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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 Kwang Sung Electronics H.K. Co. Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities in Kwang Sung Electronics H.K. Co. Limited.



KWANG SUNG ELECTRONICS H.K. CO. LIMITED

光 星 電 子 香 港 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2310)

(1) GROUP REORGANISATION OF KWANG SUNG ELECTRONICS H.K. CO. LIMITED

(2) DISTRIBUTION IN SPECIE OF THE PRIVATECO SHARES

(3) CONTINUING CONNECTED TRANSACTIONS

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



高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 7 to 28 of this circular and a letter from the Independent Board Committee is set out on pages 29 to 30 of this circular. A letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 55 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 10:00 a.m. on 5 December 2012 at Conference Hall 03, 1/F., Core Building 1, Phase 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong is set out on pages 197 to 198 of this circular. Whether or not you intend to attend the meeting or any adjournment thereof, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof to the share registrar and transfer office of the Company, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment meeting if you so wish.

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EXPECTED TIMETABLE

Latest time for return of form of proxy for the EGM 10:00 a.m. on
3 December 2012

EGM 10:00 a.m. on
5 December 2012

Publication of an announcement regarding the
voting results of the EGM 5 December 2012

Notes:

- (i) A detailed timetable for the Listco Offer and the Privateco Offer will be included in the Listco Offer Document and the Privateco Offer Document respectively.
- (ii) Dates and deadlines stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable will be announced as appropriate. All times and dates refer to Hong Kong local time.

DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	means a day (excluding a Saturday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Kwang Sung Electronics H.K. Co. Limited, a company incorporated in Hong Kong with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company from time to time
“Distributed Businesses”	all businesses of the Group, other than the Remaining Businesses, carried on by the Privateco Group
“Distribution In Specie”	the distribution in specie of the Privateco Shares by the Company to the Shareholders as described in the section headed “C. Distribution In Specie” in the Letter from the Board
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the resolutions in respect of the Distribution In Specie, the Framework Supply Agreement and the respective transactions contemplated thereunder

DEFINITIONS

“Framework Supply Agreement”	the framework supply agreement to be entered into between KST (as supplier) and Kwang Sung Holdings Co., Ltd. (as customer) in respect of the supply of products by the Remaining Group to the Privateco Group, pursuant to the Group Reorganisation
“Group”	the Company and its subsidiaries as at the Latest Practicable Date
“Group Reorganisation”	the proposed reorganisation of the Group, details of which are set out in the section headed “B. Group Reorganisation” in the Letter from the Board
“Haitong International Capital”	Haitong International Capital Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO and the financial adviser to Ultra Harvest in respect of the Listco Offer
“Haitong International Securities”	Haitong International Securities Company Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 3 (leveraged foreign exchange trading) and Type 4 (advising on securities) regulated activities under the SFO
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Dr. Kim Chung Kweon, Dr. Han Byung Joon and Mr. Kim Chan Su, established for the purpose of advising the Independent Shareholders in respect of the Distribution In Specie, the Framework Supply Agreement and the respective transactions contemplated thereunder
“Independent Financial Adviser”	Goldin Financial Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholder(s)”	Shareholder(s) other than (i) the Vendors, Ultra Harvest and their respective associates and parties acting in concert with any of them and (ii) those who are involved in or interested in the Distribution In Specie and the Framework Supply Agreement which will be put forward to the Shareholders for approval at the EGM

