulating firms who manufacture, repackage, relabel, and/or import medical devices sold in the United States. The FDA requires manufacturers (both domestic and foreign) and initial distributors (importers) of medical devices to register their establishments with the FDA.

Medical devices are classified into Class I, II, and III. Regulatory control increases from Class I to Class III. The device classification regulation defines the regulatory requirements for a general device type. Most Class I devices are exempt from premarket notification, most Class II devices require premarket notification and most Class III devices require premarket approval.

The basic regulatory requirements that manufacturers of medical devices distributed in the United States must comply with, including but not limited to, medical device listing, premarket notification (unless exempt) or premarket approval, quality system regulation, labelling requirements, and medical device reporting.

5. Principal terms of the Acquisition Agreement

As set out in the Letter from the Board, the Company, the Purchaser and the Vendor entered into the Acquisition Agreement dated 23 January 2011 in respect of the Acquisition at a consideration of HK\$120 million, subject to adjustment.

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Principal terms of the Acquisition are set out below,

(i) *Subject matter of the Acquisition*

the Sale Shares, representing the entire issued share capital or registered capital of the Target Companies

(ii) *Consideration*

Consideration is to be satisfied by the following manner:

- (a) as to HK\$7.5 million payable by the Purchaser in cash on a date being six months from the Completion date; and
- (b) as to HK\$112.5 million payable to the Vendors (or their respective nominee(s)) by way of allotment and issue of the Convertible Notes upon Completion.

The Consideration was arrived at after arm's length negotiations among the Company, the Purchaser and the Vendors and was determined taking into consideration the historical performance of the existing traditional manufacturing business and the growth potential of the medical device manufacturing business of the Target Companies as detailed in the paragraph headed "Reasons for the Acquisition" set out in the Letter from the Board.

The Consideration values the entire equity interests of the Newco Group and Dongguan De Yue at HK\$120.0 million and represents a price-earnings multiple of approximately 12.8 times of the aforesaid adjusted aggregate net profit of the Newco Group and Dongguan De Yue of approximately HK\$9.4 million for the year ended 31 December 2010. The Company intends to fund the cash consideration of the Acquisition by internal resources.

It is agreed among the Vendors that the cash consideration of HK\$7.5 million, net of the related expenses, will be shared by the Vendor 1, Mr. Yip and Mr. Lai equally.

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(iii) Evaluation of the Consideration

To assess the fairness and reasonableness of the Consideration, we have discussed with the management of the Company and, on a best effort basis, conducted a search of companies listed on the Main Board of the Stock Exchange which are engaged in similar line of business as that of the Target Companies, i.e. manufacturing and trading of plastic products/medical device of a similar nature.

We consider that valuation based on asset values is more appropriate when valuing businesses under liquidation or asset-based businesses such as property investment companies. As such, we have not focused our assessment on the Acquisition in terms of the asset values of the Target Companies.

Given that the industry of the Target Companies are manufacturing which is recurrent income base in nature and the profitability of the Target Companies in their most recent full financial year, we consider that the use of price-to-earnings ratio (the “**PER**”), being one of the most commonly used references among the investing community for valuing industrial companies with profitable operating results, to be more relevant in assessing the reasonableness and fairness of the Consideration than by price-to-book ratio. As it is impracticable to identify the PER of private companies, we only focus on the identification of companies listed on the Main Board of the Stock Exchange.

For the purpose of our analysis, we have included those companies which, (a) derived not less than 70% of their respective historical revenue from the manufacturing/trading of plastic products or medical device for the latest full financial year based on their respective published annual reports; and (b) have been profit making for the latest full financial year based on their respective published annual reports.

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Based on the above criteria, we have, on a best effort basis, identified a list of 5 comparable companies (the “**Comparables**”) and compared their historical PER (calculated through dividing the closing share price as at the Latest Practicable Date by the basic earnings per share extracted from the latest full financial year based on their respective published annual reports) with the PER of approximately 12 times as represented by the Consideration. Details of the comparison are set out below:

Table B – Information on the Comparables

Manufacturing and trading of plastic products

Company name	Stock Code	Principal activities	PER (Note 1) (approximately times)
China Liansu Group Holdings Ltd	2128	Manufacture of plastic pipes and pipe fittings in China	12.89
DeTeam Company Ltd	65	Manufacturing and sale of plastic woven bags, paper bags and plastic barrels and sale of coal	19.42
Average			14.57
Range			7.40 to 19.42

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Manufacturing and trading of medical devices

Company name	Stock Code	Principal activities	PER (Note 1) <i>(approximately times)</i>
MicroPort Scientific Corporation	853	Develop, manufacture and sale of medical devices in China, focusing primarily on minimally invasive interventional products for the treatment of vascular diseases and disorders	22.04
Newtree Group Holdings Ltd	1323	Manufacture and trading of hygienic disposables for household and clinical uses, products consist mainly of clinical waste bags, general waste bags, disposable film bags and aprons	11.10
		Average	16.57
		Range	11.10 to 22.04
		The Acquisition (Note 2)	12.8

Source: the website of the Stock Exchange

Notes:

- (1) Calculation is based on the closing price of the respective shares of the Comparables as at the Latest Practicable Date. Relevant data was extracted from the website of the Stock Exchange and/or annual report of the respective listed companies.
- (2) Calculation is based on the Consideration and the unaudited profit of the Newco Group and Dongguan De Yue for the year ended 31 December 2010 of approximately HK\$9.4 million.

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As set out in the above table, the historical PER of the companies engaged in the manufacturing and trading plastic products (“**Plastic Industry**”) ranged from approximately 7.40 times to approximately 19.42 times, with an average of approximately 14.57 times, and the historical PER of the companies engaged in the manufacturing and trading medical devices (“**Medical Devices Industry**”) ranged from approximately 11.10 times to approximately 22.04 times, with an average of approximately 16.57 times. We noted that the historical PER as represented by the Consideration, being approximately 12.8 times, falls within the range of the historical PER of both Plastic Industry and Medical Devices Industry, and is lower than the average historical PER of both Plastic Industry and Medical Devices Industry. Given that the Target Companies are private companies which are not listed, we are of the view that the PER of the Target Companies should be lower than the Comparables so as to justify the Consideration. In view of that the historical PER of the Target Companies is lower than the average historical PER of the Comparables from both Plastic Industry and Medical Device Industry, we are of the opinion that the Consideration is fair and reasonable in comparison with the average share price of the listed companies which are engaged in similar principal business so far as the Company and the Independent Shareholders are concerned.

(iv) Settlement method of the Consideration

Pursuant to the terms of the Acquisition Agreement, the Consideration will be satisfied by a combination of cash and the issue of the Convertible Notes by the Company:

(a) Principal terms of the Convertible Notes

The Convertible Notes, with a principal amount of HK\$112.5 million will be entitled to a payment equivalent to the amount of any cash dividends declared by the Company as if they were fully converted into ordinary shares payable at the same time as any such dividend payment and convertible into Conversion Shares at HK\$0.105 per Share (subject to anti-dilutive adjustments from the date of the Acquisition Agreement, including share consolidation and sub-division, bonus issue, rights issues at discount, etc.).

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In addition, as set out in the Letter from the Board, save for the Convertible Notes in the principal amount of HK\$40 million to be retained by the Vendors for the purpose of satisfying any claims under the warranties pursuant to the Acquisition Agreement, the Vendors undertake to use all reasonable endeavours to exercise the conversion rights attaching to the balance of the Convertible Notes as soon as practicable after the Completion provided that any such conversion of the Convertible Notes will not (i) trigger a mandatory offer obligation under Rule 26 of the Takeovers Code by all or any of the Vendors (whether or not such mandatory offer obligation is triggered by the fact that the number of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes, including any Shares acquired or owned by any parties acting in concert with the Vendors or any of them, represents 30% (or such other percentage as may be stated in Rule 26 of the Takeovers Code in effect from time to time) or more of the voting rights at the general meetings of the Company) or otherwise pursuant to other provisions of the Takeovers Code; or (ii) result in the Company being not able to maintain the minimum public float of 25% (or any other percentage as required by the Listing Rules from time to time) of the issued shares of the Company after such conversion.

As set out in the Letter from the Board, a large proportion of the Consideration, being approximately HK\$112.5 million shall be satisfied by the issue of the Convertible Notes and the Vendors undertake to use all reasonable endeavours to exercise the conversion rights attaching to the balance of the Convertible Notes as soon as practicable after the Completion (subject to the relevant rules and regulations as set out in the Listing Rules and Takeovers Code).

In the event that the Vendors are able to convert any of the Convertible Notes, the issuance of the Convertible Notes would not only enable the Group to reduce the immediate cash outlay required for the Acquisition but also increase the Company's equity base.

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(b) Analysis of the Conversion Price and the principal terms of the Convertible Notes

The initial Conversion Price of HK\$0.105 per Share represents:

- (i) premium of approximately 101.9% to the closing price of HK\$0.052 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 29.5% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange on 17 June 2011, being the last trading day of the Shares prior to the date of the supplemental agreements to the Acquisition Agreement;
- (iii) a discount of approximately 29.5% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including 17 June 2011 of HK\$0.149 per Share; and
- (iv) a discount of approximately 31.4% to the average of the closing prices of the Shares as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 17 June 2011 of HK\$0.153 per Share.

As set out in the Letter from the Board, the Conversion Price was determined with reference to the market price of the Shares prior to 17 June 2011, the date of the supplemental agreement to the Acquisition Agreement.

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In order to assess the fairness and reasonableness of the Conversion Price, we set out the following informative analysis for illustrative purposes:

Review of historical Share prices and trading volume

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 20 months prior the date of the Acquisition Agreement commencing 1 January 2010 up to and including the Latest Practicable Date (the “**Review Period**”) are shown as follows:

Month	Highest closing price <i>HK\$</i>	Lowest closing price <i>HK\$</i>	Average daily closing price <i>HK\$</i>
2010			
January	1.270	0.700	0.948
February	0.820	0.680	0.740
March	0.770	0.650	0.700
April	0.790	0.550	0.651
May	0.770	0.540	0.639
June	0.600	0.520	0.570
July	0.520	0.325	0.438
August	0.395	0.355	0.371
September	0.340	0.340	0.340
October	0.385	0.285	0.342
November	0.335	0.285	0.307
December	0.300	0.247	0.279
2011			
January	0.320	0.243	0.271
February	0.260	0.220	0.238
March	0.225	0.202	0.212
April	0.218	0.201	0.210
May	0.205	0.161	0.183
June	0.166	0.076	0.128
July	0.082	0.065	0.072
August (up to including the Latest Practicable Date)	0.065	0.049	0.058

Source: the website of the Stock Exchange (www.hkex.com.hk)

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During the Review Period, the average daily closing price of the Shares as set out in above table ranged from approximately HK\$0.058 to HK\$0.948 per Share. The closing Share price during the Review Period has been declining from the monthly average closing price of approximately HK\$0.948 in January 2010 to approximately HK\$0.072 in July 2011.

We also noted that the closing Share price as at the last trading date immediately prior the date of the supplemental agreements was HK\$0.149.

			Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date (Note 3)
	Total trading volume for the month/period	Average daily trading volume for the month/period (Note 1)	Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date (Note 2)
2010			
January	533,528,000	41,040,615	2.73%
February	191,608,000	10,644,889	0.71%
March	249,569,000	10,850,826	0.72%
April	474,808,000	25,989,895	1.66%
May	217,611,000	10,880,550	0.72%
June	78,716,000	3,748,381	0.25%
July	171,737,376	9,540,965	0.63%
August	125,708,188	7,856,762	0.52%
September	60,044,000	30,022,000	2.00%
October	395,056,000	20,792,421	1.38%
November	227,876,000	10,358,000	0.69%
December	67,686,000	3,076,636	0.20%
2011			
January	103,362,000	5,440,105	0.36%
February	24,866,000	1,381,444	0.09%
March	103,076,705	4,481,596	0.30%
April	32,952,000	1,830,667	0.12%
May	22,944,000	1,147,200	0.08%
June	198,823,107	11,045,728	0.73%
July	59,874,000	2,993,700	0.20%
August (up to and including the Latest Practicable Date)	16,044,000	2,005,000	0.13%

Source: the website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
2. Based on 1,503,750,505 Shares in issue as at the Latest Practicable Date.
3. Based on 1,500,460,505 Shares held by public Shareholders as at the Latest Practicable Date.

As illustrated from the table above, we note that the average daily trading volume of the Shares during the Review Period were relatively thin, representing less than 3% to total number of Shares in issue as at the Latest Practicable Date. The average daily trading volume ranged between approximately 1,147,200 Shares to approximately 41,040,615 Shares, representing approximately 0.08% to approximately 2.73% of the total number of Shares in issue as at the Latest Practicable Date.

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Comparison with other convertible note issues

In assessing the fairness and reasonableness of the terms of the Convertible Notes, we have identified, to the best of our knowledge and as far as we are aware of 15 transactions from January 2011 to the Latest Practicable Date, by listed companies in the Stock Exchange which involved the relevant fund raising activities and/or consideration issue (the “CN Comparables”). We are of the view that the CN Comparables Review Period being around half year prior to and including the Last Trading Day would provide us with the most recent relevant market information. Shareholders should note that the businesses, operations and prospects of the Company are not that same as the CN Comparables and we have not conducted any in-depth investigation into the business and operations of the CN Comparables. The CN Comparables are hence only used to provide a general reference for the common market practice of the companies listed on the Main Board and GEM of the Stock Exchange in Hong Kong in transactions which involved the issue of convertible bonds/notes. Details of CN Comparables are summarized below:

Date of announcement	Company name	Stock Code	Term	Interest rate	Premium/ (Discount) of the conversion price over/(to) the closing price per share on last trading day prior to/on the date of the relevant announcements in relation to the transactions
5 July 2011	Modern Beauty Salon Holding Limited	919	5	2%	10.50%
21 June 2011	Sunrise (China) Technology Group Limited	8226	5	12%	31.58%
13 June 2011	Eternite International Company Limited	8351	3	2%	18.00%
6 May 2011	SRE Group Limited	1207	5	2%	44.90%
3 May 2011	China Gamma Group Limited	164	3	1%	29.81%
19 April 2011	Comtect Solar Systems Group Limited	712	5	0%	(6.02%)
14 April 2011	China Post E-Commerce (Holdings) Limited	8041	1	0%	(0.71%)
6 April 2011	China Leason Investment Group Co., Limited	8270	2	0%	2.00%
30 March 2011	SMI Corporation Limited	198	2	0.25%	20.51%
23 March 2011	Same Time Holdings Limited	451	3	1.00%	(71.00%)
18 March 2011	Vital Group Holdings Limited	1164	5	0%	(36.11%)
15 March 2011	Sage International Group Limited	8082	5	0%	(65.90%)
8 February 2011	China Solar Energy Holdings Limited	155	5	0%	(5.91%)
2 February 2011	Fulbond Holdings Limited	1041	5	0%	(19.05%)
31 January 2011	Century Ginwa Retail Holdings Limited	162	3	1.50%	(42.03%)
Maximum			5	12.00%	44.90%
Minimum			1	0%	(71.00%)
Mean			3.80	1.45%	(5.96%)
Company			≅ 4.5 (Note 1)	0 (Note 2)	(29.5%)

Source: the website of the Stock Exchange

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Notes:

1. The Convertible Notes have no coupon, i.e. no fixed rate of payment annually. However, the Convertible Notes holders will be entitled to a payment equivalent to the amount of any cash dividends to be declared by the Company as if the Convertible Notes are fully converted into ordinary shares payable at the same time as any such dividend payment.
2. Maturity date is on 31 December 2015

Conversion Price

The conversion price of the CN Comparables ranged from a discount of approximately 71.00% to a premium of approximately 44.90% with an average of a discount of approximately 5.96% to the respective closing prices of their shares on the last trading day prior to the release of the relevant announcement.

As set out in the Letter from the Board, it is agreed among the Company, the Purchaser and the Vendors that in the event the adjusted Conversion Price, arising as a result of the Redemption and the Rights Issue pursuant to the terms of the Convertible Notes, is less than HK\$0.05 per Conversion Share, the adjusted Conversion Price shall be fixed at HK\$0.05 per Conversion Share.

Notwithstanding from the fact that the discount of the Conversion Price to the closing Share price on the last trading day immediately prior the date of the supplemental agreements is at a deeper discount than the average of the CN Comparables, it is within the range of the CN Comparables.

Coupon rate

The Convertible Notes have no coupon, i.e. no fixed rate of payment annually, but holders of the Convertible Notes will be entitled to a payment equivalent to the amount of any cash dividends declared by the Company as if they were fully converted into ordinary shares payable at the same time as any such dividend payment.

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Historically, the Company has not proposed any dividend for the past eight financial years ended 31 December 2010. However, future dividend policy of the Company will be affected by, among other things, the future financial performance and cash flow requirements of the Company which we cannot accurately estimate as at the Latest Practicable Date.

Financing alternatives

As advised by the Directors, the Company has considered other alternative means of financing, including debt financing and other forms of equity financing. However, the Directors are of the view that bank borrowings will inevitably create a higher financing costs to the Group. Given that the Group was in a net-liability-position as at 31 December 2009 and 2010, respectively, and was loss making in the past three financial years, such additional financing costs would adversely affect the profitability of the Group in the future.

Furthermore, we understand from the Management that given (i) the financial position of the Company, in particular, the net-liability-position as at 31 December 2009 and 2010 and the liabilities in connection with the convertible bonds in the principal amount of HK\$177.0 million; (ii) the loss per Share for the financial years ended 31 December 2009 and 2010 being approximately HK\$0.29 and HK\$0.28, respectively, as set out in the 2010 Annual Report; (iii) the low liquidity in the trading volume of the Shares; and (iv) the relatively modest size of market capitalisation at approximately HK\$224.1 million on 17 June 2011, being the Last Trading Date, the Company was not able to proceed with other means of equity issuances.

In this connection, we noted from the announcement of the Company dated 15 December 2010, the Company entered into a placing agreement with a placing agent in connection with the placing of a maximum of 300,750,101 new Shares at the price of HK\$0.234 each to raise funds for the Company (the “Placing”). However, the Placing has lapsed without completion as announced by the Company on 14 January 2011, shortly before the entering of the Acquisition Agreement dated 23 January 2011.

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In addition, the Directors consider that the issue of Convertible Notes, forming part of the Consideration, would allow the Group to lock in a long-term committed financing over the next four and a half years at zero coupon and with an annual payment linked to its dividend payout rate, which is influenced by, among other things, the financial performance of the Company. In this connection, Independent Shareholders should also note that the Company is not liable to any placing or arrangement fees under the issue of Convertible Notes.

Having considered that the aforesaid factors, we are of the view that the terms of the Convertible Note, including the Conversion Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. Reasons for the Acquisition

(i) Strategic reasons

As set out in the 2010 Annual Report, with a view to improve the Group's financial performance, the Group has been actively looking for attractive merger and acquisition opportunities in order to extend its business reach.

Given the profitability of the Target Companies in their most recent full financial year, the Directors are of the view that the Acquisition provides a good opportunity for the Group to improve its income stream and help to turnaround the Group's business.

(ii) Opportunity to participate in an industry with good prospect and high barriers of entry

As set out in the Letter from the Board, the Acquisition represents an opportunity for the Company to position itself in the global medical devices industry by applying the similar set of skills. The medical devices industry has relatively high barriers of entry compared with other industries. Economic, regulatory and legal obstacles stand in the way of potential new competitors.

The Target Companies are qualified vendors to supply components of the disposal lancet devices for an engineering and manufacturing outsource service company in the United States. Accordingly, the New Group is equipped to become a medical devices manufacturer for catering the increasing demand for diabetic care products.

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Furthermore, we noted from the Letter from the Board that according to statistics of the International Diabetics Federation, the estimated global diabetic population will increase from approximately 246 million in 2010 to approximately 380 million in 2025. Given the estimated growth in the diabetic population, it is expected that the business of the New Group will continue to expand and we noted that the Directors are optimistic about the long term future development of the medical devices manufacturing business.

(iii) Qualification of the Target Companies

As set out under paragraph headed “Information on medical devices manufacturing business” above, the manufacturing of medical devices industry is regulated. Furthermore, we concur with the Directors’ view that for the Target Companies to be qualified to manufacture Class I surgical devices under the FDA and the potential to upgrade to become a manufacturer of Class III surgical devices despite the stringent quality requirements set by the FDA is a valuable intangible asset of the Target Companies.

Upon completion, such qualification will enable the Target Companies to operate in a niche market which would otherwise be highly time and resource consuming without the Acquisition opportunity.

7. Possible financial effects of the Acquisition to the Group

(i) Earnings

According to the 2010 Annual Report, the Group’s consolidated loss attributable to owners of the Company for the year ended 31 December 2010 was approximately HK\$383.4 million. As set out in the Letter from the Board, the audited profit of the Newco Group for the year ended 31 December 2010 was approximately HK\$12.2 million.

As advised by the Management, upon completion of the Acquisition, the financial results of the Target Companies will be consolidated (on line by line basis) into the Group’s results.

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(ii) Net asset value

As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix IV to this Circular, assuming the Completion has taken place on 31 December 2010, the net liabilities of the Enlarged Group would be reduced from approximately HK\$132.2 million to approximately HK\$86.2 million.

(iii) Working capital of the Group

As set out in the 2010 Annual Report, the Group has “bank balances and cash” of approximately HK\$37.9 million as at 31 December 2010.

The cash portion of the Consideration is HK\$7.5 million, out of a total Consideration of HK\$120.0 million, will become payable on a date six months from the date of Completion. As such, having regard to the Group’s liquidity position, the Directors are of the view that the cash outlay requirements as mentioned above would not have any material adverse impact on the Group’s business.

8. Continuing connected transactions – Performance Incentive Agreement

As set out in the Letter from the Board, the Company, the Purchaser and the Service Provider entered into the Performance Incentive Agreement on 4 March 2011, pursuant to which, the Purchaser will engage the Service Provider to provide the Services, which includes but not limited to, (a) assist in the setting up of a suitable structure for the new medical devices business of the Titron Group; (b) assist in providing strategic advice concerning the positioning, and direction and implementation of, the medical devices business to the boards and/or senior management of each of the members of the Titron Group companies; and (c) assist in identifying sales and/or business opportunities to grow the medical devices business of the Titron Group Companies. Further details of the Services are set out in the Letter from the Board.

The term of the Performance Incentive Agreement shall commence on the first business day after the Performance Incentive Agreement becoming unconditional and ending on 31 December 2016.

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Pursuant to the Performance Incentive Agreement, the fee payable to the Service Provider is as follows:

(i) Service fee

The Service Provider will be paid a monthly fee of HK\$200,000 in cash.

(ii) Performance Bonus

The Service Provider will also be entitled to receive Performance Bonus equal to 30% of excess of the pro forma combined profit before tax of the Titron Group over HK\$10 million for each of the five financial years ending 31 December 2016. The Performance Bonus in each year shall be satisfied 50% in cash by the Purchaser and subject to the Share Caps for each of the financial year ended 31 December 2011 to 31 December 2016, 50% in Performance Incentive Shares to be issued by the Company.

If in any financial year, the Service Provider would be entitled to the Performance Incentive Shares in excess of the Capped Amount, Performance Incentive Shares equivalent to the Share Caps shall be issued and allotted and the balance of Performance Bonus in excess of the Share Caps shall be payable in cash.

The Performance Incentive Shares

The Performance Incentive Shares shall be allotted and issued at HK\$0.105 per Share (subject to the adjustments similar to those of the Convertible Notes) which is equal to the Conversion Price. The Capped Amounts under the Performance Incentive Agreement are as follows:

For the year ended 31 December	2011 HK\$ million	2012 HK\$ million	2013 HK\$ million	2014 HK\$ million	2015 HK\$ million	2016 HK\$ million
Share Caps	1	5	30	70	100	130
	<i>Number of Shares (million)</i>	<i>Number of Shares (million)</i>	<i>Number of Shares (million)</i>	<i>Number of Shares (million)</i>	<i>Number of Shares (million)</i>	<i>Number of Shares (million)</i>
The Capped Amounts	9.5	4,706	285.7	666.7	952.4	1,238.1

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A maximum of 3,200,000,000 Performance Incentive Shares (based on the initial issue price of HK\$0.105 per Share) represent approximately (a) 2.1 times of the existing issued share capital of the Company; (b) 68.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Performance Incentive Shares; and (c) 55.4% of the issued share capital of the Company as enlarged by the allotment and issue of the Performance Incentive Shares and the issue of the Conversion Shares upon full conversion of the Convertible Notes. The number of Performance Incentive Shares to be issued has not taken into account the adjustment to be made to the issue price of the Performance Incentive Shares as a result of the Rights Issue and the Redemption. It is agreed among the Company, the Purchaser and the Service Provider that in the event the adjusted issue price, arising as a result of Redemption and Rights Issue pursuant to the terms of the Performance Incentive Agreement, is less than HK\$0.05 per Performance Incentive Share, the adjusted issue price shall be fixed at HK\$0.05 per Performance Incentive Share. The Performance Incentive Shares will be allocated as to 50% to Vendor 1 and as to 50% to Mr. Yip. The allotment and issue of the Performance Incentive Shares is subject to the approval by the Independent Shareholders at the SGM.