DEFINITIONS

“Independent Third Party(ies)”	party(ies) who are not connected persons (as defined in the Listing Rules) of the Company and who together with its/their ultimate beneficial owner(s) are independent of the Company and of connected persons (as defined in the Listing Rules) of the Group
“Joint Announcement”	the joint announcement issued by the Company, Ultra Harvest, Smart Top and the Privateco dated 17 October 2012 in relation to, among other things, the Share Sale Agreement, the Group Reorganisation, the Distribution In Specie, the Framework Supply Agreement, the Listco Offer and the Privateco Offer
“Korea Branch”	the branch of the Company established in the Republic of Korea
“KSE”	Kwang Sung Electronics Co., Ltd., a company incorporated in the Republic of Korea with limited liability which is beneficially owned by Mr. Yang and his family members as to 79.5% as at the Latest Practicable Date
“KST”	Kwang Sung Technology Holdings Co. Limited, a company incorporated in Hong Kong with limited liability which is indirectly wholly-owned by the Company
“Last Trading Day”	27 September 2012, being the last day on which the Shares were traded on the Stock Exchange prior to the suspension of trading in the Shares pending the release of the Joint Announcement
“Latest Practicable Date”	14 November 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listco Offer”	the unconditional mandatory cash offer to be made by Haitong International Securities on behalf of Ultra Harvest to acquire all the issued Shares (other than those already owned or agreed to be acquired by Ultra Harvest and parties acting in concert with it), details of which are set out in Appendix I to this circular
“Listco Offer Document”	the offer and response document (in either composite or separate form) together with the form of acceptance and transfer to be despatched to the Shareholders pursuant to the Listco Offer
“Listco Offer Share(s)”	all issued Shares (other than those already owned or agreed to be acquired by Ultra Harvest and parties acting in concert with it)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Long Stop Date”	the day on which the period of six months commencing from the date of the Share Sale Agreement expires or such other day as the Vendors and Ultra Harvest shall agree in writing
“Material Adverse Change”	any change (or effect) which has a material and adverse effect on the financial position, business or property, results of operations, business prospects or assets of the Group or, if the context requires, the Remaining Group
“Mr. Yang”	Mr. Yang Jai Sung, an executive Director and the controlling Shareholder as at the Latest Practicable Date, being one of the Vendors under the Share Sale Agreement
“Overseas Shareholders”	Shareholders, whose addresses, as shown on the register of members of the Company, are outside of Hong Kong
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Privateco”	Jay Star Holdings Limited, a company incorporated in Bermuda on 9 October 2012 with limited liability pursuant to the Group Reorganisation for the purpose of carrying out the Distributed Businesses and a wholly-owned subsidiary of the Company immediately prior to completion of the Distribution In Specie
“Privateco Board”	the board of directors of the Privateco
“Privateco Group”	the Privateco and its subsidiaries
“Privateco Offer”	the unconditional voluntary cash offer to be made by Quam Securities on behalf of Smart Top to acquire all the Privateco Shares (other than those to be owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them), details of which are set out in Appendix I to this circular
“Privateco Offer Document”	the offer and response document (in either composite or separate form) and the form of acceptance and transfer to be despatched to the Privateco Shareholders pursuant to the Privateco Offer
“Privateco Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Privateco
“Privateco Shareholder(s)”	holder(s) of the Privateco Shares
“Quam Securities”	Quam Securities Company Limited, a corporation licensed to conduct 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

DEFINITIONS

“Record Date”	a date to be fixed for determining entitlements of the Shareholders to the Distribution In Specie, which shall be a date falling before the date of Share Sale Completion
“Remaining Businesses”	the Group’s business of manufacturing and sale of electronics components to worldwide customers (except for those in Korea and Japan) after the Group Reorganisation and the Distribution In Specie
“Remaining Group”	the Company, 石岩光星電子(深圳)有限公司 (Shiyan Kwang Sung Electronics (Shenzhen) Co. Limited*), Kwang Sung Electronics Holdings Co. Limited, KST, Korea Branch, Shenzhen Kwang Sung Electronics Co., Ltd. (深圳光星電子有限公司) and 光星電子貿易(深圳)有限公司 (Kwang Sung Electronics Trading (Shenzhen) Co., Ltd.*) upon completion of the Group Reorganisation and the Distribution In Specie
“Sale Shares”	an aggregate of 174,082,000 Shares held by the Vendors as at the date of the Share Sale Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Sale Agreement”	the agreement dated 27 September 2012 entered into among the Vendors and Ultra Harvest in respect of the acquisition of the Sale Shares by Ultra Harvest, as amended and supplemented by the Supplemental Agreement
“Share Sale Completion”	completion of the Share Sale Agreement
“Shareholder(s)”	holder(s) of the Share(s)
“Smart Top”	Smart Top Investments Limited, a company incorporated in the BVI with limited liability which is wholly owned by Mr. Yang as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 16 October 2012 entered into among the Vendors and Ultra Harvest in respect of the acquisition of the Sale Shares by Ultra Harvest

DEFINITIONS

“SY Processing Factory”	深圳市寶安區石岩光星電子廠 (Shiyan Kwang Sung Electronics Factory in Baoan District, Shenzhen*)
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Ultra Harvest”	Ultra Harvest Limited, a company incorporated in the BVI with limited liability
“Vendors”	Mr. Yang and KSE
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

** For identification purpose only*

LETTER FROM THE BOARD



KWANG SUNG ELECTRONICS H.K. CO. LIMITED

光 星 電 子 香 港 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2310)

Non-executive director

Mr. YANG Ho Sung (*Chairman*)

Executive directors

Mr. YANG Jai Sung

Mr. LEE Kyu Young

Mr. HONG Sang Joon

Independent non-executive directors

Dr. KIM Chung Kweon

Dr. HAN Byung Joon

Mr. KIM Chan Su

Registered Office:

Units 208-209, 2/F.

Bio-Informatics Centre

No. 2 Science Park West Avenue

Hong Kong Science Park

Shatin, New Territories

Hong Kong

19 November 2012

To the Shareholders

Dear Sir/Madam,

**(1) GROUP REORGANISATION OF
KWANG SUNG ELECTRONICS H.K. CO. LIMITED**

(2) DISTRIBUTION IN SPECIE OF THE PRIVATECO SHARES

(3) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

On 17 October 2012, the Company, Ultra Harvest, Smart Top and the Privateco jointly announced, among others, the Group Reorganisation, the Distribution In Specie and the Framework Supply Agreement. The Distribution In Specie and the Framework Supply Agreement will be put forward for the Independent Shareholders' approval at the EGM.

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The Company has been informed by the Vendors that, on 27 September 2012, the Vendors and Ultra Harvest entered into the Share Sale Agreement (as amended and supplemented by the Supplemental Agreement), pursuant to which the Vendors have conditionally agreed to sell and Ultra Harvest has conditionally agreed to purchase the Sale Shares, being the aggregate interest of 174,082,000 Shares held by the Vendors, representing approximately 53.75% of the entire issued share capital of the Company as at the date of the Share Sale Agreement, at an aggregate consideration of HK\$161,252,156.60, representing HK\$0.9263 per Sale Share. The Share Sale Agreement is conditional upon, among other things, completion of the Group Reorganisation.

The Group Reorganisation, which reorganises the Distributed Businesses under the Privateco Group, is necessary to give effect to the Distribution In Specie. The Distribution In Specie in turn will lead to the Privateco Offer, and its approval by the Independent Shareholders being a condition precedent to the Share Sale Completion, will ultimately lead to the Listco Offer.

Ultra Harvest has confirmed that upon Share Sale Completion, Ultra Harvest will hold 174,082,000 Shares, representing approximately 53.75% of the issued share capital of the Company as at the date of the Share Sale Agreement and approximately 53.75% of the issued share capital of the Company as at the Latest Practicable Date. It is stated in the Joint Announcement that subject to the Share Sale Completion, Haitong International Securities will, on behalf of Ultra Harvest and pursuant to the Takeovers Code, make the Listco Offer, which will be an unconditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Ultra Harvest and parties acting in concert with it). The offer price of the Listco Offer will be HK\$0.9263 per Share, which is equal to the price per Sale Share under the Share Sale Agreement. Details of the Listco Offer are set out in Appendix I to this circular. Ultra Harvest and the Company are required to issue and despatch the Listco Offer Document to the Shareholders in accordance with the Takeovers Code.

Subject to Share Sale Completion taking place, the Company will distribute all of the Privateco Shares in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date (being a date falling before the date of the Share Sale Completion, which is to be fixed for determining entitlements to the Distribution In Specie) on the basis of one Privateco Share for every Share held.

It is stated in the Joint Announcement that after completion of the Distribution In Specie, Quam Securities will, on behalf of Smart Top and pursuant to the Takeovers Code, make the Privateco Offer to the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) to acquire all the issued Privateco Shares (other than those to be owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them). The offer price of the Privateco Offer will be HK\$0.38 per Privateco Share. Details of the Privateco Offer are set out in Appendix I to this circular. Smart Top and the Privateco are required to issue and despatch the Privateco Offer Document to the Privateco Shareholders in accordance with the Takeovers Code.

The purpose of this circular is to provide you with, inter alia, further information about the Group Reorganisation, the Distribution In Specie, the Framework Supply Agreement and the respective transactions contemplated thereunder, a letter of recommendation from the Independent Board Committee and a letter of advice from the Independent Financial Adviser in respect of the Distribution In Specie and the Framework Supply Agreement and a notice of the EGM.