Pursuant to the Performance Incentive Agreement, in satisfying the Performance Bonus, if (a) in any financial year the Service Provider would be entitled to Performance Incentive Shares in excess of the respective Capped Amount, or (b) the issue of the Performance Incentive Shares would result in the Vendors being required to make an Offer Obligation or (c) the issue of the Performance Incentive Shares would result in the minimum public float of the Company as required by the Listing Rules not being maintained, such number of the Performance Incentive Shares equivalent to the Capped Amount or to the extent that no Offer Obligation would be triggered or to the extent that the minimum public float of the Company is maintained (as the case may be) shall be issued and allotted, and the balance of the Performance Bonus in excess of the Capped Amount or the amount which would trigger the Offer Obligation or would result in an insufficient public float of the Company (as the case may be) shall be payable in cash.

(iii) The Right of First Refusal

Pursuant to the Performance Incentive Agreement, neither Purchaser nor the Company shall sell, transfer, assign or otherwise dispose of the whole or any part of, or any interest in, the share capital or undertaking of any member of the Titron Group or a substantial part of the capital or assets or any undertaking or business of the Titron Group during the term without the consent of the Service Provider.

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In the event of any such proposed sale, the Service Provider shall have the right of first refusal or the Service Provider shall be entitled to receive in cash on the date of completion of such sale the higher of:

- (a) 10% of the Third Party Consideration; and
- (b) 30% of any amount of the Third Party Consideration in excess of the aggregate of the Consideration received by the Vendors pursuant to the Acquisition Agreement less any reasonable costs and expenses of the Vendors incurred in connection with the sale of the interests of the Titron Group pursuant to the Acquisition Agreement plus any reasonable costs and expenses incurred by the Group in connection with the sale of the Titron Group or its business interest to the third party.

Caps for the Continuing Connected Transactions

The following sets out the proposed Cap amount in respect of the Service Fee and the Performance Bonus payable by the Group to the Service Provider under the Performance Incentive Agreement for each of the financial year ended 31 December 2011 to 31 December 2016:

For the year ended						
31 December	2011	2012	2013	2014	2015	2016
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amounts on						
the Service Fee	1.6	2.4	2.4	2.4	2.4	2.4
Cap amounts on						
the Performance Bonus	2	53	130	300	350	400

As stated in the Letter from the Board, (a) the Caps in respect of the Service Fee are determined with reference to the fixed monthly service fee as stipulated in the Performance Incentive Agreement; and (b) the Caps in respect of the Performance Bonus are determined with reference to the expected sales of Titron Group's products and cost structure of the Titron Group's business in particular, the manufacturing business of the medical device for the six years ending 31 December 2016.

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In assessing the fairness and reasonableness of the Cap in respect of the Service Fee, we discussed with the Management in relation to the basis of the Service Fee and the Management advised that the Service Fee was determined with reference to the estimated number of man hours that the Service Provider will be engaged to provide services for. As set out in the Letter from the Board, the Service Provider is expected to include additional staff (including two analysts and a secretary) in its officer/employee structure and they will work out the detailed plans as well as assist in the execution of the approved plans. In addition, the Services of the Service Provider are not rendered by Mr. Yip alone but also by Vendor 1 and staff of the Service Provider to be recruited. On this basis, we consider that it is reasonable for the Directors to make reference to the aforesaid factors as the basis to determine the Caps of the Service Fee.

In assessing the fairness and reasonableness of the Cap amount on the Performance Bonus, we have considered the following:

- (a) given the nature of the Services under the Performance Incentive Agreement, the Directors are of the view that the Service Provider is pivotal in the financial performance of the Titron Group for the financial years ending 31 December 2016; and the term of Performance Bonus was arrived after arm's length negotiation between the Purchaser and the Service Provider;
- (b) the Performance Bonus is only available to the Service Provider in the event that the pro forma combined profit before tax target of HK\$10.0 million (the "**Profit Target**") has been met;
- (c) during the term of the Continuing Connected Transactions, the Service Provider will be entitled to 30% of the excess over the Profit Target as Performance Bonus while the Shareholders will be entitled to the large majority, being 70% of the excess over the Profit Target and the 30% sharing strikes the balance between the incentive to the Service Provider and the profitability of the Titron Group Companies;
- (d) the net liabilities per Share as at 31 December 2010 was approximately HK\$0.09. However, the Performance Incentive Shares, subject to the Profit Target being met, will be issued at HK\$0.105 per Share (subject to adjustment);

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- (e) the Performance Bonus would align the interests of the Service Provider with those of the Company and the Shareholders encouraging the Service Provider to devote its efforts to enhance the overall value of the Company and the Shareholders;
- (f) the Performance Bonus is subject to the Share Caps which limits the potential dilution effects to the existing Shareholders;
- (g) the Caps in respect of the Performance Bonus sets the maximum aggregate Performance Bonus of which the Service Provider can be entitled to during a particular financial year, subject to the calculation mechanism as set out in the Letter from the Board.

For illustration purposes, in the event that the Service Provider becomes entitled to HK\$350 million in Performance Bonus, equivalent to the Cap for the year ending 31 December 2015, the pro forma combined profit before tax of the Titron Group for the financial year ending 31 December 2015 will have to be HK\$1,176.7 million (i.e. (HK\$1,176.7 million – HK\$10.0 million) x 30% = HK\$350 million); and

- (h) Under the relevant Listing Rules, the Caps in respect of the Performance Bonus allows the Company to award Performance Bonus to the Service Provider, subject to the calculation mechanism as set out in the Letter from the Board, and reduce the burden to seek shareholders' approval on each occasion, which would otherwise be necessary in the absence of the Caps.

Having considered the above, we concur with the Directors that the Caps in respective of the Service Fee and the Performance Bonus are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Term of the Continuing Connected Transactions

The term of the Performance Incentive Agreement shall commence on the first Business Day after the Performance Incentive Agreement becoming unconditional and ending on 31 December 2016 (the “**Term**”), the duration of the Term is expected to exceed three years.

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In order to assess the fair and reasonableness of the term of the Performance Incentive Agreement which is in excess of three years as permitted under Rules 14A.35(1) of the Listing Rules, we have attempted to identify companies listed in Hong Kong which have entered into transactions of similar nature and with duration over three years during the preceding 24 months from the date of the Acquisition Agreement. Given the unique nature of the transactions to be contemplated under the Performance Incentive Agreement, we have made reference to, so far as we are aware of, an incentive agreement entered into by a company listed on the Stock Exchange. The table below sets out the term and nature of transaction of that incentive agreement:

Company Name	Stock Code	Nature of transaction	Term of contracts
Haier Electronics Group Co., Ltd ("Haier")	1169	Pursuant to the incentive agreements dated 29 December 2010, Haier agreed to grant the incentive option and its joint venture partners agreed to meet the prescribed financial and operational targets	5 years

From the table above, we noted that the contract term of that transaction is in excess of three years. In addition, we are given to understand from the Directors that the duration of the Performance Incentive Agreement would strengthen the Company's commercial and technological partnership with the Service Provider and allow the Company to achieve its position as one of the leading manufacturer of medical devices with the support from the Service Provider. Therefore, we concur with the Directors' view that it is normal business practice for the duration of the Performance Incentive Agreement to exceed three years.

Notwithstanding from the above, having considered that, (a) the provision of the Services under the Performance Incentive Agreement is consistent with the commercial objectives of the Titron Group; (b) the purpose for the Services is to grow and enhance the Titron Group's competitiveness in the medical devices business as advised by the Management; (c) the existing Term in excess of three years will provide the Titron Group with greater degree of stability and continuity to the medical device business to be developed by the parties; and (d) the Term is part and parcel of the Acquisition, we are of the view that it is in the interests of the Company and its shareholders to enter into the Performance Incentive Agreement with duration exceeding three years which is fair and reasonable so far as the Independent Shareholders are concerned.

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Dilution effect on the shareholding interests of the existing public Shareholders

The shareholding structure of the Company (a) as at the Latest Practicable Date; (b) immediately after the issue of 1,071,428,571 Conversion Shares upon full conversion of the Convertible Notes; and (c) immediately after the issue of 1,071,428,571 Conversion Shares upon full conversion of the Convertible Notes and the issue of a maximum of 3,200,000,000 Performance Incentive Shares, respectively, were and will be as follows:

	As at the Latest Practicable Date		Immediately after the issue of the Conversion Shares (subject to adjustment) upon full conversion of the convertible Notes (Note 3)		Immediately after the issue of the Conversion Shares (subject to adjustment) upon full conversion of the convertible Notes and the issue of a maximum of 3,200 million Performance Incentive Shares (Note 4)	
	No. of Shares	% (approx.)	No. of Shares	% (approx.)	No. of Shares	% (approx.)
Mr. Leung Kai Kui (Note 1)	290,000	0.02%	290,000	0.01%	290,000	0.01%
Vendors (or their respective nominees) (Note 2)	4,790,000	0.32%	1,076,218,571	41.79%	4,276,218,571	74.04%
Other public Shareholders	<u>1,498,460,505</u>	<u>99.66%</u>	<u>1,498,460,505</u>	<u>58.20%</u>	<u>1,498,460,505</u>	<u>25.95%</u>
Total	<u>1,503,750,505</u>	<u>100.00%</u>	<u>2,575,179,076</u>	<u>100.00%</u>	<u>5,775,179,076</u>	<u>100.00%</u>
Total public Shareholders (Note 5)	<u>1,500,460,505</u>	<u>99.78%</u>	<u>1,498,670,505</u>	<u>58.20%</u>	<u>1,498,670,505</u>	<u>25.95%</u>

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Notes:

1. Mr. Leung Ka Kui, Johnny is an independent non-executive Director.
2. Set out below is the allocation of the Convertible Notes among the Vendors:

	Allocation of principal amount of the Convertible Notes		Shareholding as at the Latest Practicable Date		Immediately after the issue of the Conversion Shares upon full conversion of the Convertible Notes at initial conversion price (Note 3)	
	No. of Shares	% (approx.)	No. of Shares	% (approx.)	No. of Shares	% (approx.)
Vendor 1	29,762,460	26.45%	1,790,000	0.12%	285,242,000	11.07%
Vendor 2	42,418,905	37.71%	-	-	403,989,571	15.69%
Vendor 3	-	-	3,000,000	0.20%	3,000,000	0.12%
Mr. Lee	8,156,190	7.25%	-	-	77,678,000	3.02%
Vendor 4	32,162,445	28.59%	-	-	306,309,000	11.89%
Vendors (or their respective nominees)	112,500,000	100.00%	4,790,000	0.32%	1,076,218,571	41.79%

3. Save for the Convertible Notes in the principal amount of HK\$40 million to be retained by the Vendors for the purpose of satisfying any claims under the warranties pursuant to the Acquisition Agreement, the Vendors who are parties acting in concert undertake to use all reasonable endeavours to exercise the conversion rights attaching to the balance of the Convertible Notes as soon as practicable after the Completion provided that any such conversion of the Convertible Notes will not (i) trigger a mandatory offer obligation under Rule 26 of the Takeovers Code by all or any of the Vendors (whether or not such mandatory offer obligation is triggered by the fact that the number of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes, including any Shares acquired or owned by any parties acting in concert with the Vendors or any of them, represents 30% (or such other percentage as may be stated in Rule 26 of the Takeovers Code in effect from time to time) or more of the voting rights at the general meetings of the Company) or otherwise pursuant to other provisions of the Takeovers Code; or (ii) result in the Company being not able to maintain the minimum public float of 25% (or any other percentage as required by the Listing Rules from time to time) of the issued shares of the Company after such conversion.

LETTER FROM MENLO CAPITAL

4. Pursuant to the terms of the Performance Incentive Agreement, the Performance Incentive Shares will not be issued to the extent that, (i) the Vendors, together with parties acting in concert with them, directly or indirectly control or would be interested in an aggregate of 30% or more of the issued Shares immediately following the issue of the relevant Shares, or if the Vendors would otherwise be obliged to make a mandatory offer obligation under Rule 26 of the Takeovers Code or otherwise pursuant to other provisions of the Takeovers Code; or (ii) the minimum public float requirement of the Company under the Listing Rules will be breached as a result of such issue.
5. Shareholders not being a director, chief executive or substantial shareholder of the Company or an associate of a person referred to above are regarded as public Shareholders.
6. The above shareholding table has not taken into account the adjustment to be made to the initial Conversion Price of the Convertible Notes and the initial issue price of the Performance Incentive Shares as a result of the Rights Issue and the Redemption.

We noted that the interest of the existing public Shareholders will be diluted from approximately 99.78% as at the Latest Practicable Date to (a) approximately 58.20% immediately after the issue of 1,071,428,571 Conversion Shares upon full conversion of the Convertible Notes; and (b) approximately 25.95% immediately after the issue of 1,071,428,571 Conversion Shares upon full conversion of the Convertible Notes and the issue of a maximum of 3,200,000,000 Performance Incentive Shares.

Having considered that, (a) the industry overview of the medical device manufacturing business as set out under paragraph headed “3. Information on medical devices manufacturing business” which appears to be prosperous and the profitability of the Target Companies in their most recent full financial year; (b) the benefits of the Acquisition to the Group as set out in the section headed “5. Reasons for the Acquisition” above; (c) the issue of the Convertible Notes allows the Group to complete the Acquisition without substantial cash outlay; (d) the capital base of the Group will be enlarged upon conversion of the Convertible Notes; (e) the Performance Incentive Shares will only be allotted and issued by the Company to the Service Provider in the event that certain pre-determined financial targets are met, the objective of such terms is to align the interests of the Service Provider with those of the Shareholders; and (f) that the Company has net liabilities per Share of approximately HK\$0.09 as at 31 December 2010, we are of the view that potential dilution on the shareholding of the Independent Shareholders is acceptable.

LETTER FROM MENLO CAPITAL

IV. RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable and the entering into of the Acquisition Agreement and is in the interests of the Group and the Shareholders as a whole.

In respect of the Performance Incentive Agreement including the Caps, having considered the principal factors and reasons as set out under section headed “7. Continuing Connected Transactions – Performance Incentive Agreement”, we are of the view that Performance Incentive Agreement is in the interests of the Company and the Shareholders as a whole, and the terms of which including the annual caps of the underlying transactions are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolution to be proposed at the SGM to approve the Acquisition Agreement, Performance Incentive Agreement and the transactions contemplated thereunder (including the Caps).

Yours faithfully
For and on behalf of
Menlo Capital Limited
Michael Leung
Director

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group (i) for the year ended 31 December 2010 is set out on pages 42 to 171 of the annual report of the Company for the year ended 31 December 2010 published on 18 April 2011; (ii) for the year ended 31 December 2009 is set out on pages 43 to 163 of the annual report of the Company for the year ended 31 December 2009 published on 27 April 2010; and (iii) for the year ended 31 December 2008 is set out on pages 47 to 163 of the annual report of the Company for the year ended 31 December 2008 published on 22 May 2009. All of the above have been published on the website of the Stock Exchange (www.hkex.com.hk).

2. UNAUDITED INTERIM FINANCIAL INFORMATION OF THE GROUP

The unaudited interim financial information of the Group (i) for the six months ended 30 June 2010 is set out on pages 25 to 60 of the interim report of the Company published on 7 September 2010; and (ii) for the six months ended 30 June 2009 is set out on pages 22 to 52 of the interim report of the Company published on 18 September 2009. The aforesaid interim reports of the Company have been published on the website of the Stock Exchange (www.hkex.com.hk).

3. INDEBTEDNESS

At the close of business on 30 June 2011, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group and the Target Companies had the following indebtedness:

Borrowings

As at the close of business on 30 June 2011, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding indebtedness of approximately HK\$210,502,000, comprising unsecured borrowings of approximately HK\$6,674,000, obligations under finance leases of approximately HK\$278,000 and secured but unguaranteed convertible bonds of principal amount of approximately HK\$177,000,000 and related accrued interest of approximately HK\$26,550,000.

As at the close of business on 30 June 2011, the Target Companies had outstanding indebtedness of approximately HK\$17,402,000, comprising secured bank borrowings and overdrafts of approximately HK\$6,167,000, unsecured bank borrowings of approximately HK\$8,805,000, obligations under finance leases of approximately HK\$730,000 and amount due to shareholders of approximately HK\$1,700,000.

Pledge of assets

As at the close of business on 30 June 2011, the Group had pledged its motor vehicle with aggregate carrying value of HK\$340,000 to secure finance lease obligations.

As at the close of business on 30 June 2011, the Target Companies had pledged time deposits of approximately HK\$2,037,000 and bond fund with fair value of approximately HK\$1,116,000 to secure general banking facilities granted to the Target Companies, and had pledged its motor vehicle with carrying value of HK\$814,000 to secure finance lease obligations.

Pledge of shares

As at the close of business on 30 June 2011, the Group had pledged the shares of AFEX International (HK) Ltd, a wholly owned subsidiary of the Company, to secure the convertible bonds with carrying value of HK\$203,550,000.

As at the close of business on 30 June 2011, the Target Companies did not have pledge of share.

Contingencies

The Group did not have any material contingent liabilities or guarantees as at 30 June 2011.

The Target Companies did not have any material contingent liabilities or guarantees as at 30 June 2011.

Disclaimer

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any outstanding debt securities issued and outstanding or authorized or otherwise created but issued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, material hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees outstanding at the close of business on 30 June 2011.

The Directors have confirmed that there have not been any material change in the indebtedness and contingent liabilities of the Enlarged Group since 30 June 2011 and up to the Latest Practicable Date.

4. WORKING CAPITAL

Subject to the successful completion of the Rights Issue with the estimated net proceeds from the issuance of not less than 1,654,125,555 and not more than 1,739,833,529 Rights Shares at a subscription price of HK\$0.05 and the successful completion of the redemption of the Ugent Bonds of an aggregate amount of HK\$207,561,999 by the issuance and allotment of 4,151,240,001 Redemption Shares, the Directors are of the opinion that, after taking into account the present internal resources available, the existing available credit facilities, the financial effect of the Acquisition, the estimated net proceeds from the Rights Issue and the completion of the Redemption, the Enlarged Group shall have sufficient working capital for its present requirements for at least the next twelve months from the date of this circular, in the absence of unforeseen material circumstances.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in (i) remanufacturing and sales of computer printing and imaging products; (ii) manufacturing and sales of data media products; and (iii) distribution of data media products.

As disclosed in the annual report for the year ended 31 December 2010, the Group recorded a significant decrease in turnover generated from the main business of the Group, being the remanufacturing and sales of computer printer and imaging products, by approximately 50% in 2010, primarily attributable to the competitive operating environment and substantial increases in prices of raw materials and labour costs. Given the unsatisfactory performance of the business relating to the remanufacturing and sale of computer printing and imaging products and the cash flow required to sustain the operation, the Group is currently in the process of discontinuing the relevant business and on 8 August 2011, Ugent has approved the Voluntary Liquidation and the joint liquidators have been appointed for the Voluntary Liquidation. The Group recorded an increase in turnover generated from manufacturing and sales of data media products by approximately 35% and a decrease in turnover generated from the distribution of data media products by approximately 48% for the year ended 31 December 2010 respectively.

In order to enhance the financial performance of the Group, the Group will continue to improve its operational efficiency to improve the profitability of the division and of manufacturing, sales and distribution of data media products and will continue to look for suitable investment opportunities.

With a view to improving its financial performance, the Group has been actively looking for attractive merger and acquisition opportunities to extend its business reach. The Directors consider the prospect of the manufacturing business of medical devices promising in light of the rapid growth of the diabetic population as detailed in the paragraph headed “Reasons for the Acquisition” in the letter from the Board. Upon Completion, the business plan of the Target Companies will be considered by the Directors in conjunction with other factors including but not limited to the capital expenditure requirement, the business strategy and the financial position of the Company. As the Target Companies have been operating with proven track record for the traditional manufacturing business, it is the intention of the Company that the Target Companies will continue to engage in this business after Completion. The Enlarged Group is capable of entering the manufacturing business of medical devices which is expected to experience growth in the coming years. The Directors also consider that the Acquisition will diversify its current business to participate in the manufacturing business of medical devices, improving the Enlarged Group’s income base and its financial performance.

6. ANNOUNCEMENT IN RESPECT OF PROFIT WARNING

Pursuant to the announcement of the Company dated 8 August 2011 in relation to, among other things, the profit warning, based on the unaudited management accounts and other relevant information currently available, the Group is expected to record (i) a substantial drop of its turnover for the six months ended 30 June 2011 as compared with the turnover for the corresponding period ended 30 June 2010; and (ii) a considerable loss for the six months ended 30 June 2011. However, it is expected that the loss for the six months ended 30 June 2011 would not exceed that for the corresponding period of last year.

The substantial drop in the turnover was mainly attributable to the scaling down of the Group’s operations on remanufacture and sale of computer printing and imaging products during the period under review. The aforesaid operations have substantially reduced during the review period because the related sales volume has contracted significantly in face of the gross loss incurred by this division as caused by the lack of economy of scale. In addition, during the period under review the Group failed to identify opportunities in trading of minerals that would provide the Group with reasonable return on minimized credit exposure.

A. ACCOUNTANTS' REPORT OF NEWCO

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.



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12 August 2011

The Directors
Guojin Resources Holdings Limited
Units 3303 – 3304, Level 33, Tower 1
Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay, Kowloon
Hong Kong

Dear Sirs

We set out below our report on the combined financial information of Apex Solution Group Limited (the “Newco”) and its subsidiaries (collectively referred to as the “Newco Group”) including the combined statements of financial position as at 31 December 2008, 2009 and 2010 and 31 March 2011, the combined statements of comprehensive income, the combined statements of cash flows and the combined statements of changes in equity for each of the three years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011 (the “Relevant Periods”) and notes thereto (hereinafter collectively referred to as the “Financial Information”), together with the unaudited combined financial information of the Newco Group including the combined statement of comprehensive income, the combined statement of cash flows and the combined statement of changes in equity for the three months ended 31 March 2010 (the “31 March 2010 Corresponding Information”), prepared on the basis of presentation set forth in note 3 of Section II below, for inclusion in the circular (the “Circular”) dated 12 August 2011 issued by Guojin Resources Holdings Limited (the “Company”) in connection with the proposed acquisition (the “Acquisition”) of the entire issued share capital of the Newco.

The Newco was incorporated in the British Virgin Islands (the “BVI”) as a limited liability company under the BVI Business Companies Act, 2004, of the BVI on 5 July 2011 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. The principal activity of the Newco is investment holding. The Newco Group is principally engaged in trading of DVD boxes and related components and medical devices. The registered office of the Newco is Newhaven Trustee (BVI) Limited, 3rd Floor, Omar Hodge Building, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands and its principal place of business is located at Suite 2601-2, 26/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong. On 5 August 2011, the Newco became the holding company of the subsidiaries now comprising the Newco Group pursuant to a group reorganisation (the “Reorganisation”) as set out in pages 20 to 21 of the Circular.

APPENDIX II

FINANCIAL INFORMATION OF NEWCO GROUP

All companies comprising the Newco Group have adopted 31 December as their financial year end date.

As at the date of this report, no audited financial statements have been prepared for Newco since its date of incorporation as the Newco was newly incorporated and has not carried out any significant transactions except for the Reorganisation as set out in note 3 of Section II below.