LETTER FROM THE BOARD

A. SHARE SALE AGREEMENT

The Company has been informed by the Vendors of the signing of the Share Sale Agreement, which contains terms including the following:

Date

27 September 2012 (after trading hours), and as amended and supplemented by the Supplemental Agreement

Parties

- (i) Mr. Yang (as vendor);
- (ii) KSE (as vendor), a company incorporated in the Republic of Korea and beneficially owned in aggregate as to 79.5% by Mr. Yang and his family members which include Mr. Yang Ho Sung, a non-executive Director and a brother of Mr. Yang. The remaining 20.5% issued share capital of KSE are held by Independent Third Parties; and
- (iii) Ultra Harvest (as purchaser), a company incorporated in the BVI and beneficially owned as to 60% and 40% by Mr. Shen Yong and Mr. Shen Ke, respectively. Mr. Shen Yong is the father of Mr. Shen Ke.

KSE has confirmed that KSE beneficially held 59,500,000 Shares, representing approximately 18.37% of the existing issued share capital of the Company as at the Latest Practicable Date.

Mr. Yang has confirmed that he beneficially held 114,582,000 Shares, representing approximately 35.38% of the existing issued share capital of the Company as at the Latest Practicable Date.

Each of Ultra Harvest, its ultimate beneficial owners and parties acting in concert with it is a third party independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

Subject matter

The Vendors have conditionally agreed to sell and Ultra Harvest has conditionally agreed to purchase the Sale Shares, being 174,082,000 Shares, representing approximately 53.75% of the entire issued share capital of the Company as at the date of the Share Sale Agreement and approximately 53.75% of the entire issued share capital of the Company as at the Latest Practicable Date.

Consideration

The aggregate consideration for the Sale Shares is HK\$161,252,156.60, representing HK\$0.9263 per Sale Share. The Company was informed by Ultra Harvest that the consideration was determined after arm's length negotiations between the Vendors and Ultra Harvest taking into account the business growth potential of the Remaining Group and the fact that Ultra Harvest can obtain a controlling interest in the Company after the Share Sale Completion.

LETTER FROM THE BOARD

The aggregate consideration for the Sale Shares payable by Ultra Harvest to the Vendors shall be satisfied as follows:

- (i) the sum of HK\$10 million in cash as deposit standing to the credit of the bank account jointly opened, controlled and operated by Mr. Yang and a designated person of Ultra Harvest (being Mr. Shen Ke) shall be payable to Mr. Yang upon signing of the Share Sale Agreement in the manner agreed between the parties thereto; and
- (ii) the remaining balance of the consideration (i.e. HK\$151,252,156.60) shall be paid upon Share Sale Completion by Ultra Harvest in the following manner:
 - (a) a sum of HK\$55,114,850.00 to KSE;
 - (b) a sum equivalent to the amount due from the Privateco Group to the Remaining Group as at the date of the Share Sale Completion (the “Intra-Group Balance”) to KST; and
 - (c) a sum of HK\$96,137,306.60 less the Intra-Group Balance to Mr. Yang.

As at the Latest Practicable Date, the Intra-Group Balance amounted to approximately HK\$89,213,000.

Conditions precedent

Share Sale Completion shall be subject to the following conditions precedent being satisfied in full and remaining satisfied in full or (where applicable) validly waived in full on or before the Long Stop Date:

- (a) the Shareholders (other than those who are required to abstain from voting under the Listing Rules) having duly and validly passed such resolution(s) at the EGM as are necessary for approving, among other things, the Distribution In Specie and all transactions contemplated thereunder;
- (b) no indication from the SFC having been received by Ultra Harvest or its advisers that the offer price per Listco Offer Share shall be higher than HK\$0.9263 unless such higher offer price is accepted by Ultra Harvest;
- (c) the listing and trading of the Shares having been resumed following the clearance by the Stock Exchange and the SFC of the Joint Announcement and its publication, and the Shares thereafter remaining so listed and traded on the Main Board of the Stock Exchange on the date of the Share Sale Completion (excluding any suspension for the purposes of obtaining clearance from the Stock Exchange or the SFC for any announcements in connection with the Share Sale Agreement and the transactions contemplated thereunder) and no indication being received on or before the date of the Share Sale Completion from the SFC or the Stock Exchange to the effect that the listing of the Shares on the Main Board of the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) for whatever reason (including as a result of Share Sale Completion or in connection with the terms of or any transaction contemplated by the Share Sale Agreement or in connection with any allegation that the Company is no longer suitable for listing);