As at the date of this report, the Newco had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong private company). The particulars of the subsidiaries are set out below:

Name of Company	Place and date of incorporation/ establishment	Issued and fully paid share capital at the date of this report	Percentage of equity interest held by the Newco at the date of this report	Principal activities and place of operations	Notes
Directly owned subsidiary:					
Titron Manufacturing Limited ("Titron Manufacturing")	Hong Kong, 17 June 2008	Hong Kong Dollars ("HK\$")1,000	100%	Manufacturing of DVD boxes and related components and trading of plastic products, Hong Kong	(a)
Titron International Limited ("Titron International")	Hong Kong, 6 February 2002	HK\$1,000	100%	Trading of medical devices, Hong Kong	(b)
Titron Industries Limited ("Titron Industries")	Hong Kong, 3 December 1999	HK\$1,000	100%	Trading of DVD boxes and related components, Hong Kong	(c)
Titron Precision Limited ("Titron Precision")	Hong Kong, 25 November 2010	HK\$1,000	100%	Manufacturing and trading of medical devices, Hong Kong	(d)
Indirectly owned subsidiary:					
永利企業管理諮詢（深圳）有限公司 (Yong Li Enterprise Management Consultancy Company Limited*) ("Yong Li")	The People's Republic of China (the "PRC"), 2 September 2009	Renminbi ("RMB") 100,000	100%	Provision of consultation services, the PRC	(e)
東莞益登科塑膠製品有限公司 (Dongguan Yi Deng Ke Plastic Products Company Limited*) ("Dongguan Yi Deng Ke")	The PRC, 1 March 2011	HK\$1,200,000	100%	Manufacturing and trading of medical devices, the PRC	(f)

* *The English name is for the identification purpose only.*

Notes:

- (a) The statutory financial statements of Titron Manufacturing for the period from 17 June 2008 (date of incorporation) to 31 December 2009 and the year ended 31 December 2010 were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and were audited by the following certified public accountants in Hong Kong:

Financial period	Statutory auditors
Period from 17 June 2008 (date of incorporation) to 31 December 2009	JBPB & Co. (formerly known as Grant Thornton)
Year ended 31 December 2010	BDO Limited

- (b) The statutory financial statements of Titron International for each of the three years ended 31 December 2008, 2009 and 2010 were prepared in accordance with the following financial reporting standards issued by the HKICPA and were audited by the following certified public accountants in Hong Kong:

Financial period	Statutory auditors	Financial reporting standards
Year ended 31 December 2008	JBPB & Co. (formerly known as Grant Thornton)	HKFRSs
Year ended 31 December 2009	East Asia Sentinel Limited	Small and Medium-sized Entity Financial Reporting Standard
Year ended 31 December 2010	BDO Limited	HKFRSs

- (c) The statutory financial statements of Titron Industries for the three years ended 31 December 2008, 2009 and 2010 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by the following certified public accountants in Hong Kong:

Financial period	Statutory auditors
Years ended 31 December 2008 and 2009	JBPB & Co. (formerly known as Grant Thornton)
Year ended 31 December 2010	BDO Limited

- (d) The statutory financial statements of Titron Precision for the period from 25 November 2010 (date of incorporation) to 31 December 2010 was prepared in accordance with HKFRSs issued by the HKICPA and was audited by the following certified public accountants in Hong Kong:

Financial period	Statutory auditor
Period from 25 November 2010 (date of incorporation) to 31 December 2010	BDO Limited

- (e) The statutory financial statements of Yong Li for the period from 2 September 2009 (date of incorporation) to 31 December 2009 and the year ended 31 December 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC.

Financial period	Statutory auditor
Period from 2 September 2009 (date of incorporation) to 31 December 2009 and for the year ended 31 December 2010	深圳廣深會計師事務所 (Shenzhen Guang Shen Certified Public Accountants*)

* *The English name is for the identification purpose only.*

- (f) No statutory financial statements of Dongguan Yi Deng Ke have been prepared as Dongguan Yi Deng Ke was newly established in March 2011 and has not carried out any significant business transactions.

No statutory financial statements have been prepared for all companies comprising the Newco Group in respect of any period subsequent to 31 December 2010.

For the purpose of this report, the directors of the Newco have prepared the combined financial statements (the “Underlying Financial Statements”) of the Newco Group for the Relevant Periods, in accordance with the basis of presentation set out in note 3 of Section II below and the accounting policies set out in note 4 of Section II below which comply with HKFRSs, based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Newco Group.

The Financial Information for the Relevant Periods as set out in this report has been prepared by the directors of the Newco based on the Underlying Financial Statements on the basis set out in note 3 of Section II below. Additional disclosures have been made for the purposes of this report to conform with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The directors of the Newco are responsible for the preparation of the Financial Information which gives a true and fair view. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the Company are responsible for the Financial Information presented in this report and the contents of the Circular in which this report is included. Our responsibility is to form an opinion on the Financial Information based on our procedures.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information of the Newco Group and carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA. No adjustment has been made in the Financial Information.

For the purpose of this report, we have reviewed the 31 March 2010 Corresponding Information, which has been prepared in accordance with the basis of presentation set out in note 3 of Section II below and the accounting policies set out in note 4 of Section II below which comply with HKFRSs and for which the directors of the Newco are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our responsibility is to express a conclusion on the 31 March 2010 Corresponding Information based on our review. A review principally consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the 31 March 2010 Corresponding Information. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 March 2010 Corresponding Information.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis set out in note 3 of Section II below and in accordance with the accounting policies in note 4 of Section II below, gives a true and fair view of the combined state of affairs of the Newco Group as at 31 December 2008, 2009 and 2010 and 31 March 2011 and of the combined results and combined cash flows of the Newco Group for the Relevant Periods.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 31 March 2010 Corresponding Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Three months ended	
		2008	2009	2010	31 March	2011
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
Revenue	7	147,112	143,428	150,086	26,872	37,451
Cost of sales		(125,305)	(115,097)	(109,189)	(19,679)	(28,032)
Gross profit		21,807	28,331	40,897	7,193	9,419
Other income	7	2,980	2,890	3,543	965	607
Administrative expenses		(23,974)	(29,061)	(31,864)	(6,983)	(8,652)
Operating profit		813	2,160	12,576	1,175	1,374
Finance costs	8	(17)	(190)	(348)	(50)	(185)
Profit before income tax	9	796	1,970	12,228	1,125	1,189
Income tax expense	10	(274)	(419)	(1,000)	(206)	(248)
Profit for the year/period and attributable to owners of the Newco		522	1,551	11,228	919	941
Other comprehensive income for the year/period						
Change in fair value of available-for-sale financial assets		-	-	51	17	21
Exchange gain/(loss) on translation of financial statements of foreign operations		-	-	1	(1)	(6)
Total comprehensive income for the year/period and attributable to owners of the Newco		522	1,551	11,280	935	956

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 March
		2008	2009	2010	2011
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	15	899	5,791	7,390	7,941
Available-for-sale financial assets	16	–	1,029	1,080	1,101
Deferred tax assets	25	–	–	514	445
		899	6,820	8,984	9,487
Current assets					
Inventories	17	8,125	11,453	4,894	7,718
Trade and other receivables	18	41,334	44,016	44,998	37,235
Amounts due from related parties	19	5,954	9,619	12,327	629
Amounts due from shareholders	20	–	790	764	–
Pledged time deposits	21	–	–	2,036	2,036
Bank and cash balances	21	1,488	11,718	10,096	3,990
		56,901	77,596	75,115	51,608
Current liabilities					
Trade and other payables	22	15,618	34,837	21,280	20,108
Borrowings	23	2,208	6,851	12,980	17,081
Finance lease liabilities	24	–	–	204	204
Amounts due to related parties	19	13,004	15,546	15,791	–
Amounts due to shareholders	20	12,491	10,989	4,837	611
Dividend payables		–	–	10,000	3,000
Provision of taxation	27	–	115	1,095	1,274
		43,348	68,338	66,187	42,278
Net current assets		13,553	9,258	8,928	9,330
Non-current liabilities					
Finance lease liabilities	24	–	–	628	577
Deferred tax liabilities	25	63	63	63	63
Provision for long service payments		–	75	–	–
		63	138	691	640
Net assets		14,389	15,940	17,221	18,177
EQUITY					
Share capital	26	3	3	4	4
Reserves		14,386	15,937	17,217	18,173
Total equity		14,389	15,940	17,221	18,177

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Cash flows from operating activities					
Profit before income tax	796	1,970	12,228	1,125	1,189
Adjustments for:					
Interest income	(20)	(5)	(6)	–	–
Interest expenses	17	190	330	50	180
Provision for long service payments	–	75	–	–	–
Reversal of provision for long service payments	–	–	(75)	(75)	–
Impairment of trade receivables	–	202	–	–	–
Depreciation	338	1,739	2,729	661	787
Gain on disposals of property, plant and equipment	–	(1,799)	(804)	–	–
Operating profit before working capital changes	1,131	2,372	14,402	1,761	2,156
(Increase)/decrease in inventories	(4,073)	(3,328)	6,559	(2,576)	(2,824)
Decrease/(increase) in trade and other receivables	2,045	(2,884)	(982)	10,190	7,763
(Increase)/decrease in amounts due from shareholders	–	(790)	26	(705)	764
Decrease/(increase) in amounts due from related parties	8,616	(3,665)	(2,708)	(4,113)	11,698
Increase/(decrease) in trade and other payables	993	19,219	(13,557)	(8,359)	(1,172)
Decrease in amounts due to shareholders	(5,681)	(1,502)	(6,152)	(4)	(4,837)
(Decrease)/increase in amounts due to related parties	(3,002)	2,542	245	2,576	(15,180)
<i>Net cash generated from/(used in) operations</i>	29	11,964	(2,167)	(1,230)	(1,632)
Interest paid	(17)	(190)	(313)	(50)	(175)
Hong Kong profits tax paid	(159)	(331)	(534)	–	–
<i>Net cash (used in)/generated from operating activities</i>	(147)	11,443	(3,014)	(1,280)	(1,807)
Cash flows from investing activities					
Interest received	20	5	6	–	–
Purchase of property, plant and equipment	(28)	(7,581)	(5,063)	(2,303)	(1,338)
Proceeds from disposals of property, plant and equipment	–	2,749	1,539	–	–
Purchase of available-for-sale financial assets	–	(1,029)	–	–	–
<i>Net cash used in investing activities</i>	(8)	(5,856)	(3,518)	(2,303)	(1,338)

APPENDIX II

FINANCIAL INFORMATION OF NEWCO GROUP

	Year ended 31 December			Three months ended 31 March	
	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i>
Cash flows from financing activities					
Proceeds from issuance of share capital and allotment of shares	1	–	1	–	–
(Decrease)/increase in trust receipts loans	(4,392)	4,261	6,511	455	3,158
Capital element of finance lease liabilities	–	–	1,018	–	–
Repayment of finance lease liabilities	–	–	(203)	–	(56)
Decrease/(increase) in pledged time deposits	787	–	(2,036)	(2,033)	–
Repayment of bank loan	(833)	–	–	–	–
Dividend paid	–	–	–	–	(7,000)
<i>Net cash (used in)/generated from financing activities</i>	<u>(4,437)</u>	<u>4,261</u>	<u>5,291</u>	<u>(1,578)</u>	<u>(3,898)</u>
Net (decrease)/increase in cash and cash equivalents	(4,592)	9,848	(1,241)	(5,161)	(7,043)
Effects of exchange difference, net	–	–	1	(1)	(6)
Cash and cash equivalents at the beginning of year/period	<u>6,080</u>	<u>1,488</u>	<u>11,336</u>	<u>11,336</u>	<u>10,096</u>
Cash and cash equivalents at the end of year/period	<u>1,488</u>	<u>11,336</u>	<u>10,096</u>	<u>6,174</u>	<u>3,047</u>
Analysis of the balances of cash and cash equivalents					
Bank and cash balances	1,488	11,718	10,096	6,174	3,990
Bank overdrafts	–	(382)	–	–	(943)
	<u>1,488</u>	<u>11,336</u>	<u>10,096</u>	<u>6,174</u>	<u>3,047</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Available- for-sale financial assets revaluation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2008	2	–	–	13,864	13,866
Issuance of shares for Titron Manufacturing upon its incorporation (<i>note 26</i>)	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1</u>
Transaction with owners	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1</u>
Profit for the year and total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>522</u>	<u>522</u>
Balance at 31 December 2008 and 1 January 2009	3	–	–	14,386	14,389
Profit for the year and total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,551</u>	<u>1,551</u>
Balance at 31 December 2009 and 1 January 2010	3	–	–	15,937	15,940
Issuance of shares for Titron Precision upon its incorporation (<i>note 26</i>)	1	–	–	–	1
Interim dividends	<u>–</u>	<u>–</u>	<u>–</u>	<u>(10,000)</u>	<u>(10,000)</u>
Transaction with owners	<u>1</u>	<u>–</u>	<u>–</u>	<u>(10,000)</u>	<u>(9,999)</u>
Profit for the year	–	–	–	11,228	11,228
Other comprehensive income					
Change in fair value of available-for-sale financial assets	–	–	51	–	51
Exchange gain on translation of financial statements of foreign operations	<u>–</u>	<u>1</u>	<u>–</u>	<u>–</u>	<u>1</u>
Total comprehensive income for the year	<u>–</u>	<u>1</u>	<u>51</u>	<u>11,228</u>	<u>11,280</u>

APPENDIX II

FINANCIAL INFORMATION OF NEWCO GROUP

	Share capital <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Available- for-sale financial assets revaluation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 31 December 2010 and 1 January 2011	4	1	51	17,165	17,221
Profit for the period	–	–	–	941	941
Other comprehensive income					
Change in fair value of available-for-sale financial assets	–	–	21	–	21
Exchange loss on translation of financial statements of foreign operations	–	(6)	–	–	(6)
Total comprehensive income for the period	–	(6)	21	941	956
Balance at 31 March 2011	<u>4</u>	<u>(5)</u>	<u>72</u>	<u>18,106</u>	<u>18,177</u>
(Unaudited)					
Balance at 1 January 2010	3	–	–	15,937	15,940
Profit for the period	–	–	–	919	919
Other comprehensive income					
Change in fair value of available-for-sale financial assets	–	–	17	–	17
Exchange loss on translation of financial statements of foreign operations	–	(1)	–	–	(1)
Total comprehensive income for the period	–	(1)	17	919	935
Balance at 31 March 2010	<u>3</u>	<u>(1)</u>	<u>17</u>	<u>16,856</u>	<u>16,875</u>

II. NOTES TO THE FINANCIAL INFORMATION**1. General information**

The Newco was incorporated in the BVI as a limited liability company on 5 July 2011 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. The principal activity of the Newco is investment holding. The Newco Group is principally engaged in trading of DVD boxes and related components and medical devices. The registered office of the Newco is Newhaven Trustee (BVI) Limited, 3rd Floor, Omar Hodge Building, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands and its principal place of business is located at Suite 2601-2, 26/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

2. Adoption of new and amended HKFRSs

During the Relevant Periods, the Newco Group has adopted all the new and amended HKFRSs issued by the HKICPA, which are relevant to the Newco Group and effective for the reporting period.

At the date of this report, certain new and amended HKFRSs have been published but not yet effective, and have not been early adopted by the Newco Group.

The directors of the Newco anticipate that all of the pronouncements will be adopted in the Newco Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Newco Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact on the Newco Group's financial statements.

Hong Kong Financial Reporting Standard ("HKFRS") 9 Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability

is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. The directors of the Newco are currently assessing the possible impact of the new standard on the Newco Group's results and financial position in the first year of application.

3. Basis of presentation

Pursuant to a group reorganisation (the "Reorganisation") as set out in pages 20 to 21 of the Circular, the Newco became the holding company of the subsidiaries now comprising the Newco Group on 5 August 2011. The Reorganisation involved the following steps:

(a) *Incorporation of the Newco*

- (i) On 5 July 2011, the Newco was incorporated in the BVI. The authorised share capital of the Newco upon incorporation are US\$50,000 divided into 50,000 shares of US\$1 each.
- (ii) Upon incorporation, 3 shares were allotted and issued at par by the Newco as to 1 share to Mr. Lye Khay Fong ("Mr. Lye"), 1 share to Mr. Yip Wai Lun, Alvin ("Mr. Yip") and 1 share to Titron Group Holdings Limited ("Titron Group Holdings").

(b) *Acquisition of Titron Manufacturing, Titron International, Titron Industries and Titron Precision by the Newco*

- (i) On 4 August 2011, Mr. Lye and Mr. Yip disposed of all their equity interests in Titron International and Titron Precision to the Newco in exchange for the new shares issued by the Newco.
- (ii) On 4 August 2011, Titron Group Holdings disposed of its equity interest in Titron Industries and Titron Manufacturing to the Newco in exchange for the new shares issued by the Newco.
- (iii) The considerations referred to in (i) and (ii) above were satisfied by the Newco allotting and issuing a total of 27 shares of US\$1 each in the capital of the Newco, credited as fully paid, as to 3 shares to Mr. Lye, 2 shares to Mr. Yip and 22 shares to Titron Group Holdings.

(c) *Transfer of shares of the Newco*

- (i) On 5 August 2011, Mr. Lye and Mr. Yip disposed of all their equity interests in the Newco to Titron Group Holdings at the nominal consideration of US\$1 respectively.
- (ii) Upon completion of the transfer of shares, Titron Group Holdings was the sole shareholder of the Newco holding the entire issued capital of the Newco.

The Newco Group is regarded as a continuing entity resulting from the Reorganisation since the companies which took part in the Reorganisation were controlled by both Mr. Lye and Mr. Yip before and after the Reorganisation or incorporated/established by the Newco Group for the purpose of the Reorganisation. Although there is no written agreement between Mr. Lye and Mr. Yip, the two major shareholders of the Newco Group together holding indirectly over 90% of the same, management have assessed and considered that an unwritten contractual arrangement exist between these two major shareholders to collectively and jointly control and manage the Newco Group's business and financial and operating policies so as to derive benefits from the Newco Group's activities. There is no commercial substance to the Reorganisation which was undertaken solely to form a group structure to facilitate the sale transaction. The Financial Information has therefore been prepared using the principles of merger accounting as if the current group structure had been in existence throughout the Relevant Periods.

Under merger accounting, the net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling parties' interest. The combined statements of comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under common control, where this is a shorter period, regardless of the date of the common control combination. All significant intra-group balances and transactions within the Newco Group are eliminated on combination in full.

No statement of financial position of the Newco was presented as the Newco was not in existence during the Relevant Periods.

4. Summary of significant accounting policies

(a) Basis of preparation

The Financial Information sets out in this report have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and have been consistently applied throughout the Relevant Periods unless otherwise stated. The Financial Information also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The significant accounting policies that have been used in the preparation of the Financial Information are summarised below.

The Financial Information has been prepared on the historical cost convention, except for available-for-sale financial assets which are stated at fair values. The measurement bases are fully described in the accounting policies below.

The Financial Information is presented in Hong Kong Dollars (“HK\$”) which is also the functional currency of the Newco.

It should be noted that accounting estimates and assumptions are used in preparation of the Financial Information. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5.

(b) Basis of combination

The combined financial statements comprise the financial statements of the Newco Group. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the combined financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the combined statements of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Newco Group.

(c) *Subsidiaries*

Subsidiaries are entities over which the Newco Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Newco Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Newco Group. They are de-consolidated from the date that control ceases.

(d) *Foreign currency translation*

In the individual financial statements of the combining entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the combined financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Newco Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

(e) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20% to 33- ¹ / ₃ %
Machineries, factory equipment and moulds	20% to 33- ¹ / ₃ %
Furniture and fixtures	20% to 33- ¹ / ₃ %
Computer equipment	20% to 33- ¹ / ₃ %
Office equipment	20%
Motor vehicles	20%

The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Newco Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(f) Financial assets

The Newco Group classifies its financial assets into the following categories: loans and receivables and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Newco Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Newco Group about one or more of the following loss events:

- Significant financial difficulty of the debtors;
- A breach of contract, such as a default of delinquency in interest for principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtors; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the Newco Group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors of the Newco Group and, national or local economic conditions that correlate with defaults on the assets of the Newco Group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

(g) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and demand deposits with bank, less bank overdrafts which are payable on demand and form an integral part of the Newco Group's cash management.

(i) Financial liabilities

The Newco Group's financial liabilities include bank borrowings, finance lease liabilities, trade and other payables, dividend payables and amounts due to related parties and shareholders.

Financial liabilities are recognised when the Newco Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Newco Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Newco Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (*see note 4(j)*).

Trade and other payables, dividend payables and amounts due to related parties and shareholders

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

(j) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Newco Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Newco Group

Assets that are held by the Newco Group under leases which transfer to the Newco Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Newco Group are classified as operating leases.

Assets acquired under finance leases

Where the Newco Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance lease charges, are recorded as finance lease liabilities.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance lease charges.

Finance lease charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the finance lease liabilities for each accounting period.

Operating lease charges as the lessee

Where the Newco Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(k) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

(l) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and the use by others of the Newco Group's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to the Newco Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Revenue from consignment sales is recognised when the services are rendered.

Commission income and management fee income is recognised when the services are rendered.

Interest income is recognised on a time proportion basis using the effective interest rate method.

(m) Impairment on non-financial assets

Property, plant and equipment are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

(n) Retirement benefit costs and short-term employee benefits*Defined contribution plan*

The Newco Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Newco Group in an independently administered fund. The Newco Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Newco Group’s employer voluntary contributions, which are refunded to the Newco Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Payments to defined contribution retirement benefit plans in the PRC are charged as expenses when the employees render the services entitling them to the contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(o) Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

(p) *Accounting for income taxes*

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting year, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit/loss for the period/year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Newco Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited directly to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) The Newco Group has the legally enforceable right to set off the recognised amounts; and
- (b) The Newco Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Newco Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(q) Related parties

A party is considered to be related to the Newco Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Newco Group or exercise significant influence over the Newco Group in making financial and operating policy decisions, or has joint control over the Newco Group;
- (ii) the Newco Group and the party are subject to common control;
- (iii) the party is an associate of the Newco Group or a joint venture in which the Newco Group is a venturer;
- (iv) the party is a member of key management personnel of the Newco Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (a) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Newco Group, or of any entity that is a related party of the Newco Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Newco Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Useful lives and residual values of property, plant and equipment

The Newco Group's management determines the estimated useful lives and residual values for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

(ii) Impairment of receivables

The Newco Group's management reviews receivables on a regular basis to determine if any provision for impairment is necessary. This estimate is based on the credit history of its customers, past settlement and industry practice and current market conditions. Management reassesses the impairment of receivables at each reporting date.

(iii) Carrying value of inventories

The carrying value of inventories is the lower of cost and net realisable value ("NRV"). Judgement is required to determine the NRV of inventories, which is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the reporting date.

(iv) Taxation

The Newco Group is subject to income taxes in Hong Kong and in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Newco Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such final tax liabilities determination is made.

(v) Adoption of merger accounting

Management of the Newco Group consider it is appropriate to adopt the merger basis of accounting to account for the Newco Group's reorganisation as described in note 3. Although there is no written agreement between Mr. Lye and Mr. Yip, the two major shareholders of the Newco Group together holding over 90% of the same, management has assessed and considers that an unwritten contractual arrangement exist between these two major shareholders to collectively and jointly control and manage the Newco Group's business and financial and operating policies so as to derive benefits from the Newco Group's activities.

6. Segment information

Based on the internal reports reviewed by the directors of the Newco Group that are used to make strategic decisions, the only operating segment of the Newco Group is trading of plastic-related products. No separate analysis of reportable segment revenues, result, assets and liabilities by operating segment are presented.

APPENDIX II

FINANCIAL INFORMATION OF NEWCO GROUP

During the Relevant Periods and for the three months ended 31 March 2010, the revenue from the major customers is as follows:

	Year ended 31 December			Three months ended 31 March	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2010 HK\$'000 (Unaudited)	2011 HK\$'000
Customer A	18,065	37,500	17,425	5,075	4,433
Customer B	18,993	23,745	17,404	5,047	–
Customer C	45,712	29,399	25,945	5,043	–
Customer D	–	–	25,577	–	12,168
	<u>82,770</u>	<u>90,644</u>	<u>86,351</u>	<u>15,165</u>	<u>16,601</u>

7. Revenue and other income

Revenue from the Newco Group's principal activities, which is also the Newco Group's turnover, represents total invoiced value of goods supplied, less discounts and returns. All significant transactions amongst the companies comprising the Newco Group have been eliminated on combination. Revenue and other income recognised during the Relevant Periods and for the three months ended 31 March 2010 are as follows:

	Year ended 31 December			Three months ended 31 March	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2010 HK\$'000 (Unaudited)	2011 HK\$'000
Revenue					
Sales of goods	<u>147,112</u>	<u>143,428</u>	<u>150,086</u>	<u>26,872</u>	<u>37,451</u>
Other income					
Bank interest income	20	5	6	–	–
Commission income	1,987	698	1,405	333	323
Exchange gain, net	432	57	2	9	109
Gain on disposals of property, plant and equipment	–	1,799	804	–	–
Management fee income	144	47	547	–	–
Reversal of provision for long service payments	–	–	75	75	–
Sundry income	<u>397</u>	<u>284</u>	<u>704</u>	<u>548</u>	<u>175</u>
	<u>2,980</u>	<u>2,890</u>	<u>3,543</u>	<u>965</u>	<u>607</u>
	<u>150,092</u>	<u>146,318</u>	<u>153,629</u>	<u>27,837</u>	<u>38,058</u>

8. Finance costs

	Year ended 31 December			Three months ended	
	2008	2009	2010	31 March	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Repayable within five years:					
Interest on bank loans	17	–	–	–	–
Interest on trust receipts loans	–	186	330	50	176
Interest on bank overdrafts	–	4	–	–	4
	<u>17</u>	<u>190</u>	<u>330</u>	<u>50</u>	<u>180</u>
Interest on finance leases					
liabilities	–	–	18	–	5
	<u>17</u>	<u>190</u>	<u>348</u>	<u>50</u>	<u>185</u>

9. Profit before income tax

	Year ended 31 December			Three months ended	
	2008	2009	2010	31 March	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Profit before income tax is					
arrived at after charging:					
Auditors' remuneration	165	276	296	69	84
Commission paid	2,317	1,222	876	338	163
Cost of inventories recognised					
as expense	125,305	115,097	109,189	19,679	28,032
Depreciation					
– Owned	338	1,739	2,627	661	736
– Leased	–	–	102	–	51
Impairment of trade receivables	–	202	–	–	–
Management fees	431	416	207	50	47
Marketing fees	657	2,574	2,333	220	121
Royalty fees	2,644	1,511	1,711	392	267
Operating lease charges in					
respect of rented premises	<u>2,287</u>	<u>4,522</u>	<u>5,504</u>	<u>919</u>	<u>1,131</u>

10. Income tax expense

For companies incorporated in Hong Kong, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the Relevant Periods. For companies established in the PRC, they are subject to 25% PRC enterprise income tax since their respective establishment.

	Year ended 31 December			Three months ended 31 March	
	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2010 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i>
Current tax – Hong Kong profits tax					
– Current year	304	419	1,514	206	179
– Over-provision in prior year	(30)	–	–	–	–
	274	419	1,514	206	179
Current tax – PRC enterprise income tax	–	–	–	–	–
	274	419	1,514	206	179
Deferred tax					
– Current year (<i>note 25</i>)	–	–	(514)	–	69
Income tax expense	274	419	1,000	206	248

Reconciliation between income tax expense and accounting profit at applicable tax rates is as follows:

	Year ended 31 December			Three months ended 31 March	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2010 HK\$'000 (Unaudited)	2011 HK\$'000
Profit before income tax	<u>796</u>	<u>1,970</u>	<u>12,228</u>	<u>1,125</u>	<u>1,189</u>
Tax on profit before income tax at applicable tax rates	131	325	2,018	185	196
Tax effect of non-deductible expenses	1	248	469	111	167
Tax effect on non-taxable revenue	(3)	(297)	(711)	(53)	(168)
Tax effect of temporary differences not recognised	12	35	–	–	–
Tax effect of tax loss not recognised	143	96	–	27	53
Tax effect of prior year's unrecognised tax losses utilised this year	–	–	(262)	(64)	–
Tax effect of prior year's unrecognised tax losses recognised this year	–	–	(514)	–	–
Tax effect on opening deferred tax balances resulting from a reduction in a tax rate	(4)	–	–	–	–
Over-provision in prior year	(30)	–	–	–	–
Others	<u>24</u>	<u>12</u>	<u>–</u>	<u>–</u>	<u>–</u>
Income tax expense	<u>274</u>	<u>419</u>	<u>1,000</u>	<u>206</u>	<u>248</u>

11. Dividends

No dividend has been paid or declared by the Newco since its incorporation on 5 July 2011.

The dividends during the Relevant Periods represented those declared by Titron Industries to its then shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful for this report.

12. Employee benefits expense (including directors' emoluments)

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries and allowances	7,589	15,088	15,140	3,734	4,771
Pension costs – defined contribution plans	148	233	343	76	110
	<u>7,737</u>	<u>15,321</u>	<u>15,483</u>	<u>3,810</u>	<u>4,881</u>

13. Directors' remuneration and senior management's emoluments**(a) Directors' emoluments**

The aggregate amounts of the emoluments paid or payable to the directors of the Newco by the companies now comprising the Newco Group for each of the Relevant Periods and for the three months ended 31 March 2010 are as follows:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Fees					
Basic salaries, housing and other allowances					
– Lye Khay Fong	1,480	1,485	1,642	390	417
– Yip Wai Lun, Alvin	1,585	1,608	1,597	401	398
Contributions to pension scheme					
– Lye Khay Fong	12	12	12	3	3
– Yip Wai Lun, Alvin	12	12	12	3	3
	<u>3,089</u>	<u>3,117</u>	<u>3,263</u>	<u>797</u>	<u>821</u>

There were no arrangements under which the directors of the Newco waived or agreed to waive any remuneration during the Relevant Periods and for the three months ended 31 March 2010.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Newco Group for the Relevant Periods and for the three months ended 31 March 2010 included directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals for the Relevant Periods and for the three months ended 31 March 2010, which all fell within the salary of nil – HK\$1,000,000 are as follows:

	Year ended 31 December			Three months ended	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries and allowances	1,560	1,554	1,592	424	649
Contributions to pension scheme	36	36	36	9	9
	<u>1,596</u>	<u>1,590</u>	<u>1,628</u>	<u>433</u>	<u>658</u>

14. Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not meaningful due to the Reorganisation and the preparation of the results for the Relevant Periods and for the three months ended 31 March 2010 on a combined basis as described in note 3 above.

15. Property, plant and equipment

	Motor vehicles	Furniture and fixtures	Computer equipment	Office equipment	Leasehold improvements	Machineries, factory equipment and moulds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008							
Cost	1,969	26	432	4	1,079	349	3,859
Accumulated depreciation	(1,939)	(17)	(283)	(3)	(96)	(312)	(2,650)
Net book amount	<u>30</u>	<u>9</u>	<u>149</u>	<u>1</u>	<u>983</u>	<u>37</u>	<u>1,209</u>
Year ended 31 December 2008							
Opening net book amount	30	9	149	1	983	37	1,209
Additions	-	-	11	-	17	-	28
Depreciation	(30)	(5)	(65)	(1)	(218)	(19)	(338)
Closing net book amount	<u>-</u>	<u>4</u>	<u>95</u>	<u>-</u>	<u>782</u>	<u>18</u>	<u>899</u>
At 31 December 2008 and 1 January 2009							
Cost	1,969	26	443	4	1,096	349	3,887
Accumulated depreciation	(1,969)	(22)	(348)	(4)	(314)	(331)	(2,988)
Net book amount	<u>-</u>	<u>4</u>	<u>95</u>	<u>-</u>	<u>782</u>	<u>18</u>	<u>899</u>

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	Motor vehicles <i>HK\$ '000</i>	Furniture and fixtures <i>HK\$ '000</i>	Computer equipment <i>HK\$ '000</i>	Office equipment <i>HK\$ '000</i>	Leasehold improvements <i>HK\$ '000</i>	Machineries, factory equipment and moulds <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Year ended 31 December 2009							
Opening net book amount	–	4	95	–	782	18	899
Additions	56	–	95	–	223	7,207	7,581
Disposals	–	–	–	–	(7)	(943)	(950)
Depreciation	(11)	(3)	(64)	–	(264)	(1,397)	(1,739)
Closing net book amount	<u>45</u>	<u>1</u>	<u>126</u>	<u>–</u>	<u>734</u>	<u>4,885</u>	<u>5,791</u>
At 31 December 2009 and 1 January 2010							
Cost	2,025	26	527	4	1,301	6,471	10,354
Accumulated depreciation	(1,980)	(25)	(401)	(4)	(567)	(1,586)	(4,563)
Net book amount	<u>45</u>	<u>1</u>	<u>126</u>	<u>–</u>	<u>734</u>	<u>4,885</u>	<u>5,791</u>
Year ended 31 December 2010							
Opening net book amount	45	1	126	–	734	4,885	5,791
Additions	1,018	5	63	439	404	3,134	5,063
Disposal	(39)	–	(1)	–	–	(695)	(735)
Depreciation	(108)	(1)	(46)	(98)	(344)	(2,132)	(2,729)
Closing net book amount	<u>916</u>	<u>5</u>	<u>142</u>	<u>341</u>	<u>794</u>	<u>5,192</u>	<u>7,390</u>
At 31 December 2010 and 1 January 2011							
Cost	1,917	31	525	443	1,705	8,305	12,926
Accumulated depreciation	(1,001)	(26)	(383)	(102)	(911)	(3,113)	(5,536)
Net book amount	<u>916</u>	<u>5</u>	<u>142</u>	<u>341</u>	<u>794</u>	<u>5,192</u>	<u>7,390</u>
Three months ended 31 March 2011							
Opening net book amount	916	5	142	341	794	5,192	7,390
Additions	–	–	34	7	–	1,297	1,338
Depreciation	(51)	(1)	(13)	(37)	(100)	(585)	(787)
Closing net book amount	<u>865</u>	<u>4</u>	<u>163</u>	<u>311</u>	<u>694</u>	<u>5,904</u>	<u>7,941</u>
At 31 March 2011							
Cost	1,917	31	559	450	1,705	9,602	14,264
Accumulated depreciation	(1,052)	(27)	(396)	(139)	(1,011)	(3,698)	(6,323)
Net book amount	<u>865</u>	<u>4</u>	<u>163</u>	<u>311</u>	<u>694</u>	<u>5,904</u>	<u>7,941</u>

As at 31 December 2010 and 31 March 2011, the net book amount of property, plant and equipment includes the net carrying amount of HK\$916,000 and HK\$865,000 respectively (31 December 2008 and 2009: Nil) in respect of assets held under finance leases (note 24).

16. Available-for-sale financial assets

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bond fund, at market value	<u>–</u>	<u>1,029</u>	<u>1,080</u>	<u>1,101</u>

The fair value of the bond fund has been determined by reference to their quoted bid prices at the reporting dates. The available-for-sale financial assets were pledged to a bank against the general banking facilities of the Newco Group.

17. Inventories

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	265	6,850	2,565	6,050
Work-in-progress	2	270	2	2
Finished goods	3,506	3,667	510	235
Goods in transit	<u>4,579</u>	<u>893</u>	<u>2,044</u>	<u>1,658</u>
	8,352	11,680	5,121	7,945
Provision for impairment of obsolete inventories	<u>(227)</u>	<u>(227)</u>	<u>(227)</u>	<u>(227)</u>
Inventories, net	<u>8,125</u>	<u>11,453</u>	<u>4,894</u>	<u>7,718</u>

18. Trade and other receivables

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	37,449	30,758	26,835	25,898
Provision for impairment of trade receivables	<u>–</u>	<u>(202)</u>	<u>(202)</u>	<u>(202)</u>
Trade receivables, net	37,449	30,556	26,633	25,696
Other receivables	2,511	10,235	14,225	8,180
Prepayments	271	323	521	744
Deposits	<u>1,103</u>	<u>2,902</u>	<u>3,619</u>	<u>2,615</u>
	<u>41,334</u>	<u>44,016</u>	<u>44,998</u>	<u>37,235</u>

At each reporting date, the Newco Group’s trade receivables were individually assessed for impairment. The amount of impairment against individual receivables, if any, are recognised based on the credit history of its customer, their financial standing, history of defaults in payments, and current market conditions. The impairment provision will be written off against the trade receivable directly.

Provision for impairment of trade receivables is recorded using an allowance account unless the Newco Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. Movements in the provision for impairment of trade receivables are as follow:

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Balance at the beginning of the year/ period	–	–	(202)	(202)
Provision for impaired trade receivables	–	(202)	–	–
Balance at the end of the year/period	–	(202)	(202)	(202)

The ageing analysis of trade receivables that are not impaired is as follows:

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Neither past due nor impaired	20,085	18,836	7,418	11,503
1 – 30 days past due	5,575	6,017	7,348	4,821
31 – 90 days past due	8,900	2,075	7,397	5,660
91 – 365 days past due	2,676	2,618	4,470	3,712
Over 1 year	213	1,010	–	–
	17,364	11,720	19,215	14,193
	37,449	30,556	26,633	25,696

The ageing analysis of trade receivables, based on the invoice date, is as follows:

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Within 30 days	20,085	18,836	7,418	13,179
31 – 90 days	14,475	8,092	14,745	7,004
91 – 365 days	2,676	2,618	4,470	5,424
Over one year	213	1,010	–	89
	<u>37,449</u>	<u>30,556</u>	<u>26,633</u>	<u>25,696</u>

The directors of the Newco Group are of the opinion that no further impairment of trade receivables is necessary as there was no recent history of default in respect of these trade receivables.

Included in trade receivables are the following amounts denominated in currencies other than the functional currency of the entities to which they relate:

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
United States Dollars (“US\$”)	23,882	20,900	20,894	19,490
Japanese Yen (“JPY”)	1,426	173	–	–
RMB	2	–	–	–
	<u>2</u>	<u>–</u>	<u>–</u>	<u>–</u>

The directors of the Newco Group consider that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

19. Amounts due from/(to) related parties

Included in amounts due from related companies are loans advanced to certain companies which are connected to the directors of the Newco. Details of these loans disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	Directors connected with borrowers	Amount outstanding			As at
		As at 31 December		2010	31 March
		2008	2009	2010	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Titron Communication Limited	Lye Khay Fong	616	914	1,363	–
Materials Engineering and Testing Limited	Lye Khay Fong Yip Wai Lun, Alvin	127	79	–	–
Titron Technology Limited	Lye Khay Fong Yip Wai Lun, Alvin Lee Siew Yuen	4,968	8,553	6,195	–
Innotalent Holdings Limited	Lye Khay Fong Yip Wai Lun, Alvin	–	1	6	–
Astor Bulk Limited	Yip Wai Lun, Alvin	–	8	9	–
BMT Titron (Holding) Limited	Lye Khay Fong Yip Wai Lun, Alvin	8	1	–	–
BMT Titron Marine Limited	Lye Khay Fong Yip Wai Lun, Alvin	1	–	86	–
BMT Titron UK Limited	Yip Wai Lun, Alvin	–	–	3,125	–
Consolidated Pacific Limited	Lye Khay Fong Yip Wai Lun, Alvin	2	–	–	–
Titron Testing Limited	Lye Khay Fong Yip Wai Lun, Alvin	12	22	–	–
Titron Luen Shing Precision Limited	Lye Khay Fong Yip Wai Lun, Alvin	220	41	41	–
Titron Smarthub Ltd	Lye Khay Fong	–	–	4	–
Guojin Resources Holdings Limited	Yip Wai Lun, Alvin	–	–	412	–
Jackin Magnetic Co. Ltd	Yip Wai Lun, Alvin	–	–	1,086	615
China Metal Trading Company Limited	Yip Wai Lun, Alvin	–	–	–	14
		5,954	9,619	12,327	629

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Name of borrower	Maximum amount outstanding			Three months ended
	Year ended 31 December			31 March
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Titron Communication Limited	616	914	1,363	1,363
Materials Engineering and Testing Limited	127	127	79	–
Titron Technology Limited	4,968	8,553	13,672	6,195
Innotalent Holdings Limited	–	1	6	6
Astor Bulk Limited	–	8	9	9
BMT Titron (Holding) Limited	8	8	1	–
BMT Titron Marine Limited	1	–	86	86
BMT Titron UK Limited	–	–	3,125	3,125
Consolidated Pacific Limited	2	2	–	–
Titron Testing Limited	12	22	22	–
Titron Luen Shing Precision Limited	220	220	41	41
Titron Smarthub Ltd	–	–	4	4
Guojin Resources Holdings Limited	–	–	412	412
Jackin Magnetic Co. Ltd	–	–	1,398	1,086
China Metal Trading Company Limited	–	–	–	14

At the reporting dates, no provision had been made against these advances.

The amounts due from/(to) related companies are unsecured, interest-free and repayable on demand.

Per the unaudited combined management accounts, the outstanding balance of amounts due from related companies was approximately HK\$726,000 as at 30 June 2011.

20. Amounts due from/(to) shareholders

	Amount outstanding			As at
	As at 31 December			31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lye Khay Fong	–	–	45	–
Yip Wai Lun, Alvin	–	790	719	–
	<u>–</u>	<u>790</u>	<u>764</u>	<u>–</u>
	<u>–</u>	<u>790</u>	<u>764</u>	<u>–</u>
Maximum amount outstanding				
	Year ended 31 December			Three months ended
				31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lye Khay Fong	–	–	50	50
Yip Wai Lun, Alvin	–	799	799	723
	<u>–</u>	<u>799</u>	<u>799</u>	<u>723</u>
	<u>–</u>	<u>799</u>	<u>799</u>	<u>723</u>

The amounts due from/(to) shareholders are unsecured, interest-free and repayable on demand.

21. Bank and cash balances and pledged time deposits

	As at 31 December			As at
				31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	1,488	11,718	12,132	6,026
Less: Pledged time deposits	–	–	(2,036)	(2,036)
	<u>–</u>	<u>–</u>	<u>(2,036)</u>	<u>(2,036)</u>
Bank and cash balances	<u>1,488</u>	<u>11,718</u>	<u>10,096</u>	<u>3,990</u>
	<u>1,488</u>	<u>11,718</u>	<u>10,096</u>	<u>3,990</u>

Pledged time deposits have been pledged to secure banking facilities (note 27).

Included in bank and cash balances are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Euro ("EUR")	6	6	2	2
JPY	98	288	1	210
US\$	586	7,462	6,996	2,853
Australian Dollars ("AUD")	4	4	–	–
RMB	6	332	1,408	51
British Pounds ("GBP")	135	462	5	5

The RMB is not freely convertible into other currencies.

22. Trade and other payables

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Trade payables	12,097	23,521	8,731	6,668
Other payables	2,836	9,501	10,620	10,082
Accrued expenses	297	1,746	1,557	2,297
Deposits received	388	69	372	1,061
	15,618	34,837	21,280	20,108

Included in trade payables are the following amounts denominated in currencies other than the functional currency of the entities to which they relate:

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
US\$	4,792	15,745	1,660	3,360
RMB	3	531	402	153
JPY	–	–	34	–

The ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	11,115	19,969	4,754	6,063
31 – 90 days	464	2,646	3,740	412
91 – 365 days	347	735	44	–
Over one year	171	171	193	193
	<u>12,097</u>	<u>23,521</u>	<u>8,731</u>	<u>6,668</u>

The balance of HK\$171,000 aged over 1 year is due to a project which was cancelled by the customer and the Newco Group is still liable to settle the balance due to the supplier. However, the supplier did not issue invoice to charge the Newco Group up to now, so the balance is payable on demand by the supplier.

23. Borrowings

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	–	382	–	943
Trust receipts loans	2,208	6,469	12,980	16,138
	<u>2,208</u>	<u>6,851</u>	<u>12,980</u>	<u>17,081</u>

During the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011, the trust receipts loans borrowed from major banks situated in Hong Kong were secured by certain assets of the Newco Group and its related company, and bore interest at 5% to 6%, 4% to 6%, 3.5% to 5.5% and 3.5% to 5.5% per annum respectively and repayable within one year.

24. Finance lease liabilities

The analysis of the obligations under finance leases is as follows:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due within one year	–	–	223	223
Due in the second to fifth years	–	–	687	616
	–	–	910	839
Future finance charges on finance leases	–	–	(78)	(58)
	–	–	832	781

The present value of finance lease liabilities is as follows:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due within one year	–	–	204	204
Due in the second to fifth years	–	–	628	577
	–	–	832	781
Less: Current portion due within one year included under current liabilities	–	–	(204)	(204)
Non-current portion included under non- current liabilities	–	–	628	577

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The Newco Group has entered into a finance lease in respect of a motor vehicle. The lease period is five years. The lease does not have an option to renew or have any contingent rental provision.

25. Deferred tax assets/(liabilities)

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% for the Relevant Periods.

The movement on the deferred tax assets/(liabilities) is as follows:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008, 31 December 2008 and 31 December 2009	(63)	–	(63)
Credited to profit or loss (<i>note 10</i>)	–	514	514
At 31 December 2010	(63)	514	451
Charged to profit or loss (<i>note 10</i>)	–	(69)	(69)
At 31 March 2011	(63)	445	382

The amounts recognised in the combined statements of financial position are as follows:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	–	–	514	445
Deferred tax liabilities	(63)	(63)	(63)	(63)
	(63)	(63)	451	382

At 31 December 2008, 2009 and 2010 and 31 March 2011, Titron International had unrecognised deferred tax assets of approximately HK\$558,000, HK\$665,000, nil and nil respectively arising from tax losses.

26. Share capital

The Newco was incorporated in the BVI as a limited liability company on 5 July 2011 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each as described in note 3.

For the purpose of the preparation of the combined statements of financial position, the balances of the share capital as at 31 December 2008, 2009 and 2010 and 31 March 2011, represent the aggregate amounts of the share capital of the following companies:

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Titron Manufacturing	1	1	1	1
Titron International	1	1	1	1
Titron Industries	1	1	1	1
Titron Precision	–	–	1	1
	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>

27. Banking facilities

As at 31 December 2008 and 2009, the Newco Group's banking facilities were secured by guarantees given by certain directors of the Newco Group and its related companies with a maximum liability of approximately HK\$37.2 million and HK\$36.2 million respectively.

As at 31 December 2010 and 31 March 2011, the Newco Group's banking facilities are secured by pledged time deposits (*note 21*), guarantees given by certain directors of the Newco Group and its related companies with a maximum liability of approximately HK\$36.2 million.

The Company and the vendors will use their respective reasonable endeavours to obtain the release of personal guarantees by the Newco Group's directors as soon as practicable after the date of the acquisition agreement and replaced by corporate guarantee(s) from the Company or any of its subsidiaries in a form and substance reasonably satisfactory to the Company and the Newco Group's bankers.

28. Commitments

(a) Operating lease commitments

At 31 December 2008, 2009 and 2010 and 31 March 2011, the Newco Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	3,001	4,487	4,108	4,067
In the second to fifth years	<u>832</u>	<u>6,556</u>	<u>4,944</u>	<u>4,157</u>
	<u><u>3,833</u></u>	<u><u>11,043</u></u>	<u><u>9,052</u></u>	<u><u>8,224</u></u>

The Newco Group leases a number of properties under operating leases. The leases run for initial period for three years. None of the leases includes contingent rentals.

(b) Capital commitments

At 31 December 2008, 2009 and 2010 and 31 March 2011, the Newco Group had the following capital commitments not provided for in the Financial Information as at each of the reporting dates:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for in respect of property, plant and equipment	<u><u>192</u></u>	<u><u>–</u></u>	<u><u>2,658</u></u>	<u><u>1,216</u></u>

29. Related party transactions

Transactions with related parties	Company	Year ended 31 December			Three months ended 31 March	
		2008	2009	2010	2010	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Continuing transactions						
Sales of raw materials	Titron Communication Limited	–	130	675	–	144
Sales of raw materials	Titron Technology Limited	–	94	12	–	–
Commission income	Jackin Trading Limited	–	698	1,404	333	323
		–	922	2,091	333	467
Discontinued transactions						
Management fee income	Titron Media HK Limited	24	24	–	–	–
Management fee income	Materials Engineering Testing Limited	120	–	–	–	–
Purchase of China Bond Fund	Titron South China Limited	–	1,029	–	–	–
		144	1,053	–	–	–

Two of the Newco’s director, Lye Khay Fong and Yip Wai Lun, Alvin, had direct or indirect material equity interests in the above related companies.

30. Financial risk management objectives and policies

The Newco Group does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Newco Group’s exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Newco Group employs a conservative strategy regarding its risk management. As the management of the Newco considers that the Newco Group’s exposure to market risk is kept at a minimum level, the Newco Group has not used any derivatives or other instruments for hedging purposes. The Newco Group does not hold or issue derivative financial statements for trading purposes.

The Newco Group’s financial assets include trade and other receivables, available-for-sale financial assets, amounts due from shareholders and related parties and bank and cash balances. The Newco Group’s financial liabilities include trade and other payables, borrowings, finance lease liabilities, dividend payables and amounts due to related parties and shareholders.

30.1 Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Most of the Newco Group's transactions are carried out in HK\$ which is the functional currency of the Newco Group. Exposures to currency exchange rates arise from the Newco Group's overseas sales and purchases, which are primarily denominated in EUR, JPY, US\$, AUD, RMB and GBP. Analysis of these financial assets and liabilities by other currencies is disclosed in notes 18, 21 and 22.

To mitigate the Newco Group's exposure to foreign currency risk, the Newco Group continually assesses and monitors the exposure to foreign currency risk. Management of the Newco Group did not consider it necessary to use foreign currency forward contracts to hedge the exposure to foreign exchange risk as most of the assets and liabilities denominated in currencies other than the functional currency of the Newco Group are short term foreign currency cash flows (due within 6 months).

Exposures to foreign exchange rates vary during Relevant Periods depending on the volume of overseas transactions. As the transactions in foreign currency are not material, the analysis above is considered to be representative of the Newco Group's exposure to currency risk.

Certain assets and liabilities of the Newco Group are principally denominated in US\$. HK\$ is pegged to US\$, and thus foreign exchange exposure is considered as minimal.

The policies to manage foreign currency risk have been followed by the Newco Group since prior years and are considered to be effective.

30.2 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Other than deposits held in banks, the Newco Group does not have significant interest-bearing financial assets. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Newco Group.

The Newco Group does not have material exposure to interest rate risk, as the Newco Group has no financial liabilities of material amounts with floating interest. Sensitivity of the Newco Group's profit after income tax and retained earnings to a reasonable change in the interest rate is assessed to be immaterial. The Newco Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Newco Group's overall interest expense.