LETTER FROM THE BOARD

- (d) if required, all other approvals, consents and acts required under the Listing Rules or other applicable laws and regulations or otherwise required from any third parties in connection with the Share Sale Agreement and the transactions contemplated thereunder having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such laws, rules, regulations and requirements having been obtained from the Stock Exchange or other relevant regulatory authorities or the relevant third parties;
- (e) the Company having completed the Group Reorganisation, and sufficient evidence as may be required by Ultra Harvest having been provided to Ultra Harvest;
- (f) save as contemplated under the Group Reorganisation and for the proposed liquidation of the Korea Branch and/or the SY Processing Factory in the manner as informed by Mr. Yang to Ultra Harvest from time to time, no petition for the winding up of any of the companies within the Remaining Group being presented or analogous proceedings being taken against any of the companies within the Remaining Group, in each case on reasonable and substantial grounds;
- (g) the warranties, representations and undertakings given by the Vendors under the Share Sale Agreement remaining true and not misleading in any material respect at Share Sale Completion;
- (h) Mr. Yang having performed all of the covenants and agreements required to be performed or caused to be performed by him prior to the Share Sale Completion;
- (i) there having been no material breach of any of the covenants, undertakings and obligations of the warranties, representations and undertakings given by the Vendors under the Share Sale Agreement;
- (j) none of the Vendors having received notice of any injunction or other order, directive or notice restraining or prohibiting the consummation of the transactions contemplated by the Share Sale Agreement and there being no action seeking to restrain or prohibit the consummation thereof, or seeking damages in connection therewith, which is pending or any such injunction, other order or action which is threatened;
- (k) save as contemplated under the Group Reorganisation and/or the Share Sale Agreement, there not having been any Material Adverse Change in respect of the companies within the Remaining Group taken as a whole since the date of the Share Sale Agreement;
- (l) during the period commencing from the date of the Share Sale Agreement until the date of the Share Sale Completion (both dates inclusive), save as contemplated under the Group Reorganisation, none of the companies within the Remaining Group having conducted any connected transactions (as defined under Chapter 14A of the Listing Rules) with any of the Vendors or any of their respective associates (except for those connected transactions which are subsisting at the time of signing of the Share Sale Agreement and disclosed to Ultra Harvest);
- (m) the Joint Announcement having been cleared by the SFC and (if necessary) the Stock Exchange and the Joint Announcement having been published on the websites of the Company and the Stock Exchange; and

LETTER FROM THE BOARD

- (n) the resolution(s) set out in paragraph (a) above not having been revoked, withdrawn or otherwise become invalid.

Ultra Harvest may at its absolute discretion at any time waive, whether in whole or in part and whether subject to any condition(s), in writing all or any of the conditions precedent as set out in paragraphs (c), (d) (to the extent concerning third parties as mentioned therein), (f), (g), (h), (i), (j), (k) and (l) above. Save as mentioned above, no parties to the Share Sale Agreement may waive any other conditions precedent (namely those as set out in paragraphs (a), (b), (d) (to the extent not concerning third parties as mentioned therein), (e), (m) and (n) above).

In respect of the condition precedent set out in paragraph (d) above, so far as consent from third parties is concerned, the Company will need to obtain consent from the landlord of its current office premises in Hong Kong for the possible change in control of the Company as a result of the Share Sale Completion.

Completion

Share Sale Completion shall take place on the third Business Day after the date (the “Fulfillment Date”) on which the last condition precedent (in terms of time of being fulfilled or waived) of the conditions precedent as set out in paragraphs (a), (d) and (e) under the sub-section headed “Conditions precedent” above in this Letter from the Board have been fulfilled (or waived in accordance with the terms of the Share Sale Agreement) provided that on the Fulfillment Date, all the other conditions precedent as set out in paragraphs (b), (c) and (f) to (n) under the sub-section headed “Conditions precedent” above in this Letter from the Board have remained fulfilled (or have been waived in accordance with the terms of the Share Sale Agreement), or such other date as the parties thereto shall agree in writing as the date on which Share Sale Completion shall take place. As at the Latest Practicable Date, except for the conditions precedent set out in paragraph (m), none of the conditions precedent set out under the sub-section headed “Conditions precedent” above in this Letter from the Board has been, or is regarded as fulfilled.