The policies to manage interest rate risk have been followed by the Newco Group since prior years and are considered to be effective.

30.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Newco Group. The carrying amount of trade and other receivables, available-for-sale financial assets, amounts due from shareholders and related parties, pledged time deposits and bank and cash balances represent the Newco Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Newco Group's measures to manage credit risk is to control potential exposure to recoverability problem. The bank balances and available-for-sale financial assets are held in major financial institutions in Hong Kong, which management believes are of high credit quality.

The Newco Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting dates, as summarised below:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Classes of financial assets				
– carrying amounts				
Available-for-sale financial assets	–	1,029	1,080	1,101
Trade and other receivables	41,063	43,693	44,477	36,491
Amounts due from related Parties	5,954	9,619	12,327	629
Amounts due from shareholders	–	790	764	–
Pledged time deposit	–	–	2,036	2,036
Bank and cash balances	1,488	11,718	10,096	3,990
	<u>48,505</u>	<u>66,849</u>	<u>70,780</u>	<u>44,247</u>

The Newco Group continuously monitors defaults of customers and other counterparties, and identifies this either individually or by group, and incorporates this information into its credit risk controls.

The Newco Group's exposure to credit risk is influenced by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Newco Group has a certain concentration of credit risk as 40% and 21% and 24% and 32% of the total trade and other receivables was due from the Newco Group's 3, 3, 4 and 4 major customers as at 31 December 2008, 2009 and 2010 and 31 March 2011 respectively.

Where available at reasonable cost, external reports on customers and other counterparties are obtained and used. The Newco Group's policy is to deal only with creditworthy counterparties.

The Newco Group's management considers that all the above financial assets that are not impaired for the reporting date are of good credit quality, including those that are past due.

The credit policies have been followed by the Newco Group since prior years and are considered to have been effective in limiting the Newco Group's exposure to credit risk to a desirable level.

30.4 Liquidity risk

Liquidity risk relates to the risk that the Newco Group will not be able to meet its obligations associated with its financial liabilities. The Newco Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Newco Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The Newco Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly. The Newco Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

For certain banking facilities of HK\$2.5 million granted from one of Titron Industries' bankers, Titron Industries has contravened an undertaking that any dividend declared should be less than 50% of the net profit for the year ended 31 December 2010. Of this bank facility, approximately HK\$498,000 and HK\$917,000 had been utilised at 31 December 2010 and 31 March 2011 respectively. In July 2011, the annual credit facility with this banker has been renewed and the bank agreed to waive this condition.

At 31 December 2008, 2009 and 2010 and 31 March 2011, the Newco Group’s financial liabilities have contractual maturities which were summarised below:

	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 3 months or on demand <i>HK\$'000</i>	More than 3 months but less than 1 year <i>HK\$'000</i>	More than 1 year but less than 5 years <i>HK\$'000</i>
At 31 December 2008					
Trade and other payables	15,230	15,230	15,230	–	–
Trust receipts loans	2,208	2,208	2,208	–	–
Amounts due to related parties	13,004	13,004	13,004	–	–
Amounts due to shareholders	12,491	12,491	12,491	–	–
	<u>42,933</u>	<u>42,933</u>	<u>42,933</u>	<u>–</u>	<u>–</u>
At 31 December 2009					
Trade and other payables	34,768	34,768	34,768	–	–
Trust receipts loans	6,469	6,469	6,469	–	–
Bank overdrafts	382	382	382	–	–
Amounts due to related parties	15,546	15,546	15,546	–	–
Amounts due to shareholders	10,989	10,989	10,989	–	–
	<u>68,154</u>	<u>68,154</u>	<u>68,154</u>	<u>–</u>	<u>–</u>

	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 3 months or on demand <i>HK\$'000</i>	More than 3 months but less than 1 year <i>HK\$'000</i>	More than 1 year but less than 5 years <i>HK\$'000</i>
At 31 December 2010					
Trade and other payables	20,908	20,908	20,908	–	–
Trust receipts loans	12,980	12,980	12,980	–	–
Finance lease liabilities	832	910	56	167	687
Amounts due to related parties	15,791	15,791	15,791	–	–
Amounts due to shareholders	4,837	4,837	4,837	–	–
Dividend payables	10,000	10,000	10,000	–	–
	<u>65,348</u>	<u>65,426</u>	<u>64,572</u>	<u>167</u>	<u>687</u>

	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 3 months or on demand <i>HK\$'000</i>	More than 3 months but less than 1 year <i>HK\$'000</i>	More than 1 year but less than 5 years <i>HK\$'000</i>
At 31 March 2011					
Trade and other payables	19,047	19,047	19,047	–	–
Trust receipts loans	16,138	16,138	16,138	–	–
Finance lease liabilities	781	839	56	167	616
Bank overdrafts	943	943	943	–	–
Amounts due to shareholders	611	611	611	–	–
Dividend payables	3,000	3,000	3,000	–	–
	<u>40,520</u>	<u>40,578</u>	<u>39,795</u>	<u>167</u>	<u>616</u>

30.5 Fair value

The management of the Newco considers the fair values of the Newco Group’s financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments.

30.6 Summary of financial assets and liabilities by category

The carrying amounts of the Newco Group’s financial assets and liabilities as recognised at the reporting date are categorised as follows. See notes 4(f) and 4(i) for explanations about how the categorisation of financial instruments affects their subsequent measurements.

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Available-for-sale financial assets	–	1,029	1,080	1,101
Loans and receivables:				
Trade and other receivables	41,063	43,693	44,477	36,491
Amounts due from related parties	5,954	9,619	12,327	629
Amounts due from shareholders	–	790	764	–
Pledged time deposits	–	–	2,036	2,036
Bank and cash balances	1,488	11,718	10,096	3,990
	<u>48,505</u>	<u>66,849</u>	<u>70,780</u>	<u>44,247</u>

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Financial liabilities				
Financial liabilities measured				
at amortised cost:				
Trade and other payables	15,230	34,768	20,908	19,047
Trust receipts loans	2,208	6,469	12,980	16,138
Finance lease liabilities	–	–	832	781
Bank overdrafts	–	382	–	943
Amounts due to related parties	13,004	15,546	15,791	–
Amounts due to shareholders	12,491	10,989	4,837	611
Dividend payables	–	–	10,000	3,000
	<u>42,933</u>	<u>68,154</u>	<u>65,348</u>	<u>40,520</u>

30.7 Fair value measurements recognised in the combined statements of financial position

The following table presents financial assets and liabilities measured at fair value in the combined statements of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived form prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the combined statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2008				
Assets				
Available-for-sale financial assets				
– Listed securities	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December 2009				
Assets				
Available-for-sale financial assets				
– Listed securities	<u>1,029</u>	<u>–</u>	<u>–</u>	<u>1,029</u>
At 31 December 2010				
Assets				
Available-for-sale financial assets				
– Listed securities	<u>1,080</u>	<u>–</u>	<u>–</u>	<u>1,080</u>
At 31 March 2011				
Assets				
Available-for-sale financial assets				
– Listed securities	<u>1,101</u>	<u>–</u>	<u>–</u>	<u>1,101</u>

There have been no significant transfers between levels 1 and 2 in the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

Listed securities

The listed equity securities are denominated in HK\$. Fair values have been determined by reference to their quoted bid prices at the reporting date.

31. Capital management

The Newco Group's objectives when managing capital are:

- To safeguard the Newco Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Newco Group's stability and growth; and
- To provide capital for the purpose of strengthening the Newco Group's risk management capability.

The Newco Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Newco Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Newco Group currently does not adopt any formal dividend policy.

III. SUBSEQUENT EVENTS

No significant event has been noted for the Newco Group in respect of any period subsequent to 31 March 2011.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Newco Group in respect of any period subsequent to 31 December 2010.

Yours faithfully

BDO Limited

Certified Public Accountants

Jonathan Russell Leong

Practising Certificate Number P03246

Hong Kong

B. MANAGEMENT DISCUSSION AND ANALYSIS OF NEWCO GROUP**(i) For the year ended 31 December 2008*****Business review***

For the year ended 31 December 2008, the Newco Group comprised of (i) Titron Industries, a company incorporated in Hong Kong on 3 December 1999; (ii) Titron International, a company incorporated in Hong Kong on 6 February 2002; and (iii) Titron Manufacturing, a company incorporated in Hong Kong on 17 June 2008.

During the year ended 31 December 2008, the Newco Group has been engaged in (i) trading of plastic products including but not limited to DVD boxes, a variety of household products and accessories of telecommunication products; and (ii) fabrication of moulds.

In view of the promising prospect of the industry of medical devices, the Newco Group evolved to position themselves in the medical devices manufacturing industry by enhancement of their production facilities and production procedures in order to meet the stringent qualification requirements and approval from regulatory authorities (e.g. FDA).

Financial performance

For the year ended 31 December 2008, Newco Group recorded revenue, gross profit and other incomes of approximately HK\$147.1 million, HK\$21.8 million and HK\$3.0 million respectively. Its administrative expenses amounted to approximately HK\$24.0 million and it recorded a net profit of approximately HK\$0.5 million for the year ended 31 December 2008.

Liquidity and financial resources

Newco Group mainly financed its operations by its internal resources and advances from related parties and shareholders. As at 31 December 2008, amounts due to related parties and shareholders were approximately HK\$13.0 million and HK\$12.5 million respectively.

Treasury management

Newco Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the treasury activities of Newco Group are centralised.

During the year ended 31 December 2008, receipts of Newco Group were mainly denominated in US dollars and HK dollars. Payments were mainly made in US dollars and HK dollars.

The objective of treasury policies of Newco Group was to minimize risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. Newco Group did not have any significant interest rate risk in 2008 as both the borrowings of Newco Group and the interest rates remained at a low level. In terms of the foreign exchange exposures, Newco Group was principally exposed to two major currencies, namely the US dollars in terms of receipts and the Renminbi in terms of the production costs in the PRC.

Given that the HK dollars remain pegged to the US dollars, the exchange fluctuation was not expected to be significant. In addition, as most of Newco Group's purchases made in US dollars and HK dollars were paid out of Newco Group's sales receipts in US dollars, the management is of the view that the foreign exchange exposure risk for the US dollars is not material.

As for Renminbi exposure, Newco Group's production costs were paid in Renminbi, Newco Group's production costs increased due to the appreciation of Renminbi. During the year ended 31 December 2008, no financial instruments for hedging purposes were used by Newco Group.

Net current assets

As at 31 December 2008, Newco Group had net current assets of approximately HK\$13.6 million. Current assets of approximately HK\$56.9 million mainly represented trade and other receivables of approximately HK\$41.3 million, inventories of approximately HK\$8.1 million and amounts due from related parties of approximately HK\$6.0 million. Current liabilities of approximately HK\$43.3 million mainly represented trade and other payables of approximately HK\$15.6 million, amount due to related parties of approximately HK\$13.0 million and amounts due to shareholders of approximately HK\$12.5 million.

Bank and cash balances

As at 31 December 2008, the bank and cash balances of Newco Group amounted to approximately HK\$1.5 million. Bank and cash balances were mainly held in US dollars and HK dollars. Details of bank and cash balances are set out in note 21 to the Accountants' Report of Newco Group contained in this appendix.

Borrowings

As at 31 December 2008, the trust receipts loans of approximately HK\$2.2 million were denominated in US dollars and HK dollars and repayable within one year. The interest rate of the trust receipts loan was approximately 5% to 6% per annum.

Gearing ratio

As at 31 December 2008, the gearing ratio of Newco Group, calculated as a percentage of its total interest-bearing borrowings to its total assets, was approximately 3.8%.

Details of charge on assets

As at 31 December 2008, Newco Group did not have any pledge of or created any security over its assets.

Contingent liabilities

As at 31 December 2008, Newco Group did not have any contingent liabilities.

Capital commitments

As at 31 December 2008, Newco Group's capital commitments contracted but not provided for in respect of the purchase of property, plant and equipment was approximately HK\$0.2 million.

Credit risk

As at 31 December 2008, Newco Group had no significant concentration of credit risks.

Material acquisition and disposal of subsidiaries and associated companies

During the year ended 31 December 2008, there were no material acquisition and disposal of subsidiaries and associated companies.

Material investments

Newco Group did not hold any significant investment as at 31 December 2008.

Staff remuneration policy

Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the year ended 31 December 2008, Newco Group had also provided other benefits such as medical insurance coverage.

As at 31 December 2008, the number of employee of Newco Group was 25. For the year ended 31 December 2008, total staff costs of Newco Group amounted to approximately HK\$7.7 million.

(ii) For the year ended 31 December 2009***Business review***

For the year ended 31 December 2009, Newco Group comprised of (i) Titron Industries, a company incorporated in Hong Kong on 3 December 1999; (ii) Titron International, a company incorporated in Hong Kong on 6 February 2002; (iii) Titron Manufacturing, a company incorporated in Hong Kong on 17 June 2008; and (iv) Yong Li, a wholly foreign-owned enterprise in the PRC and subsidiary of Titron Industries established on 2 September 2009.

During the year ended 31 December 2009, the Newco Group has been engaged in (i) manufacturing and trading of plastic products including but not limited to DVD boxes, a variety of household products and cosmetic display units; and (ii) fabrication of moulds for components of lancet devices.

In 2009, Titron International, a member of the Newco Group has become the qualified suppliers for the sale of components of disposal lancet devices after passing the compliance audits performed by end customers of an FDA registered, ISO 13485:2003 certified engineering and manufacturing outsource service company in the United States. No revenue was generated from sales of lancet devices as the Newco Group has not commenced the production of components/lancet devices, it mainly focused on the fabrication/qualification of moulds, training, assembly qualification, quality audits pre-production preparatory protocols.

Financial performance

For the year ended 31 December 2009, Newco Group recorded revenue, gross profit and other incomes of approximately HK\$143.4 million, HK\$28.3 million and HK\$2.9 million respectively. Its administrative expenses amounted to approximately HK\$29.1 million and it recorded a net profit of approximately HK\$1.6 million for the year ended 31 December 2009.

Liquidity and financial resources

Newco Group mainly financed its operations by its internal resources and advances from related parties and shareholders. As at 31 December 2009, amounts due to related parties and shareholders were approximately HK\$15.5 and HK\$11.0 million respectively.

Treasury management

Newco Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the treasury activities of Newco Group are centralised.

During the year ended 31 December 2009, receipts of Newco Group were mainly denominated in US dollars and HK dollars. Payments were mainly made in US dollars and HK dollars.

The objective of treasury policies of Newco Group was to minimize risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. Newco Group did not have any significant interest rate risk in 2009 as both the borrowings of Newco Group and the interest rates remained at a low level. In terms of the foreign exchange exposures, Newco Group was principally exposed to two major currencies, namely the US dollars in terms of receipts and the Renminbi in terms of the production costs in the PRC.

Given that the HK dollars remain pegged to the US dollars, the exchange fluctuation was not expected to be significant. In addition, as most of Newco Group's purchases made in US dollars and HK dollars were paid out of Newco Group's sales receipts in US dollars, the management is of the view that the foreign exchange exposure risk for the US dollars is not material.

As for Renminbi exposure, Newco Group's production costs were paid in Renminbi, Newco Group's production costs increased due to the appreciation of Renminbi. During the year ended 31 December 2009, no financial instruments for hedging purposes were used by Newco Group.

Net current assets

As at 31 December 2009, the Newco Group had net current assets of approximately HK\$9.3 million. Current assets of approximately HK\$77.6 million mainly represented trade and other receivables of approximately HK\$44.0 million, bank and cash balances of approximately HK\$11.7 million and inventories of approximately HK\$11.5 million. Current liabilities of approximately HK\$68.3 million mainly represented trade and other payables of approximately HK\$34.8 million, amount due to related parties of approximately HK\$15.5 million and amounts due to shareholders of approximately HK\$11.0 million.

Bank and cash balances

As at 31 December 2009, the bank and cash balances of Newco Group amounted to approximately HK\$11.7 million. Bank and cash balances were mainly held in US dollars and HK dollars. Details of bank and cash balances are set out in note 20 to the Accountants' Report of Newco Group contained in this appendix.

Borrowings

As at 31 December 2009, the trust receipts loans of approximately HK\$6.5 million and bank overdraft of approximately HK\$0.4 million were denominated in US dollars and HK dollars and repayable within one year. The interest rate of the trust receipts loan was approximately 4% to 6% per annum.

Gearing ratio

As at 31 December 2009, the gearing ratio of Newco Group, calculated as a percentage of its total interest-bearing borrowings to its total assets, was approximately 8.1%.

Details of charge on assets

As at 31 December 2009, Newco Group did not have any pledge of or created any security over its assets.

Contingent liabilities

As at 31 December 2009, Newco Group did not have any contingent liabilities.

Capital commitments

As at 31 December 2009, Newco Group did not have any capital commitments.

Credit risk

As at 31 December 2009, Newco Group had no significant concentration of credit risks.

Material acquisition and disposal of subsidiaries and associated companies

During the year ended 31 December 2009, there were no material acquisition and disposal of subsidiaries and associated companies.

Material investments

Newco Group did not hold any significant investment as at 31 December 2009.

Staff remuneration policy

Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the year ended 31 December 2009, Newco Group had also provided other benefits such as medical insurance coverage.

As at 31 December 2009, the number of employee of Newco Group was 32. For the year ended 31 December 2009, total staff costs of Newco Group amounted to approximately HK\$15.3 million.

(iii) For the year ended 31 December 2010***Business review***

For the year ended 31 December 2010, the Newco Group comprised of (i) Titron Industries, a company incorporated in Hong Kong on 3 December 1999; (ii) Titron International, a company incorporated in Hong Kong on 6 February 2002; (iii) Titron Manufacturing, a company incorporated in Hong Kong on 17 June 2008; (iv) Yong Li, a wholly-foreign owned enterprise in the PRC and subsidiary of Titron Industries established on 2 September 2009; and (v) Titron Precision, a company incorporated in Hong Kong on 25 November 2010.

During the year ended 31 December 2010, the Newco Group has been engaged in manufacturing and sales of plastic products including but not limited to DVD boxes, a variety of household products, cosmetic display units and components of disposal lancet devices.

After passing the compliance audits performed by end customers of an FDA registered, ISO 13485:2003 certified engineering and manufacturing outsource service company in the United States in 2009, the Newco Group commenced moulding of lancet components in the first quarter of 2010. Full production of lancet devices (i.e. moulding and assembly) was commenced in the fourth quarter of 2010 upon the completion of assembly validation.

Financial performance

For the year ended 31 December 2010, Newco Group recorded revenue, gross profit and other incomes of approximately HK\$150.1 million, HK\$40.9 million and HK\$3.5 million respectively. Its administrative expenses amounted to approximately HK\$31.9 million. Newco Group recorded a net profit of approximately HK\$11.2 million for the year ended 31 December 2010.

Liquidity and financial resources

Newco Group mainly financed its operations by its internal resources and advances from related parties and shareholders. As at 31 December 2010, amounts due to related parties and shareholders were approximately HK\$15.8 million and HK\$4.8 million respectively.

Treasury management

Newco Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the treasury activities of Newco Group are centralised.

During the year ended 31 December 2010, receipts of the Newco Group were mainly denominated in US dollars and HK dollars. Payments were mainly made in US dollars and HK dollars.

The objective of treasury policies of Newco Group was to minimize risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. Newco Group did not have any significant interest rate risk in 2010 as both the borrowings of Newco Group and the interest rates remained at a low level. In terms of the foreign exchange exposures, Newco Group was principally exposed to two major currencies, namely the US dollars in terms of receipts and the Renminbi in terms of the production costs in the PRC.

Given that the HK dollars remain pegged to the US dollars, the exchange fluctuation was not expected to be significant. In addition, as most of Newco Group's purchases made in US dollars and HK dollars were paid out of Newco Group's sales receipts in US dollars, the management is of the view that the foreign exchange exposure risk for the US dollars is not material.

As for Renminbi exposure, Newco Group's production costs were paid in Renminbi, Newco Group's production costs increased due to the appreciation of Renminbi. During the year ended 31 December 2010, no financial instruments for hedging purposes were used by Newco Group.

Net current assets

As at 31 December 2010, Newco Group had net current assets of approximately HK\$8.9 million. Current assets of approximately HK\$75.1 million mainly represented trade and other receivables of approximately HK\$45.0 million, amounts due from related parties of approximately HK\$12.3 million and bank and cash balances of approximately HK\$10.1 million. Current liabilities of approximately HK\$66.2 million mainly represented trade and other payables of approximately HK\$21.3 million, amount due to related parties of approximately HK\$15.8 million, borrowings of approximately HK\$13.0, and dividend payables of HK\$10 million.

Bank and cash balances and pledged time deposits

As at 31 December 2010, the bank and cash balances and pledged time deposits were approximately HK\$10.1 million HK\$2.0 million. Bank and cash balances and pledged time deposits were mainly held in US dollars, HK dollars and RMB. Pledged time deposits was pledged to secure banking facilities of Newco Group. Details of bank and cash balances and pledged time deposits are set out in note 21 to the Accountants' Report of Newco Group contained in this appendix.

Borrowings

As at 31 December 2010, the trust receipts loans of approximately HK\$13.0 million were denominated in US dollars and HK dollars. The interest rate of the trust receipts loan was approximately 3.5% to 5.5% per annum.

Gearing ratio

As at 31 December 2010, the gearing ratio of Newco Group, calculated as a percentage of its total interest-bearing borrowings to its total assets, was approximately 15.4%.

Details of charge on assets

Save as disclosed above, as at 31 December 2010, Newco Group did not have any pledge of or created any security over its assets.

Contingent liabilities

As at 31 December 2010, Newco Group did not have any contingent liabilities.

Related party transaction

For the year ended 31 December 2010, the related party transactions include (i) commission income of approximately HK\$1.4 million from Jackin Trading Limited ("Jackin Trading"); (ii) sales of raw materials of approximately HK\$12,000 to Titron Technology Limited ("Titron Technology"); and (iii) sales of raw materials of approximately HK\$675,000 to Titron Communication Limited ("Titron Communication").

Since Jackin Trading is an indirectly wholly-owned subsidiary of the Company, the transaction between Jackin Trading and the Newco Group will be eliminated on a consolidated basis after the Completion and, therefore, will not constitute connected transactions/continuing connected transactions after the Completion.

The transaction between Titron Technology and the Newco Group is insignificant during the year ended 31 December 2010 and there was no transaction between these two parties during the three months ended 31 March 2011. The Company expects that there will not be any transactions between Titron Technology and the Company in the foreseeable future. Thus, no connected transactions/continuing connected transactions will be resulted after the Completion.

The transaction between Titron Communication and the Newco Group is insignificant during the three months ended 31 March 2011. The Company is of the view that the transaction between Titron Communication and the Newco Group will cease upon the Completion and therefore it will not constitute the connected transactions/continuing connected transaction under Chapter 14A of the Listing Rules upon the Completion.

Capital commitments

As at 31 December 2010, Newco Group's capital commitments contracted but not provided for in respect of the purchase of property, plant and equipment was approximately HK\$2.7 million.

Credit risk

As at 31 December 2010, Newco Group had no significant concentration of credit risks.

Material acquisition and disposal of subsidiaries and associated companies

During the year ended 31 December 2010, there were no material acquisition and disposal of subsidiaries and associated companies.

Material investments

Newco Group did not hold any significant investment as at 31 December 2010.

Staff remuneration policy

Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the year ended 31 December 2010, Newco Group had also provided other benefits such as medical insurance coverage.

As at 31 December 2010, the number of employee of Newco Group was 45. For the year ended 31 December 2010, total staff costs of Newco Group amounted to approximately HK\$15.5 million.

(iv) For the period ended 31 March 2011***Business review***

For the three months ended 31 March 2011, the Newco Group comprised of (i) Titron Industries, a company incorporated in Hong Kong on 3 December 1999; (ii) Titron International, a company incorporated in Hong Kong on 6 February 2002; (iii) Titron Manufacturing, a company incorporated in Hong Kong on 17 June 2008; (iv) Yong Li, a wholly-foreign owned enterprise in the PRC and subsidiary of Titron Industries established on 2 September 2009; (v) Titron Precision, a company incorporated in Hong Kong on 25 November 2010; and (vi) Dongguan Yi Deng Ke, a wholly-foreign owned enterprise in the PRC and subsidiary of Titron Precision established on 1 March 2011.

During the period ended 31 March 2011, the Newco Group has been engaged in manufacturing and sales of plastic products including but not limited to DVD boxes, a variety of household products, cosmetic display units and components of disposal lancet devices.

Financial performance

For the period ended 31 March 2011, Newco Group recorded revenue, gross profit and other incomes of approximately HK\$37.5 million, HK\$9.4 million and HK\$0.6 million respectively. Its administrative expenses amounted to approximately HK\$8.7 million. Newco Group recorded a net profit of approximately HK\$0.9 million for the period ended 31 March 2011. The fact that Newco Group's revenue was less than 25% of the annual result of 2010 was due to the seasonal factor. The first quarter is traditionally a low season, primarily attributable to the long Chinese New Year holidays during which the factories in the PRC are temporary closed for up to two weeks and thus the production volume and sales were comparatively lower as compared with the other quarters.

Liquidity and financial resources

Newco Group mainly financed its operations by its internal resources.

Treasury management

Newco Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the treasury activities of Newco Group are centralised.

During the period ended 31 March 2011, receipts of Newco Group were mainly denominated in US dollars and HK dollars. Payments were mainly made in US dollars and HK dollars.

The objective of treasury policies of Newco Group was to minimize risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. Newco Group did not have any significant interest rate risk in 2011 as both the borrowings of Newco Group and the interest rates remained at a low level. In terms of the foreign exchange exposures, Newco Group was principally exposed to two major currencies, namely the US dollars in terms of receipts and the Renminbi in terms of the production costs in the PRC.

Given that the HK dollars remain pegged to the US dollars, the exchange fluctuation was not expected to be significant. In addition, as most of Newco Group's purchases made in US dollars and HK dollars were paid out of Newco Group's sales receipts in US dollars, the management is of the view that the foreign exchange exposure risk for the US dollars is not material.

As for Renminbi exposure, Newco Group's production costs were paid in Renminbi, Newco Group's production costs increased due to the appreciation of Renminbi. During the period ended 31 March 2011, no financial instruments for hedging purposes were used by Newco Group.

Net current assets

As at 31 March 2011, Newco Group had net current assets of approximately HK\$9.3 million. Current assets of approximately HK\$51.6 million mainly represented trade and other receivables of approximately HK\$37.2 million, bank and cash balances of approximately HK\$4.0 million and pledged time deposits of approximately HK\$2.0 million. Current liabilities of approximately HK\$42.3 million mainly represented trade and other payables of approximately HK\$20.1 million, borrowings of approximately HK\$17.1 and dividend payable of HK\$3 million.

As at the Latest Practicable Date, the dividend payable amounted to HK\$1.5 million.

Bank and cash balances and pledged time deposits

As at 31 March 2011, the bank and cash balances and pledged time deposits were approximately HK\$4.0 million and HK\$2.0 million respectively. Bank and cash balances and pledged time deposits were mainly held in US dollars and HK dollars. Pledged time deposits were pledged to secure banking facilities of Newco Group. Details of bank and cash balances and pledged time deposits are set out in note 21 to the Accountants' Report of Newco Group contained in this appendix.

Borrowings

As at 31 March 2011, the trust receipts loans of approximately HK\$16.1 million and the bank overdrafts of approximately HK\$0.9 million were denominated in US dollars and HK dollars and repayable within one year. The interest rate of the trust receipts loan was approximately 3.5% to 5.5% per annum.

Gearing ratio

As at 31 March 2011, the gearing ratio of Newco Group, calculated as a percentage of its total interest-bearing borrowings to its total assets, was approximately 28.0%.

Amounts due from related parties

As at 31 March 2011, amounts due from related parties represented amounts due from Jackin Magnetic Co. Ltd (“Jackin Magnetic”) of approximately HK\$615,000 and amounts due from China Metal Trading Company Limited (“China Metal”) of approximately HK\$14,000. Since Jackin Magnetic is an indirectly wholly-owned subsidiary of the Company, the amount due from Jackin Magnetic will be eliminated on a consolidated basis upon Completion and, therefore, it will not constitute a loan from the Company to the Director upon the Completion. The amount due from China Metal of approximately HK\$14,000 will be settled prior to Completion.

Details of charge on assets

Save as disclosed above, as at 31 March 2011, Newco Group did not have any pledge of or created any security over its assets.

Contingent liabilities

As at 31 March 2011, Newco Group did not have any contingent liabilities.

Capital commitments

As at 31 March 2011, Newco Group’s capital commitments contracted but not provided for in respect of the purchase of property, plant and equipment was approximately HK\$1.2 million.

Credit risk

As at 31 March 2011, Newco Group had no significant concentration of credit risks.

Material acquisition and disposal of subsidiaries and associated companies

During the period ended 31 March 2011, there were no material acquisition and disposal of subsidiaries and associated companies.

Material investments

Newco Group did not hold any significant investment as at 31 March 2011.

Staff remuneration policy

Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the period ended 31 December 2011, Newco Group had also provided other benefits such as medical insurance coverage.

As at 31 March 2011, the number of employee of Newco Group was 46. For the period ended 31 March 2011, total staff costs of Newco Group amounted to approximately HK\$4.9 million.

A. ACCOUNTANTS' REPORT OF DONGGUAN DE YUE

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.



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12 August 2011

The Directors
Guojin Resources Holdings Limited
Units 3303 – 3304, Level 33, Tower 1
Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay, Kowloon
Hong Kong

Dear Sirs

We set out below our report on the financial information of 東莞德越電子塑膠制品有限公司(Dongguan De Yue Electronic and Plastic Products Company Limited*) (“Dongguan De Yue”) including the statements of financial position of Dongguan De Yue as at 31 December 2008, 2009 and 2010 and 31 March 2011, the statements of comprehensive income, the statements of cash flows and the statements of changes in equity for each of the three years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011 (the “Relevant Periods”) and notes thereto (hereinafter collectively referred to as the “Financial Information”), together with the unaudited financial information of Dongguan De Yue including the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the three months ended 31 March 2010 (the “31 March 2010 Corresponding Information”), prepared for inclusion in the circular (the “Circular”) dated 12 August 2011 issued by Guojin Resources Holdings Limited (the “Company”) in connection with the acquisition (the “Acquisition”) of the entire paid-in capital of Dongguan De Yue.

* The English name is for the identification purposes only.

Dongguan De Yue was incorporated and domiciled in the People’s Republic of China (the “PRC”) with limited liability on 30 May 2007. The principal activities of Dongguan De Yue are manufacturing of DVD boxes and related components and trading of plastic products. The address of Dongguan De Yue’s registered office and its principal place of business are 18 Cuihua Street, Fushanchangfa Industrial Zone, Liaobu Town, Dongguan, Guangdong, the PRC. The sole director of Dongguan De Yue considers the ultimate holding company to be Chelin International Limited, a limited liability company which incorporated and domiciled in Hong Kong.

The statutory financial statements of Dongguan De Yue were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC.

Financial period	Statutory auditor
Years ended 31 December 2008, 2009 and 2010	東莞市華瑞會計師事務所 (Dongguan Hua Rui Certified Public Accountants*)

No statutory audited financial statements have been prepared in respect of any period subsequent to 31 December 2010.

For the purpose of this report, the sole director of Dongguan De Yue has prepared the financial statements (the “Underlying Financial Statements”) of Dongguan De Yue for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information for the Relevant Periods as set out in this report has been prepared by the sole director of Dongguan De Yue based on the Underlying Financial Statements with no adjustments thereto and in accordance with HKFRSs. Additional disclosures have been made for the purposes of this report to conform with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The sole director of Dongguan De Yue is responsible for the preparation of the Financial Information which gives a true and fair view. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the Company are responsible for the Financial Information presented in this report and the contents of the Circular in which this report is included. Our responsibility is to form an opinion on the Financial Information based on our procedures.

* The English name is for the identification purposes only.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information of Dongguan De Yue and carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

For the purpose of this report, we have reviewed the 31 March 2010 Corresponding Information, which has been prepared in accordance with HKFRSs and for which the sole director of the Dongguan De Yue is responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our responsibility is to express a conclusion on the 31 March 2010 Corresponding Information based on our review. A review principally consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the 31 March 2010 Corresponding Information. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 March 2010 Corresponding Information.

OPINION AND REVIEW CONCLUSION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Dongguan De Yue as at 31 December 2008, 2009 and 2010 and 31 March 2011 and of its losses and cash flows for the Relevant Periods in accordance with HKFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing for Securities on The Stock Exchange of Hong Kong Limited.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 31 March 2010 Corresponding Information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies adopted in respect of the Financial Information.

APPENDIX III

FINANCIAL INFORMATION OF DONGGUAN DE YUE

I. FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Three months ended 31 March	
		2008	2009	2010	2010	2011
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
Revenue	7	–	–	19,261	–	5,645
Cost of sales		–	–	(18,625)	–	(5,372)
Gross profit		–	–	636	–	273
Other income	7	–	–	2	–	1
Administrative expenses		(46)	(267)	(2,113)	(83)	(660)
Loss before income tax	8	(46)	(267)	(1,475)	(83)	(386)
Income tax expense	9	–	–	–	–	–
Loss for the year/period		(46)	(267)	(1,475)	(83)	(386)
Other comprehensive income for the year/period						
Exchange gain on translation of financial statements		148	–	400	25	74
Total comprehensive income for the year/period		102	(267)	(1,075)	(58)	(312)

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
		2008	2009	2010	31 March
	Notes	HK\$'000	HK\$'000	HK\$'000	2011
					HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	12	–	3,038	8,235	8,389
Current assets					
Inventories	13	–	–	6,791	4,837
Other receivables		3,293	2,962	956	1,901
Bank and cash balances	14	129	2,227	814	2,357
		<u>3,422</u>	<u>5,189</u>	<u>8,561</u>	<u>9,095</u>
Current liabilities					
Trade and other payables	15	23	397	7,189	8,189
Net current assets		<u>3,399</u>	<u>4,792</u>	<u>1,372</u>	<u>906</u>
Net assets		<u>3,399</u>	<u>7,830</u>	<u>9,607</u>	<u>9,295</u>
EQUITY					
Paid-in capital	16	3,250	7,948	10,800	10,800
Accumulated losses		(46)	(313)	(1,788)	(2,174)
Exchange reserve		195	195	595	669
Total equity		<u>3,399</u>	<u>7,830</u>	<u>9,607</u>	<u>9,295</u>

STATEMENTS OF CASH FLOWS

		Year ended 31 December			Three months ended 31 March	
		2008	2009	2010	2010	2011
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
Cash flows from operating activities						
Loss before income tax		(46)	(267)	(1,475)	(83)	(386)
Adjustments for:						
Interest income	7	–	–	(2)	–	(1)
Depreciation	8	–	300	767	79	234
Impairment loss on property, plant and equipment	8	–	–	520	–	–
Operating (loss)/profit before working capital changes		(46)	33	(190)	(4)	(153)
(Increase)/decrease in inventories		–	–	(6,791)	–	2,005
(Increase)/decrease in other receivables		(1,868)	332	2,126	(81)	(938)
(Decrease)/increase in trade and other payables		(1)	369	6,776	117	946
<i>Net cash (used in)/generated from operating activities</i>		<u>(1,915)</u>	<u>734</u>	<u>1,921</u>	<u>32</u>	<u>1,860</u>
Cash flows from investing activities						
Payments to acquire property, plant and equipment	12	–	(3,334)	(6,219)	(395)	(323)
Interest received		–	–	2	–	1
<i>Net cash used in investing activities</i>		<u>–</u>	<u>(3,334)</u>	<u>(6,217)</u>	<u>(395)</u>	<u>(322)</u>
Cash flows from financing activities						
Capital injections	16	<u>1,750</u>	<u>4,698</u>	<u>2,852</u>	<u>–</u>	<u>–</u>
<i>Net cash generated from financing activities</i>		<u>1,750</u>	<u>4,698</u>	<u>2,852</u>	<u>–</u>	<u>–</u>
Net (decrease)/increase in cash and cash equivalents		(165)	2,098	(1,444)	(363)	1,538
Effects of Exchange difference, net		8	–	31	6	5
Cash and cash equivalents at the beginning of year/period		<u>286</u>	<u>129</u>	<u>2,227</u>	<u>2,227</u>	<u>814</u>
Cash and cash equivalents at the end of year/period		<u><u>129</u></u>	<u><u>2,227</u></u>	<u><u>814</u></u>	<u><u>1,870</u></u>	<u><u>2,357</u></u>
Analysis of the balances of cash and cash equivalents						
Bank and cash balances	14	<u><u>129</u></u>	<u><u>2,227</u></u>	<u><u>814</u></u>	<u><u>1,870</u></u>	<u><u>2,357</u></u>

STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2008	1,500	–	47	1,547
Capital injections	1,750	–	–	1,750
Transactions with owners	1,750	–	–	1,750
Loss for the year	–	(46)	–	(46)
Other comprehensive income for the year				
Exchange gain on translation of financial statements	–	–	148	148
Total comprehensive income for the year	–	(46)	148	102
Balance at 31 December 2008 and 1 January 2009	3,250	(46)	195	3,399
Capital injections	4,698	–	–	4,698
Transactions with owners	4,698	–	–	4,698
Loss for the year and total comprehensive income for the year	–	(267)	–	(267)
Balance at 31 December 2009 and 1 January 2010	7,948	(313)	195	7,830
Capital injections	2,852	–	–	2,852
Transactions with owners	2,852	–	–	2,852
Loss for the year	–	(1,475)	–	(1,475)
Other comprehensive income for the year				
Exchange gain on translation of financial statements	–	–	400	400
Total comprehensive income for the year	–	(1,475)	400	(1,075)
Balance at 31 December 2010 and 1 January 2011	10,800	(1,788)	595	9,607
Loss for the period	–	(386)	–	(386)
Other comprehensive income for the period				
Exchange gain on translation of financial statements	–	–	74	74
Total comprehensive income for the period	–	(386)	74	(312)
Balance at 31 March 2011	10,800	(2,174)	669	9,295

APPENDIX III

FINANCIAL INFORMATION OF DONGGUAN DE YUE

	Share capital <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
(Unaudited)				
Balance at 1 January 2010	7,948	(313)	195	7,830
Loss for the period	–	(83)	–	(83)
Other comprehensive income for the period				
Exchange gain on translation of financial statements	<u>–</u>	<u>–</u>	<u>25</u>	<u>25</u>
Total comprehensive income for the period	<u>–</u>	<u>(83)</u>	<u>25</u>	<u>(58)</u>
Balance at 31 March 2010 (unaudited)	<u><u>7,948</u></u>	<u><u>(396)</u></u>	<u><u>220</u></u>	<u><u>7,772</u></u>

II. NOTES TO THE FINANCIAL INFORMATION**1. General information**

Dongguan De Yue was incorporated and domiciled in the PRC with limited liability on 30 May 2007 with registered capital of HK\$10,800,000. The principal activities of Dongguan De Yue are manufacturing of DVD boxes and related components and trading of plastic products. The address of Dongguan De Yue's registered office and its principal place of business are 18 Cuihua Street, Fushanchangfa Industrial Zone, Liaobu Town, Dongguan, Guangdong, the PRC. The sole director of Dongguan De Yue considers the ultimate holding company to be Chelin International Limited, a limited liability company which incorporated and domiciled in Hong Kong.

2. Adoption of new and amended HKFRSs

During the Relevant Periods, Dongguan De Yue has adopted all the new and amended HKFRSs issued by the HKICPA, which are relevant to Dongguan De Yue and effective for the reporting period. HKFRS 1 "First-time Adoption of HKFRS" has been applied in preparing the Financial Information. The Financial Information is the first set of financial statements prepared in accordance with HKFRSs by Dongguan De Yue.

At the date of this report, certain new and amended HKFRSs have been published but not yet effective, and have not been early adopted by Dongguan De Yue.

The sole director of Dongguan De Yue anticipates that all of the pronouncements will be adopted in Dongguan De Yue's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on Dongguan De Yue's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of Dongguan De Yue's financial statements.

Hong Kong Financial Reporting Standard (“HKFRS”) 9 Financial instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. The sole director of Dongguan De Yue is currently assessing the possible impact of the new standard on Dongguan De Yue’s results and financial position in the first year of application.

3. Basis of preparation

The Financial Information sets out in this report have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and have been consistently applied throughout the Relevant Periods. The Financial Information also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The significant accounting policies that have been used in the preparation of the Financial Information are summarised below. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

The Financial Information has been prepared on historical cost convention. The measurement bases are fully described in the accounting policies below.

The functional currency of Dongguan De Yue is Renminbi (“RMB”). However, the Financial Information is presented in Hong Kong Dollars (“HK\$”) to facilitate the presentations of such information in the Circular to be issued by Guojin Resources Holdings Limited. All values are rounded to nearest thousand except when otherwise stated.

It should be noted that accounting estimates and assumptions are used in preparation of the Financial Information. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 5.

4. **Summary of significant accounting policies**

(a) Foreign currency translation

Foreign currency transactions are translated into the functional currency of Dongguan De Yue using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(b) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost over their estimated useful lives less any estimated residual value, using the straight-line method, at the following rates per annum:

Moulds and machineries	9%
Office equipment	18%
Motor vehicles	22½%

The assets’ depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Dongguan De Yue and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(c) Financial assets

Dongguan De Yue classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, Dongguan De Yue becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of Dongguan De Yue about one or more of the following loss events:

- Significant financial difficulty of the debtors;
- A breach of contract, such as a default of delinquency in interest for principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtors; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors of Dongguan De Yue and, national or local economic conditions that correlate with defaults on the assets of Dongguan De Yue.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(d) *Inventories*

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

(e) *Cash and cash equivalents*

Cash and cash equivalents include cash at bank and in hand and demand deposits with bank that form an integral part of Dongguan De Yue’s cash management.

(f) *Financial liabilities*

Dongguan De Yue’s financial liabilities include trade and other payables.

Financial liabilities are recognised when Dongguan De Yue becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with Dongguan De Yue’s accounting policy for borrowing cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

(g) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if Dongguan De Yue determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where Dongguan De Yue has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(h) Share capital

Paid in capital is classified as equity.

(i) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and the use by others of Dongguan De Yue's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to Dongguan De Yue and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time proportion basis using the effective interest method.

(j) Impairment on non-financial assets

Property, plant and equipment are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

(k) Retirement benefit costs and short-term employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as expenses when the employees render the services entitling them to the contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(l) Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit/loss for the year/period. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited directly to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) Dongguan De Yue has the legally enforceable right to set off the recognised amounts; and
- (b) Dongguan De Yue intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Dongguan De Yue presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(m) Related parties

A party is considered to be related to Dongguan De Yue if:

- (a) the party has the ability, directly or indirectly through one or more intermediaries, to control Dongguan De Yue or exercise significant influence over Dongguan De Yue in making financial and operating policy decisions, or has joint control over Dongguan De Yue;
- (b) Dongguan De Yue and the party are subject to common control;
- (c) the party is an associate of Dongguan De Yue or a joint venture in which Dongguan De Yue is a venturer;
- (d) the party is a member of key management personnel of Dongguan De Yue or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (e) the party is a close family member of a party referred to in (a) or is an entity under the control, joint control or significant influence of such individuals; or

- (f) the party is a post-employment benefit plan which is for the benefit of employees of Dongguan De Yue, or of any entity that is a related party of Dongguan De Yue.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Dongguan De Yue makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(i) Useful lives of property, plant and equipment

Dongguan De Yue's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation expense in the future periods.

(ii) Impairment of receivables

Dongguan De Yue's management reviews receivables on a regular basis to determine if any provision for impairment is necessary. This estimate is based on the credit history of its customers, past settlement and industry practice and current market conditions. Management reassesses the impairment of receivables at each reporting date.

(iii) Carrying value of inventories

The carrying value of inventories is the lower of cost and net realisable value (“NRV”). Judgement is required to determine the NRV of inventories, which is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the reporting date.

(iv) Tax provision

Dongguan De Yue is subject to enterprise income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Dongguan De Yue recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such final tax liabilities determination is made.

6. Segment information

Based on the internal reports reviewed by the sole director of Dongguan De Yue that are used to make strategic decisions, the only operating segment of Dongguan De Yue is manufacturing of DVD boxes and related components and trading of plastic products. No separate analysis of reportable segment revenues, result, assets and liabilities by operating segment are presented.

During the year ended 31 December 2010 and three months ended 31 March 2011, Dongguan De Yue’s revenue of approximately HK\$19,261,000 or 100% and HK\$5,645,000 or 100% respectively depended on a sole customer, Titron Manufacturing Limited, in the operating segment (Years ended 31 December 2008 and 2009 and for the three months ended 31 March 2010: Nil).

Dongguan De Yue’s non-current assets are located in the PRC. The geographical location of the non-current assets is based on the physical location of the assets.

7. Revenue and other income

Revenue, which is also Dongguan De Yue’s turnover, represents total invoiced value of goods supplied, less discounts and returns. Revenue and other income recognised during the Relevant Periods and the three months ended 31 March 2010 are as follows:

	Year ended 31 December			Three months ended 31 March	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2010 HK\$'000 (Unaudited)	2011 HK\$'000
Revenue					
Sales of goods	–	–	19,261	–	5,645
Other income					
Bank interest income	–	–	2	–	1
	–	–	19,263	–	5,646

8. Loss before income tax

	Year ended 31 December			Three months ended 31 March	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2010 HK\$'000 (Unaudited)	2011 HK\$'000
Loss before income tax is arrived at after charging:					
Auditor’s remuneration	–	–	6	–	24
Cost of inventories recognised as expense	–	–	18,625	–	5,372
Depreciation	–	300	767	79	234
Exchange loss, net	–	–	250	–	11
Impairment loss on property, plant and equipment	–	–	520	–	–
Operating lease charges in respect of rented premises	–	–	470	–	242

9. Income tax expense

During the Relevant Periods and the three months ended 31 March 2010, no provision for enterprise income tax of the PRC has been made in the Financial Information as Dongguan De Yue has no assessable profit.

Reconciliation between income tax expense and accounting loss at applicable tax rates is as follows:

	Year ended 31 December			Three months ended	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Loss before income tax	(46)	(267)	(1,475)	(83)	(386)
Tax on loss before income tax, calculated at the statutory rate of 25%	(12)	(67)	(369)	(21)	(97)
Tax effect on non-deductible expense	12	67	369	21	97
Income tax expense	-	-	-	-	-

There are no material unprovided deferred tax assets and liabilities at the reporting dates.

10. Employee benefits expense (including director's emoluments)

	Year ended 31 December			Three months ended	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries and allowances	-	-	2,338	-	898
Contributions to pension scheme	-	-	148	-	67
	-	-	2,486	-	965

11. Director’s remuneration

(a) Director’s emoluments

	Year ended 31 December			Three months ended	
	2008	2009	2010	31 March	2011
	HK\$'000	HK\$'000	HK\$'000	2010	2011
				HK\$'000	HK\$'000
				(Unaudited)	
Fees	-	-	-	-	-
Basic salaries, housing and other allowances and benefits in kind - Lai Chiu Fai	-	-	-	-	-
Contributions to pension scheme - Lai Chiu Fai	-	-	-	-	-
	-	-	-	-	-

No compensation of any kind was paid to the sole director of Dongguan De Yue in respect of his services during the Relevant Periods and the three months ended 31 March 2010. There were no arrangements under which the sole director waived or agreed to waive any remuneration during the Relevant Periods and the three months ended 31 March 2010.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in Dongguan De Yue for the Relevant Periods and the three months ended 31 March 2010 did not include any director whose emoluments are reflected in the analysis presented above. The emoluments payable to the 5 individuals for the Relevant Periods and the three months ended 31 March 2010, which all fell within the salary of Nil – HK\$1,000,000 are as follows:

	Year ended 31 December			Three months ended	
	2008	2009	2010	31 March	2011
	HK\$'000	HK\$'000	HK\$'000	2010	2011
				HK\$'000	HK\$'000
				(Unaudited)	
Salaries and allowances	-	-	540	-	110
Contributions to pension scheme	-	-	1	-	3
	-	-	541	-	113

12. Property, plant and equipment

	Moulds and machineries <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2009				
Opening net book amount	–	–	–	–
Additions	3,290	44	–	3,334
Depreciation	(296)	(4)	–	(300)
Exchange difference	4	–	–	4
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	<u>2,998</u>	<u>40</u>	<u>–</u>	<u>3,038</u>
At 31 December 2009 and 1 January 2010				
Cost	3,295	44	–	3,339
Accumulated depreciation	<u>(297)</u>	<u>(4)</u>	<u>–</u>	<u>(301)</u>
Net book amount	<u>2,998</u>	<u>40</u>	<u>–</u>	<u>3,038</u>
Year ended 31 December 2010				
Opening net book amount	2,998	40	–	3,038
Additions	6,079	33	107	6,219
Depreciation	(744)	(11)	(12)	(767)
Impairment loss	(520)	–	–	(520)
Exchange difference	260	2	3	265
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	<u>8,073</u>	<u>64</u>	<u>98</u>	<u>8,235</u>
At 31 December 2010 and 1 January 2011				
Cost	9,665	80	110	9,855
Accumulated depreciation and impairment loss	<u>(1,592)</u>	<u>(16)</u>	<u>(12)</u>	<u>(1,620)</u>
Net book amount	<u>8,073</u>	<u>64</u>	<u>98</u>	<u>8,235</u>
Three months ended 31 March 2011				
Opening net book amount	8,073	64	98	8,235
Additions	304	19	–	323
Depreciation	(224)	(4)	(6)	(234)
Exchange difference	64	–	1	65
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net book amount	<u>8,217</u>	<u>79</u>	<u>93</u>	<u>8,389</u>

	Moulds and machineries <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 March 2011				
Cost	10,041	99	111	10,251
Accumulated depreciation and impairment loss	<u>(1,824)</u>	<u>(20)</u>	<u>(18)</u>	<u>(1,862)</u>
Net book amount	<u>8,217</u>	<u>79</u>	<u>93</u>	<u>8,389</u>
(Unaudited)				
Three months ended 31 March 2010				
Opening net book amount	2,998	40	–	3,038
Additions	395	–	–	395
Depreciation	(77)	(2)	–	(79)
Exchange difference	<u>10</u>	<u>–</u>	<u>–</u>	<u>10</u>
Closing net book amount	<u>3,326</u>	<u>38</u>	<u>–</u>	<u>3,364</u>
At 31 March 2010				
Cost	3,701	44	–	3,745
Accumulated depreciation	<u>(375)</u>	<u>(6)</u>	<u>–</u>	<u>(381)</u>
Net book amount	<u>3,326</u>	<u>38</u>	<u>–</u>	<u>3,364</u>

13. Inventories

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	–	–	2,858	1,908
Work in progress	–	–	389	334
Finished goods	<u>–</u>	<u>–</u>	<u>3,544</u>	<u>2,595</u>
	<u>–</u>	<u>–</u>	<u>6,791</u>	<u>4,837</u>

14. Bank and cash balances

Included in bank and cash balances are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	<u>–</u>	<u>2,217</u>	<u>38</u>	<u>38</u>

15. Trade and other payables

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	–	84	6,530	5,872
Other payables	23	313	10	1,860
Accrued expenses	<u>–</u>	<u>–</u>	<u>649</u>	<u>457</u>
	<u>23</u>	<u>397</u>	<u>7,189</u>	<u>8,189</u>

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	<u>–</u>	<u>–</u>	<u>2,042</u>	<u>3,772</u>

The ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December			As at 31 March
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	–	84	5,495	2,262
31 – 90 days	–	–	994	1,223
91 – 365 days	–	–	41	2,387
	<u>–</u>	<u>84</u>	<u>6,530</u>	<u>5,872</u>

16. Paid-in capital

	HK\$'000
Registered capital:	
At 1 January 2008, 31 December 2008 and 31 December 2009	10,000
Additional registered capital	<u>800</u>
At 31 December 2010 and 31 March 2011	<u>10,800</u>
Paid-in capital:	
At 1 January 2008	1,500
Capital injections	<u>1,750</u>
At 31 December 2008 and 1 January 2009	3,250
Capital injections	<u>4,698</u>
At 31 December 2009 and 1 January 2010	7,948
Capital injections	<u>2,852</u>
At 31 December 2010 and 31 March 2011	<u>10,800</u>

17. Operating lease commitments

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Within one year	–	–	965	972
In the second to fifth years	–	–	1,307	1,073
	–	–	2,272	2,045

Dongguan De Yue leases a number of properties under operating leases. The leases run for an initial period of three years. None of the leases includes contingent rentals.

18. Financial risk management objectives and policies

Dongguan De Yue is exposed to a variety of financial risks which result from both its operating activities and investing activities. The financial assets of Dongguan De Yue comprise primarily other receivables and bank and cash balances. The financial liabilities of Dongguan De Yue comprise primarily trade and other payables.

The main risks arising from Dongguan De Yue's financial instruments are market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. Generally, Dongguan De Yue employs a conservative strategy regarding its risk management. As the sole director of Dongguan De Yue considers that Dongguan De Yue's exposure to market risk is kept at a minimum level, Dongguan De Yue has not used any derivatives or other instruments for hedging purposes. Dongguan De Yue does not hold or issue derivative financial instruments for trading purposes.

18.1 Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Most of Dongguan De Yue's transactions are carried out in RMB which is the functional currency of Dongguan De Yue. Exposures to currency exchange rates arise from Dongguan De Yue's overseas sales and purchases, which are primarily denominated in HK\$. Analysis of these financial assets and liabilities by other currencies is disclosed in notes 14 and 15.

The net foreign exchange reserves arising are not considered to have significant impact on Duanguan De Yue.

The policies to manage foreign currency risk have been followed by Dongguan De Yue and are considered to be effective.

18.2 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Other than deposits held in banks, Dongguan De Yue does not have significant interest-bearing financial assets. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to Dongguan De Yue.

Dongguan De Yue does not have material exposure to interest rate risk, as Dongguan De Yue has no financial liabilities of material amounts with floating interest. Sensitivity of Dongguan De Yue’s loss after income tax and accumulated losses to a reasonable change in the interest rate is assessed to be immaterial. Dongguan De Yue adopts centralised treasury policies in cash and financial management and focuses on reducing Dongguan De Yue’s overall interest expense.

18.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to Dongguan De Yue. The carrying amount of other receivables and bank and cash balances represent Dongguan De Yue’s maximum exposure to credit risk in relation to its financial assets. The objective of Dongguan De Yue’s measures to manage credit risk is to control potential exposure to recoverability problem. The bank balances are held in major financial institutions in the PRC, which management believes are of high credit quality.

Dongguan De Yue’s exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Classes of financial assets				
– carrying amounts				
Other receivables	3,293	2,962	956	1,901
Bank and cash balances	129	2,227	814	2,357
	<u>3,422</u>	<u>5,189</u>	<u>1,770</u>	<u>4,258</u>

Dongguan De Yue’s management considers that all the above financial assets that are not impaired for the reporting date are of good credit quality, including those that are past due.

None of Dongguan De Yue’s financial assets are secured by collateral or other credit enhancements.

The credit policies have been followed by Dongguan De Yue and are considered to have been effective in limiting Dongguan De Yue’s exposure to credit risk to a desirable level.

18.4 Liquidity risk

Liquidity risk relates to the risk that Dongguan De Yue will not be able to meet its obligations associated with its financial liabilities. Dongguan De Yue is exposed to liquidity risk in respect of settlement of trade and other payables and also in respect of its cash flow management. Dongguan De Yue’s objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Dongguan De Yue manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly. Dongguan De Yue maintains mainly cash to meet its liquidity requirements for up to 30-day periods.

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 3 months or on demand <i>HK\$'000</i>	More than 3 months but less than 1 year <i>HK\$'000</i>
At 31 December 2008				
Trade and other payables	<u>23</u>	<u>23</u>	<u>23</u>	<u>–</u>
At 31 December 2009				
Trade and other payables	<u>397</u>	<u>397</u>	<u>397</u>	<u>–</u>
At 31 December 2010				
Trade and other payables	<u>7,189</u>	<u>7,189</u>	<u>7,189</u>	<u>–</u>
At 31 March 2011				
Trade and other payables	<u>8,189</u>	<u>8,189</u>	<u>8,189</u>	<u>–</u>

18.5 Fair value

The sole director of Dongguan De Yue considers the fair values of Dongguan De Yue’s financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments.

18.6 Summary of financial assets and financial liabilities by category

The carrying amounts of Dongguan De Yue’s financial assets and liabilities as recognised at the reporting date are categorised as follows. See notes 4(c) and (f) for explanations about how the categorisation of financial instruments affects their subsequent measurements.

	As at 31 December			As at
	2008	2009	2010	31 March
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
Financial assets				
Loans and receivables:				
Other receivables	3,293	2,962	956	1,901
Bank and cash balances	129	2,227	814	2,357
	<u>3,422</u>	<u>5,189</u>	<u>1,770</u>	<u>4,258</u>
Financial liabilities				
Financial liabilities				
measured at				
amortised cost:				
Trade and other				
payables	<u>23</u>	<u>397</u>	<u>7,189</u>	<u>8,189</u>

19. Capital risk management

Dongguan De Yue’s objectives when managing capital are:

- To safeguard Dongguan De Yue’s ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support Dongguan De Yue’s stability and growth; and
- To provide capital for the purpose of strengthening Dongguan De Yue’s risk management capability.

Dongguan De Yue actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of Dongguan De Yue and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Dongguan De Yue currently does not adopt any formal dividend policy.

Management regards total equity as capital for capital management purpose. The amount of capital as at 31 December 2008, 2009 and 2010 and 31 March 2011 represented by net assets of approximately HK\$3,399,000, HK\$7,830,000, HK\$9,607,000, and HK\$9,295,000 respectively, which management considers as optional having considered the projected capital expenditures and the projected strategic investment opportunities.

III. SUBSEQUENT EVENTS

No significant event has been noted for Dongguan De Yue in respect of any period subsequent to 31 March 2011.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Dongguan De Yue in respect of any period subsequent to 31 December 2010.

Yours faithfully

BDO Limited

Certified Public Accountants

Jonathan Russell Leong

Practising Certificate Number P03246

Hong Kong

B. MANAGEMENT DISCUSSION AND ANALYSIS OF DONGGUAN DE YUE**(i) For the year ended 31 December 2008*****Business review***

Dongguan De Yue is a wholly-foreign-owned enterprise established in the PRC on 8 May 2007 with registered capital of HK\$10,800,000. During the year ended 31 December 2008, Dongguan De Yue has not yet commenced any business.

Financial performance

Dongguan De Yue has not yet commenced any business during the year ended 31 December 2008.

Liquidity and financial resources

During the year ended 31 December 2008, Dongguan De Yue is yet to commence operations, its working capital was financed by its paid-up capital.

Treasury management

Dongguan De Yue employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the treasury activities of Dongguan De Yue are centralised.

Dongguan De Yue has not yet commenced any business during the year ended 31 December 2008 and thus it did not encounter risks and exposures due to fluctuations in foreign currency exchange rates and interest rates. During the year ended 31 December 2008, no financial instruments for hedging purposes were used by Dongguan De Yue.

Net current assets

As at 31 December 2008, Dongguan De Yue had net current assets of approximately HK\$3.4 million. Current assets of approximately HK\$3.4 million mainly represented other receivables of approximately HK\$3.3 million. Current liabilities of approximately HK\$23,000 represented trade and other payables.

Bank and cash balances

As at 31 December 2008, the bank and cash balances of Dongguan De Yue amounted to approximately HK\$0.1 million. Bank and cash balances were held in Renminbi. Details of bank and cash balances are set out in note 14 to the Accountants' Report of Dongguan De Yue contained in this appendix.

Borrowings

As at 31 December 2008, Dongguan De Yue did not have any borrowings.

Gearing ratio

As Dongguan De Yue did not have any borrowings as at 31 December 2008, the gearing ratio, calculated as a percentage of its total interest-bearing borrowings to its total assets, is thus not applicable.

Details of charge on assets

As at 31 December 2008, Dongguan De Yue did not have any pledge of or created any security over its assets.

Contingent liabilities

As at 31 December 2008, Dongguan De Yue did not have any contingent liabilities.

Capital commitments

As at 31 December 2008, Dongguan De Yue did not have any capital commitments.

Credit risk

As at 31 December 2008, Dongguan De Yue had no significant concentration of credit risks.

Material acquisition and disposal of subsidiaries and associated companies

During the year ended 31 December 2008, there were no material acquisition and disposal of subsidiaries and associated companies.

Material investments

Dongguan De Yue did not hold any significant investment as at 31 December 2008.

Staff remuneration policy

Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the year ended 31 December 2008, Dongguan De Yue has also provided other benefits such as medical insurance coverage.

As at 31 December 2008, Dongguan De Yue did not have any employees and it did not incur any staff costs during the year.

(ii) For the year ended 31 December 2009***Business review***

Dongguan De Yue has not yet commenced any business during the year ended 31 December 2009.

Financial performance

Dongguan De Yue has not yet commenced any business during the year ended 31 December 2009.

Liquidity and financial resources

During the year ended 31 December 2009, Dongguan De Yue is yet to commence operations and its working capital was financed by its paid-up capital.

Treasury management

Dongguan De Yue employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the treasury activities of Dongguan De Yue are centralised.

Dongguan De Yue has not yet commenced any business during the year ended 31 December 2009 and thus it did not encounter risks and exposures due to fluctuations in foreign currency exchange rates and interest rates. During the year ended 31 December 2009, no financial instruments for hedging purposes were used by Dongguan De Yue.

Net current assets

As at 31 December 2009, Dongguan De Yue had net current assets of approximately HK\$4.8 million. Current assets of approximately HK\$5.2 million mainly represented other receivables of approximately HK\$3.0 million and bank and cash balances of approximately HK\$2.2 million. Current liabilities of approximately HK\$0.4 million represented trade and other payables.

Bank and cash balances

As at 31 December 2009, the bank and cash balances of Dongguan De Yue amounted to approximately HK\$2.2 million. Bank and cash balances were mainly held in HK dollars. Details of bank and cash balances are set out in note 14 to the Accountants' Report of Dongguan De Yue contained in this appendix.

Borrowings

As at 31 December 2009, Dongguan De Yue did not have any borrowings.

Gearing ratio

As Dongguan De Yue did not have any borrowings as at 31 December 2009, the gearing ratio, calculated as a percentage of its total interest-bearing borrowings to its total assets, is thus not applicable.

Details of charge on assets

As at 31 December 2009, Dongguan De Yue did not have any pledge of or created any security over its assets.

Contingent liabilities

As at 31 December 2009, Dongguan De Yue did not have any contingent liabilities.

Capital commitments

As at 31 December 2009, Dongguan De Yue did not have any capital commitments.

Credit risk

As at 31 December 2009, Dongguan De Yue had no significant concentration of credit risks.

Material acquisition and disposal of subsidiaries and associated companies

During the year ended 31 December 2009, there were no material acquisition and disposal of subsidiaries and associated companies.

Material investments

Dongguan De Yue did not hold any significant investment as at 31 December 2009.

Staff remuneration policy

Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the year ended 31 December 2009, Dongguan De Yue has also provided other benefits such as medical insurance coverage.

As at 31 December 2009, Dongguan De Yue did not have any employees and thus did not incur any staff costs during the years.

(iii) For the year ended 31 December 2010***Business review***

During the year ended 31 December 2010, Dongguan De Yue has been engaged in manufacturing of plastic products including but not limited to DVD boxes and a variety of household products.

Financial performance

For the year ended 31 December 2010, Dongguan De Yue recorded revenue and gross profit of approximately HK\$19.3 million and HK\$0.6 million respectively. Its administrative expenses amounted to approximately HK\$2.1 million and it recorded a net loss of approximately HK\$1.5 million for the year ended 31 December 2010.

Liquidity and financial resources

During the year ended 31 December 2010, Dongguan De Yue mainly financed by its operation by its paid-up capital.

Treasury management

Dongguan De Yue employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the treasury activities of Dongguan De Yue are centralised.

During the year ended 31 December 2010, both receipts and payments of Dongguan De Yue were mainly denominated in HK dollars.

The objective of treasury policies of Dongguan De Yue was to minimise risks and exposures due to the fluctuations in foreign currency exchanges rates and interest rates. Dongguan De Yue did not have any significant interest rate risk in 2010. In terms of the foreign exchange exposures, Dongguan De Yue was principally exposed to HK dollars in terms of receipts and payments. During the year ended 31 December 2010, no financial instruments for hedging purposes were used by Dongguan De Yue.

Net current assets

As at 31 December 2010, Dongguan De Yue had net current assets of approximately HK\$1.4 million. Current assets of approximately HK\$8.6 million represented inventories of approximately HK\$6.8 million, other receivables of approximately HK\$1.0 million and bank and cash balances of approximately HK\$0.8 million. Current liabilities of approximately HK\$7.2 million represented trade and other payables.

Bank and cash balances

As at 31 December 2010, the bank and cash balances of Dongguan De Yue amounted to approximately HK\$0.8 million. Bank and cash balances were mainly held in Renminbi. Details of bank and cash balances are set out in note 14 to the Accountants' Report of Dongguan De Yue contained in this appendix.

Borrowings

As at 31 December 2010, Dongguan De Yue did not have any borrowings.

Gearing ratio

As Dongguan De Yue did not have any borrowings as at 31 December 2010, the gearing ratio, calculated as a percentage of its total interest-bearing borrowings to its total assets, is thus not applicable.

Details of charge on assets

As at 31 December 2010, Dongguan De Yue did not have any pledge of or created any security over its assets.

Contingent liabilities

As at 31 December 2010, Dongguan De Yue did not have any contingent liabilities.

Capital commitments

As at 31 December 2010, Dongguan De Yue did not have any capital commitments.

Credit risk

As at 31 December 2010, Dongguan De Yue had no significant concentration of credit risks.

Material acquisition and disposal of subsidiaries and associated companies

During the year ended 31 December 2010, there were no material acquisition and disposal of subsidiaries and associated companies.

Material investments

Dongguan De Yue did not hold any significant investment as at 31 December 2010.

Staff remuneration policy

Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the year ended 31 December 2010, Dongguan De Yue has also provided other benefits such as medical insurance coverage.

As at 31 December 2010, the number of employee of Dongguan De Yue was 155. For the year ended 31 December 2010, total staff costs of Dongguan De Yue amounted to approximately HK\$2.5 million.

(iv) For the period ended 31 March 2011***Business review***

During the period ended 31 March 2011, Dongguan De Yue has been engaged in manufacturing of plastic products including but not limited to DVD boxes and a variety of household products.

Financial performance

For the period ended 31 March 2011, Dongguan De Yue recorded revenue and gross profit of approximately HK\$5.6 million and HK\$0.3 million respectively. Its administrative expenses amounted to approximately HK\$0.7 million and it recorded a net loss of approximately HK\$0.4 million for the period ended 31 March 2011.

Liquidity and financial resources

During the period ended 31 March 2011, Dongguan De Yue mainly financed by its operation by its paid-up capital.

Treasury management

Dongguan De Yue employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the treasury activities of Dongguan De Yue are centralised.

During the period ended 31 March 2011, both receipts and payments of Dongguan De Yue were mainly denominated in HK dollars.

The objective of treasury policies of Dongguan De Yue was to minimise risks and exposures due to the fluctuations in foreign currency exchanges rates and interest rates. Dongguan De Yue did not have any significant interest rate risk in 2011. In terms of the foreign exchange exposures, Dongguan De Yue was principally exposed to HK dollars in terms of receipts and payments. During the period ended 31 March 2011, no financial instruments for hedging purposes were used by Dongguan De Yue.

Net current assets

As at 31 March 2011, Dongguan De Yue had net current assets of approximately HK\$0.9 million. Current assets of approximately HK\$9.1 million represented inventories of approximately HK\$4.8 million, other receivables of approximately HK\$1.9 million and bank and cash balances of approximately HK\$2.4 million. Current liabilities of approximately HK\$8.2 million represented trade and other payables.

Bank and cash balances

As at 31 March 2011, the bank and cash balances of Dongguan De Yue amounted to approximately HK\$2.4 million. Bank and cash balances were mainly held in Renminbi. Details of bank and cash balances are set out in note 14 to the Accountants' Report of Dongguan De Yue contained in this appendix.

Borrowings

As at 31 March 2011, Dongguan De Yue did not have any borrowings.

Gearing ratio

As Dongguan De Yue did not have any borrowings as at 31 March 2011, the gearing ratio, calculated as a percentage of its total interest-bearing borrowings to its total assets, is thus not applicable.

Details of charge on assets

As at 31 March 2011, Dongguan De Yue did not have any pledge of or created any security over its assets.

Contingent liabilities

As at 31 March 2011, Dongguan De Yue did not have any contingent liabilities.

Capital commitments

As at 31 March 2011, Dongguan De Yue did not have any capital commitments.

Credit risk

As at 31 March 2011, Dongguan De Yue had no significant concentration of credit risks.

Material acquisition and disposal of subsidiaries and associated companies

During the period ended 31 March 2011, there were no material acquisition and disposal of subsidiaries and associated companies.

Material investments

Dongguan De Yue did not hold any significant investment as at 31 March 2011.

Staff remuneration policy

Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the period ended 31 March 2011, Dongguan De Yue has also provided other benefits such as medical insurance coverage.

As at 31 March 2011, the number of employee of Dongguan De Yue was 200. For the period ended 31 March 2011, total staff costs of Dongguan De Yue amounted to approximately HK\$1.0 million.

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP**

The accompanying unaudited pro forma consolidated statement of financial position of the Group and 東莞德越電子塑膠製品有限公司 (“Dongguan De Yue”) and Apex Solution Group Limited (“Newco”) and its subsidiaries including Titron Industries Limited (“Titron Industries”) and its subsidiary, Titron International Limited (“Titron International”), Titron Manufacturing Limited (“Titron Manufacturing”), and Titron Precision Limited (“Titron Precision”) and its subsidiary (collectively referred to as the “Target Companies” and together with the Group hereinafter referred to as the “Enlarged Group”) (the “Unaudited Pro Forma Financial Information of the Enlarged Group”) has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules, for illustrative purposes only, to provide information about how the proposed acquisition of the entire equity interests of the Target Companies (the “Acquisition”), might have affected the financial position of the Group if the Acquisition had taken place on 31 December 2010.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared based on (1) the audited consolidated statement of financial position of the Group as at 31 December 2010 as set out in the annual report of the Company for the year ended 31 December 2010 and (2) the audited statements of financial position of the Target Companies which are included in Appendix II and Appendix III to this circular (the “Circular”), after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 31 December 2010 or any future date.

APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL

INFORMATION OF THE ENLARGED GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL

POSITION OF THE ENLARGED GROUP

	The Group	Newco	Dongguan	Subtotal of			The
	31 December	31 March	De Yue	the Target			Enlarged
	2010	2011	31 March	Companies	Pro forma		Group
	HK\$'000	HK\$'000	2011	31 March	adjustments		2010
	(Note 1)	(Note 2)	(Note 2)	HK\$'000	HK\$'000		HK\$'000
Non-current assets							
Property, plant and equipment	23,395	7,941	8,389	16,330	4,254	(Note 5(b))	43,979
Intangible assets	8,915	–	–	–	2,553	(Note 5(a))	11,468
Goodwill	–	–	–	–	86,851	(Note 6)	86,851
Deferred tax assets	1,162	445	–	445	–		1,607
Available-for-sale financial assets	–	1,101	–	1,101	–		1,101
	33,472	9,487	8,389	17,876	93,658		145,006
Current assets							
Inventories	29,007	7,718	4,837	12,555	–		41,562
Trade and other receivables	17,617	37,235	1,901	39,136	–		56,753
Refundable deposit paid for acquisition of mining rights	23,400	–	–	–	–		23,400
Amounts due from related parties	–	629	–	629	(629)	(Note 9)	–
Tax recoverable	163	–	–	–	–		163
Pledged fixed deposits	–	2,036	–	2,036	–		2,036
Bank balances and cash	37,897	3,990	2,357	6,347	(7,500)	(Note 3)	32,554
	108,084	51,608	9,095	60,703	(12,319)	(Note 8)	156,468
Current liabilities							
Trade and other payables	66,897	20,108	8,189	28,297	(629)	(Note 9)	94,565
Bank and other borrowings	10,898	17,081	–	17,081	–		27,979
Amount due to a related company	–	–	–	–	3,611	(Note 10)	3,611
Amount due to a shareholder	–	611	–	611	(611)	(Note 10)	–
Dividends payable	–	3,000	–	3,000	(3,000)	(Note 10)	–
Obligations under finance leases	1,228	204	–	204	–		1,432
Tax payable	10,692	1,274	–	1,274	–		11,966
	89,715	42,278	8,189	50,467	(629)		139,553
Net current assets (liabilities)	18,369	9,330	906	10,236	(11,690)		16,915
Total assets less current liabilities	51,841	18,817	9,295	28,112	81,968		161,921

APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL

INFORMATION OF THE ENLARGED GROUP

	The Group	Newco	Dongguan De Yue	Subtotal of the Target Companies	Pro forma adjustments		The Enlarged Group
	31 December	31 March	31 March	31 March			31 December
	2010	2011	2011	2011			2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
	(Note 1)	(Note 2)	(Note 2)				
Non-current liabilities							
Obligations under finance leases	184	577	–	577	–		761
Deferred tax liabilities	2,607	63	–	63	709	(Note 5(b))	3,800
					421	(Note 5(a))	
Convertible bonds	181,208	–	–	–	62,329	(Note 3)	243,537
	183,999	640	–	640	63,459		248,098
	(132,158)	18,177	9,295	27,472	18,509		(86,177)
Capital and reserves							
Share capital	150,375	4	10,800	10,804	(10,804)	(Note 7)	150,375
Reserves	(281,990)	18,173	(1,505)	16,668	(16,668)	(Note 7)	(236,009)
					(4,190)	(Note 8)	
					50,171	(Note 3)	
Capital deficiency/equity attributable to owners of the Company	(131,615)	18,177	9,295	27,472	18,509		(85,634)
Non-controlling interests	(543)	–	–	–	–		(543)
	(132,158)	18,177	9,295	27,472	18,509		(86,177)

APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

Notes:

- 1) The balances are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2010 as set out in the annual report of the Company for the year ended 31 December 2010.
- 2) Pursuant to the Reorganisation, the Newco became the holding company of Titron Industries, Titron International, Titron Manufacturing and Titron Precision on 5 August 2011. Details of the Reorganisation are set out in pages 20 to 21 to the Circular. The balances are extracted from the accountants’ report of the Newco as at 31 March 2011 as set out in Appendix II to this Circular.

The balances are extracted from the accountants’ report of Dongguan De Yue as at 31 March 2011 as set out in Appendix III to this Circular.

- 3) On 23 January 2011, the Company, through one of its wholly-owned subsidiary, Energy Best Investments Limited, entered into a conditional sales and purchase agreement, as subsequently supplemented by the supplemental agreements on 21 June 2011 and 27 July 2011, with Mr. Lye Khay Fong, Mr. Yip Wai Lun, Alvin (“Mr. Yip”), Titron Group Holdings Limited (the “Titron Holdings”) and Chelin International Limited in relation to the Acquisition at an aggregate consideration of HK\$120 million. The above vendors were independent third parties, except for Mr. Yip, being the chairman and managing director of the Company and owned 46.25% interests in Titron Holdings.

The Target Companies were principally engaged in (i) manufacturing and trading of DVD boxes and related components; (ii) manufacturing and trading of plastic products; (iii) manufacturing and trading of medical devices; and (iv) provision of advisory services and consultation services.

The consideration of HK\$120 million will be satisfied as to

- (i) HK\$7.5 million by way of cash; and
- (ii) HK\$112.5 million by way of the issuance of convertible notes (the “Convertible Notes”).

The pro forma adjustment to reflect the fair values of the consideration as follows:

	Fair value HK\$’000
Cash consideration	7,500
Fair value of the liability component of the Convertible Notes (Note 4)	62,329
Fair value of the equity conversion component of the Convertible Notes (Note 4)	50,171
	120,000

- 4) The Convertible Notes with principal amount of HK\$112.5 million to be issued as part of the consideration of the Acquisition will be entitled to a payment of interest equivalent to the amount of any cash dividends declared by the Company as if the Convertible Notes were fully converted into ordinary shares payable at the same time as any such dividend payment, and shall mature and redeem by the Company on 31 December 2015.

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UNAUDITED PRO FORMA FINANCIAL

INFORMATION OF THE ENLARGED GROUP

For the purpose of the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the fair values of the liability component and equity conversion component of the Convertible Notes are estimated by the directors based on an independent valuation on the assumption that the Convertible Notes had been issued at 31 March 2011. The fair value as at 31 March 2011 of the liability component included in non-current liabilities of the Enlarged Group, and the equity conversion component included in the capital reserve of the Enlarged Group, were valued by Ascent Partners Transaction Service Limited (“Ascent Partners”), a firm of independent qualified valuers not connected to the Group. As at 31 March 2011, the estimated fair values of the liability component and the equity conversion component of the Convertible Notes were approximately HK\$62,329,000 and HK\$50,171,000 respectively.

Fair values of the liability component and the equity conversion component shall be assessed on the date of completion and therefore such fair value shall be subject to change upon completion of the Acquisition.

- 5) Upon completion of the Acquisition, the Target Companies will be accounted for as subsidiaries of the Group. Under Hong Kong Financial Reporting Standards’ 3 (revised) “Business Combinations” issued by the Hong Kong Institute of Certified Public Accountants, the Group would apply the acquisition method to account for the acquisition of the Target Companies. In applying the acquisition method, the identifiable assets, liabilities and contingent liabilities of the Target Companies as at 31 March 2011 are recorded in the unaudited pro forma consolidated statement of financial position of the Enlarged Group at their estimated fair values as if the Acquisition was completed on 31 December 2010.
- a) the adjustment of approximately HK\$2,553,000 represents the fair value adjustment on the intangible asset as at 31 March 2011, attributable to Titron Industries acquired and the related deferred tax liability of approximately HK\$421,000 at a tax rate of 16.5% upon the completion of the Acquisition, on the assumption that the Acquisition had been completed on 31 December 2010. The intangible asset comprise principally the customer relationship, representing a list of existing customers with expected useful lives of 10 years, and the value was estimated by Ascent Partners.

b) the adjustment of approximately HK\$4,254,000 represents the fair value adjustment on the net assets acquired, being the excess of the fair values of certain plant and machinery estimated by Ascent Partners over their carrying amounts as at 31 March 2011, and the related deferred tax liabilities of approximately HK\$709,000 at the tax rates of 16.5% or 25% upon the completion of Acquisition, on the assumption that the Acquisition had been completed on 31 December 2010. The details of the fair value adjustment were as follows:

	Fair value adjustment on plant and machinery HK\$'000	Deferred taxation liabilities HK\$'000
Subsidiaries		
Titron International	264	44
Titron Industries	129	29
Titron Manufacturing	3,861	636
	4,254	709

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UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

The directors of the Company has tested the intangible asset acquired from the Acquisition for impairment by comparing the carrying amount of the intangible asset at initial recognition with its recoverable amounts in accordance with Hong Kong Accounting Standard (“HKAS”) 36 “Impairment of Assets”. Based on the management’s assessment on the recoverable amount of the intangible asset, the directors of the Company considers that there is no impairment loss on the intangible asset arising from the Acquisition as at 31 December 2010 on the assumption that the Acquisition was completed on the same date.

The directors of the Company will apply consistent accounting policies and principal assumptions to assess the impairment of intangible asset in subsequent reporting periods in accordance with the requirements of HKAS 36.

- 6)
- On the basis of the above assumptions, an unaudited pro forma adjustment of HK\$86,851,000 which represents goodwill arising from the Acquisition has been made and is calculated as follows:

	HK\$'000
Total net identifiable assets and liabilities of the Target Companies	
as at 31 March 2011 (Note (a))	27,472
Fair value adjustment on intangible assets acquired, net of deferred tax (Note 5(a))	2,132
Fair value adjustment on net assets acquired, net of deferred tax (Note 5(b))	3,545
Fair value of net assets acquired	33,149
Goodwill arising on Acquisition	86,851
Total consideration	120,000

Note:

- (a)
- It is assumed that the carrying amounts as at 31 March 2011 of the assets and liabilities of the Target Companies equal to their fair values, except for the customer relationship and plant and machinery as mentioned in note 5.

On completion of the Acquisition, the Group shall recognise, separately from the goodwill on acquisition, the identifiable assets acquired, the liabilities assumed and measure them at their acquisition-date fair values. The fair values of these assets and liabilities may be different from the amounts set out in this unaudited pro forma consolidated statement of financial position of the Enlarged Group and consequently would affect the actual amount of the goodwill on acquisition of the Target Companies.

The directors of the Company has assessed whether there is any impairment on the goodwill as at 31 December 2010 on a pro forma basis, in accordance with HKAS 36 “Impairment of Assets”. The directors of the Company have made reference to a separate valuation report for the purpose of purchase price allocation prepared by Ascent Partners, goodwill of approximately HK\$84,050,000 and HK\$2,801,000 have been allocated to the operating segment manufacturing and trading of medical devices and manufacturing and trading DVD boxes and plastic product respectively, for the purpose of impairment testing. Based on the directors’ assessment on the business plan to be executed and the recoverable amount of the business to be acquired, the directors of the Company considers that there is no impairment loss on the goodwill arising from the Acquisition as at 31 December 2010 on the assumption that the Acquisition was completed on the same date.

The directors of the Company will apply consistent accounting policies and principal assumptions to assess the impairment of goodwill in subsequent reporting periods in accordance with the requirements of HKAS 36.

- 7) The adjustments of HK\$10,804,000 and HK\$16,668,000 represent the elimination of the aggregate amount of share capital/paid in capital and pre-acquisition reserves of the Target Companies respectively.
- 8) The adjustment represents estimated legal and professional fees and other expenses expected to be incurred in relation to the Acquisition.
- 9) The adjustment represents the elimination of balances between the Group and the Target Companies as at 31 December 2010 on the assumption that the Acquisition was completed on the same date.
- 10) The adjustment represents the reclassification of amount due to and dividend payable to Titron Holding which is owned by Mr. Yip as at 31 March 2011 as amount due to a related company on the assumption that the Acquisition was completed on 31 December 2010.
- 11) No adjustment has been made to reflect any trading results or other transactions of the Group or the Target Companies entered into subsequent to 31 December 2010.

**(B) ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP**

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

12 August 2011

The Board of Directors
Guojin Resources Holdings Limited
Room 3303-3304 Level 33
Tower 1, Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay, Kowloon

Dear Sirs,

We report on the unaudited pro forma consolidated statement of financial position (the “Unaudited Pro Forma Financial Information”) of Guojin Resources Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) and 東莞德越電子塑膠製品有限公司 and Apex Solution Group Limited and its subsidiaries including Titron Industries Limited and its subsidiary, Titron International Limited, Titron Manufacturing Limited, and Titron Precision Limited and its subsidiary (collectively referred to as the “Target Companies” and together with the Group hereinafter referred to as the “Enlarged Group”), set out on pages IV-1 to IV-7 under the heading of “Unaudited Pro Forma Financial Information of the Enlarged Group” in Appendix IV to the Company’s circular dated 12 August 2011 (the “Circular”), which has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the proposed acquisition of the entire registered capital/issued share capital of the Target Companies might have affected the consolidated statement of financial position of the Group presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix IV to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted consolidated net tangible assets with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2010 or any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chong Kwok Shing

Practising Certificate Number: P05139

Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Enlarged Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

Assuming there is no change to the number of Shares in issue from the Latest Practicable Date to the Completion Date, the authorised and issued share capital of the Company (a) as at the Latest Practicable Date; (b) immediately after the issue of the Conversion Shares (subject to adjustments) upon full conversion of the Convertible Notes; and (c) immediately after the issue of the Conversion Shares (subject to adjustments) upon full conversion of the Convertible Notes and the issue of the Performance Incentive Shares will be as follows:

(a) As at the Latest Practicable Date

Authorised:	HK\$
4,000,000,000 Shares	400,000,000
Issued and fully paid:	HK\$
1,503,750,505 Shares	150,375,050.50

(b) Immediately after the issue of the Conversion Shares (subject to adjustments) upon full conversion of the Convertible Notes

<i>Authorised:</i>		<i>HK\$</i>
<u>20,000,000,000</u>	Shares (Note 1)	<u>2,000,000,000</u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
1,503,750,505	Shares as at the Latest Practicable Date	150,375,050.50
	Conversion Shares (subject to adjustments) to be	
<u>1,071,428,571</u>	allotted and issued (Note 2)	<u>107,142,857.10</u>
<u>2,575,179,076</u>		<u>257,517,907.60</u>

(c) Immediately after the issue of the Conversion Shares (subject to adjustments) upon full conversion of the Conversion Notes and the issue of a maximum of 3,200 million Performance Incentive Shares (Note 2)

<i>Authorised:</i>		<i>HK\$</i>
<u>20,000,000,000</u>	Shares (Note 1)	<u>2,000,000,000</u>
<i>Issued and fully paid:</i>		<i>HK\$</i>
1,503,750,505	Shares as at the Latest Practicable Date	150,375,050.50
	Conversion Shares (subject to adjustments) to be	
1,071,428,571	allotted and issued (Note 2)	107,142,857.10
	A maximum of 3,200 million Performance	
	Incentive Shares to be allotted and issued	
<u>3,200,000,000</u>	(Note 2)	<u>320,000,000.00</u>
<u>5,775,179,076</u>		<u>577,517,907.60</u>

Notes:

1. Assuming the Capital Reorganisation does not take place and the authorised share capital of the Company is increased from HK\$400,000,000 to HK\$2,000,000,000
2. The number of Conversion Shares and the maximum number of Performance Incentive Shares above are calculated based on the initial conversion or issue price of HK\$0.105 per Share (i.e. before any adjustment due to the Redemption and the Rights Issue).

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

(i) Interest in Shares and underlying shares of the Company:

Name of Director	Nature of interests	Number of the Shares interested	Number of underlying shares under share options	Total	Approximate percentage of issued share capital
Mr. Yip Wai Lun, Alvin	Beneficial owner	1,303,878,791 (L)	–	1,303,878,791	41.29%
	Interests in controlled corporation	3,000,000 (L)	–	3,000,000	0.09%
		1,306,878,791	–	1,306,878,791	41.38%
Mr. Leung Ka Kui, Johnny	Beneficial owner	290,000 (L)	1,542 (L)	291,542	0.02%
Mr. Chan Kam Kwan, Jason	Beneficial owner	–	1,542 (L)	1,542	0.00%

(L): denotes long position

(ii) Interest in debenture of the Company:

Name of Director	Nature of interests	Amount of debenture held	Class of debenture	Approximate percentage of total debenture of the Company
Mr. Yip Wai Lun, Alvin	Beneficial owner	HK\$42,418,905	Freely transferable and convertible into the Shares	37.71%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(b) Interests of substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Nature of interests	Number of the Shares interested	Approximate percentage of issued share capital
Leung Mei Han	Interest in controlled corporation	2,181,160,000 (L)	145.05%
Qshare Holding Limited	Beneficial owner	2,181,160,000 (L)	145.05%
Choi Koon Shum Jonathan	Interest in controlled corporation	840,000,000 (L)	55.86%
Innovation Assets Limited	Interest in controlled corporation	840,000,000 (L)	55.86%
Kingsway Financial Services Group Limited	Beneficial owner	840,000,000 (L)	55.86%
Kwan Wing Kum, Janice	Interest of spouse	840,000,000 (L)	55.86%

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GENERAL INFORMATION

Name	Nature of interests	Number of the Shares interested	Approximate percentage of issued share capital
Sun Wah Capital Limited	Interest in controlled corporation	840,000,000 (L)	55.86%
Sunwah International Limited	Interest in controlled corporation	840,000,000 (L)	55.86%
SW Kingsway Capital Group Limited	Interest in controlled corporation	840,000,000 (L)	55.86%
SW Kingsway Capital Holdings Limited	Interest in controlled corporation	840,000,000 (L)	55.86%
World Developments Limited	Interest in controlled corporation	840,000,000 (L)	55.86%
Integrated Asset Management (Asia) Limited	Beneficial owner	820,866,667 (L)	54.59%
Yam Tak Cheung	Interest in controlled corporation	820,866,667 (L)	54.59%
Lo Ming Chi Charles	Beneficial owner	328,346,667 (L)	21.84%
Loh Jiah Yee Katherine	Interest in controlled corporation	328,346,667 (L)	21.84%
Ou Tian Xiong	Beneficial owner	328,346,667 (L)	21.84%
Value Creation Partners Company Limited	Beneficial owner	328,346,667 (L)	21.84%
Chelin International Limited	Beneficial owner	306,309,000 (L)	20.37%

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GENERAL INFORMATION

Name	Nature of interests	Number of the Shares interested	Approximate percentage of issued share capital
Lai Chiu Fai	Interest in controlled corporation	306,309,000 (L)	20.37%
Lye Khay Fong	Beneficial owner	286,532,000 (L)	19.05%
	Interest in controlled corporation	3,000,000 (L)	0.20%
	Founder of a discretionary trust	500,000 (L)	0.03%
Fu Wai Ling	Beneficial owner	164,173,333 (L)	10.92%
Chan Ping Che	Beneficial owner	132,336,000 (L)	8.80%
Xie Song Guang	Beneficial owner	140,000,000 (L)	9.31%

(L) Long position

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(c) Competing interests

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the Enlarged Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

(d) Other interests

Other than the interest of Mr. Yip in the assets subject to the Acquisition Agreement, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2010 (being the date to which the latest published audited accounts of the Company were made up), been (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

Other than the interest of Mr. Yip in the assets subject to the Acquisition Agreement, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

4. MATERIAL CONTRACTS

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by the Enlarged Group within the two years immediately preceding the Latest Practicable Date and which are or may be material:

- (a) the subscription agreement dated 28 August 2009 and entered into between the Company and Mr. Xie Song Guang for the issue of 15% convertible note in the principal amount of HK\$50,000,000;
- (b) the conditional agreement for the sale and purchase dated 23 November 2009 and entered into among the Company, Clearview Development Limited as vendor and Zhe Wei Limited as purchaser in relation to the disposal by the Group of the entire issued share capital of Jackin Accessories Industrial Company Limited at a consideration of HK\$60,000,000;
- (c) the placing agreement dated 13 January 2010 (as amended on 14 January 2010) and entered into among the Company, Oriental Patron Securities Limited and China Everbright Securities (HK) Limited in relation to the placing of 210,000,000 Shares at a price of HK\$0.95 per Share;
- (d) the Acquisition Agreement;
- (e) the Performance Incentive Agreement;
- (f) the settlement agreement dated 19 April 2011 and entered into among Jackin Purchasing Co. Ltd. (“Jackin PCL”) as purchaser, Guojin Metal Mining Company Limited, Mr. Cui Zhan Lin (“Mr. Cui”) as vendor, SE Metal Resource Corp. (“SE Metal”) and Copper Century Corp. in relation to the settlement of all claims among them arising out of the conditional agreement entered into between Jackin PCL and Mr. Cui dated 18 December 2009 in connection with the proposed acquisition of the entire issued share capital of SE Metal;
- (g) the Redemption Agreements; and
- (h) the underwriting agreement dated 20 June 2011 entered into between the Company, Kingsway and Mr. Yip in relation to the Rights Issue.

5. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claim of material importance and there was no litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

6. SERVICE CONTRACTS

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

7. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the names and qualifications of the experts who have given opinions or advice contained in this circular:

Name	Qualification
Menlo Capital	A licensed corporation to carry out business in type 6 (advising a corporate finance) regulated activity under the SFO
BDO Limited	Certified Public Accountants
SHINEWING (HK) CPA Limited ("SHINEWING")	Certified Public Accountants

Each of Menlo Capital, BDO Limited and SHINEWING has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, Menlo Capital, BDO Limited and SHINEWING were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Menlo Capital, BDO Limited and SHINEWING did not, directly or indirectly, had any interest in any assets which had since 31 December 2010 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. MATERIAL ADVERSE CHANGE

Since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up), the Group has continued to suffer operating losses from remanufacture and sale of computer printing and imaging products division as a result of which the liquidity (including its cash position) of the Group was further worse off. An announcement on profit warning was issued by the Company on 8 August 2011, details of which are set out in the section headed “Announcement in respect of profit warning” in Appendix I to this circular.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company’s head office and principal place of business in Hong Kong at Unit 3303-3304, Level 33, Tower 1, Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong, from the date of this circular and up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for each of the two financial years ended 31 December 2009 and 2010;
- (c) the letter of advice from Menlo Capital as set out in this circular;
- (d) the accountants’ report on the Newco Group, the text of which is set out in Appendix II to this circular;
- (e) the accountants’ report on Dongguan De Yue, the text of which is set out in Appendix III to this circular;
- (f) the accountants’ report from SHINEWING in relation to the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (g) the letters of consent referred to in the paragraph headed “Qualifications and consents of experts” in this appendix;

- (h) the material contracts referred to in the paragraph headed “Material contracts” in this appendix; and
- (i) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and 14A of the Listing Rules which has been issued since 31 December 2010 (being the date of the latest published audited accounts).

10. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Chan Kwong Leung, Eric. He is an associate member of the Institute of Chartered Secretaries and Administrators, United Kingdom and the Hong Kong Institute of Chartered Secretaries and a member of the Hong Kong Securities Institute.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The head office and principal place of business of the Company in Hong Kong is situated at Unit 3303-3304, Level 33, Tower 1, Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong.
- (e) The English text of this circular and accompanying form of proxy shall prevail over the Chinese text.

NOTICE OF SPECIAL GENERAL MEETING



國金資源控股有限公司*

Guojin Resources Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 630)

NOTICE IS HEREBY GIVEN that the Special General Meeting (“SGM”) of Guojin Resources Holdings Limited (the “Company”) will be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 5 September 2011 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the conditional agreement (the “**Acquisition Agreement**”) dated 23 January 2011 (as amended and restated on 27 July 2011) and entered into among the Company, Energy Best Investments Limited (the “**Purchaser**”), a wholly owned subsidiary of the Company, as purchaser, and Mr. Lye Khay Fong, Mr. Yip Wai Lun, Alvin, Titron Group Holdings Limited and Chelin International Limited (together the “**Vendors**”) as vendors in relation to the acquisition (the “**Acquisition**”) of: (i) the entire issued share capital of Apex Solution Group Limited (which will beneficially own the entire issued share capital of Titron Industries Limited, Titron International Limited, Titron Manufacturing Limited and Titron Precision Limited prior to completion of the Acquisition); and (ii) the entire registered capital of 東莞德越電子塑膠製品有限公司 (Dongguan De Yue Electronic and Plastic Products Company Limited[#]) for a total consideration of HK\$120 million (a copy of the Acquisition Agreement is marked “A” and produced to the SGM and signed by the chairman of the SGM for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved;
- (b) the issue of the convertible notes (the “**Convertible Notes**”) up to the principal amount of HK\$112.5 million by the Company to the Vendors (or their respective nominee(s)) pursuant to the terms and conditions of the Acquisition Agreement be and is hereby approved;

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

- (c) the allotment and issue of new ordinary shares (the “**Conversion Shares**”) of the Company upon exercise of the conversion rights attaching to the Convertible Notes pursuant to the terms of the Convertible Notes be and is hereby approved;
- (d) the conditional agreement (the “**Performance Incentive Agreement**”) dated 4 March 2011 (as amended and restated on 27 July 2011) and entered into among the Company, the Purchaser and Atlas Medical Limited (the “**Service Provider**”) in relation to the services provided by the Service Provider to the Purchaser at a monthly service fee (the “**Service Fee**”) of HK\$200,000 plus performance bonus (the “**Performance Bonus**”) equal to 30% of excess of the pro forma combined profit before tax of the subsidiaries of the Purchaser after completion of the Acquisition (a copy of the Performance Incentive Agreement is marked “B” and produced to the SGM and signed by the chairman of the SGM for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved;
- (e) the maximum amount of the Service Fee of HK\$1,600,000 payable for the year ending 31 December 2011 and HK\$2,400,000 payable for each of the five years ending 31 December 2016 pursuant to the terms of the Performance Incentive Agreement be and is hereby approved;
- (f) the maximum amount of the Performance Bonus of HK\$2,000,000, HK\$53,000,000, HK\$130,000,000, HK\$300,000,000, HK\$350,000,000 and HK\$400,000,000 payable for each of the six years ending 31 December 2016 respectively involving the allotment and issue of up to 9.5 million, 47.6 million, 285.7 million, 666.7 million, 952.4 million and 1,238.1 million new ordinary shares (together the “**Performance Incentive Shares**”) of the Company (all subject to adjustment) for each of the six years ending 31 December 2016 respectively pursuant to the terms of the Performance Incentive Agreement be and is hereby approved;

NOTICE OF SPECIAL GENERAL MEETING

- (g) any one or more directors of the Company be and is/are hereby authorised to implement and take all steps and do all acts and things and execute all such documents (including under seal) which he/she/they consider necessary or expedient to give effect to the Acquisition Agreement, the Performance Incentive Agreement and the transactions contemplated thereunder including but not limited to the issue of the Convertible Notes, the allotment and issue of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Notes and the allotment and issue of the Performance Incentive Shares; and
- (h) in the event the proposed capital reorganization of the Company involving, among other matters, a change of the nominal value of the shares of the Company from HK\$0.10 to HK\$0.01 by way of a reduction of share capital and a share subdivision, as more particularly set out in the circular of the Company dated 12 August 2011, does not take effect in accordance with the terms thereof on or before the date of completion of the Acquisition, the authorized share capital of the Company shall be increased from HK\$400,000,000 to HK\$2,000,000,000 divided into 20,000,000,000 shares of HK\$0.10 each (the “**Shares**”) by the creation of an additional 16,000,000,000 Shares, each ranking pari passu in all respects with the existing Shares, with effect from the date of completion of the Acquisition.”

The English name is not an official name and is just provided for reference only

Yours faithfully
For and on behalf of
the board of Directors of
Guojin Resources Holdings Limited
YIP WAI LUN, ALVIN
Chairman of the Board

Hong Kong, 12 August 2011

NOTICE OF SPECIAL GENERAL MEETING

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:

Units 3303-3304, Level 33
Tower 1, Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay, Kowloon
Hong Kong

Notes:

1. Any member entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her/its stead. A proxy needs not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company's principal place of business in Hong Kong at Units 3303-3304, Level 33, Tower 1, Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he/she/it so wish, and in such event, the form of proxy shall be deemed to be revoked.