Upon Share Sale Completion, Mr. Yang shall execute in favour of the Company a deed of indemnity concerning certain estate duty, taxation and other liabilities of the Remaining Group.

Effect of the Share Sale Completion on shareholding structure of the Company

As at the Latest Practicable Date, there were 323,896,933 Shares in issue.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately upon Share Sale Completion assuming no other changes in the issued share capital and shareholding in the Company from the Latest Practicable Date up to Share Sale Completion but before the commencement of the Listco Offer):

LETTER FROM THE BOARD

	As at the Latest Practicable Date		Immediately upon Share Sale Completion but before the commencement of the Listco Offer	
	Number of Shares	Approximate % (Note 2)	Number of Shares	Approximate % (Note 2)
Vendors:				
Mr. Yang	114,582,000	35.38	–	–
KSE	59,500,000	18.37	–	–
Ultra Harvest and parties acting in concert with it	–	–	174,082,000	53.75
Dr. Kim Chung Kweon (Note 1)	20,000	0.01	20,000	0.01
Mr. Hong Sang Joon (Note 1)	100,000	0.03	100,000	0.03
Public	149,694,933	46.22	149,694,933	46.22
Total	323,896,933	100	323,896,933	100

Notes:

1. Dr. Kim Chung Kweon and Mr. Hong Sang Joon are Directors.
2. The percentage does not add up to 100 due to rounding.

B. GROUP REORGANISATION

Pursuant to the Group Reorganisation:

- (i) the Privateco has been incorporated and the Distributed Businesses will be injected into the Privateco;
- (ii) the operations of the Remaining Group and the Privateco Group will be delineated by, among others, the Privateco Group entering into employment contracts with those employees who will be transferred from the Remaining Group to the Privateco Group;
- (iii) all outstanding bank loans of the Remaining Group will be settled in cash by the Remaining Group by utilizing the intra-group balances settlement received from the Privateco Group referred to in (v) below;
- (iv) all amounts due from Mr. Yang and KSE to the Group will be settled by them in cash;

LETTER FROM THE BOARD

- (v) the outstanding intra-group balances (including certain non-trade balances) between the Remaining Group and the Privateco Group will be settled upon or before Share Sale Completion and completion of the Distribution In Specie by (a) the subscription by the Company for one Privateco Share, credited as fully paid, at the subscription price of HK\$36,400,000, which will be offset by a loan due from the Privateco to the Company in the amount of HK\$36,400,000; and (b) the outstanding balances will be settled in cash by Mr. Yang by utilizing the sale proceeds to be received under the Share Sale Agreement; and
- (vi) KST and Kwang Sung Holdings Co., Ltd. will enter into the Framework Supply Agreement as outlined in the section headed “D. Continuing Connected Transactions” in this Letter from the Board.

There is no condition precedent to the completion of the Group Reorganisation.

C. DISTRIBUTION IN SPECIE

Immediately upon Share Sale Completion, the Company will distribute all of its Privateco Shares in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date (being a date falling before the date of Share Sale Completion, which is to be fixed by the Board for determining entitlements to the Distribution In Specie) on the following basis:

for every Share held one Privateco Share

The Company will announce the Record Date in accordance with Rule 13.66 of the Listing Rules as and when appropriate.

The Distribution In Specie will be effected by distribution from the distributable reserves of the Company and the amount to be distributed will be equivalent to the net asset value of the Privateco Group (assuming all the steps set out in the section headed “B. Group Reorganisation” above in this Letter from the Board have been completed) which will be ascertained immediately prior to Share Sale Completion.

As a result of the Distribution In Specie, the Privateco and its subsidiaries will cease to be subsidiaries of the Company, and the Remaining Group will carry on the Remaining Businesses, being the manufacturing and sale of electronic components to worldwide customers (except for those in Korea and Japan).

It is the intention of the parties that the Distribution In Specie will be completed immediately after the Share Sale Completion and that immediately upon completion of the Distribution In Specie, Quam Securities will, on behalf of Smart Top, make the Privateco Offer in accordance with the Takeovers Code. Therefore, the Listco Offer will be made after Share Sale Completion while the Privateco Offer will be made after completion of the Distribution in Specie. Arrangements will be made such that the Distribution In Specie will follow immediately after Share Sale Completion and the Listco Offer and the Privateco Offer will be expected to commence on the same day.

LETTER FROM THE BOARD

The Privateco Shares, when issued, will rank pari passu in all respect with each other. Unless requested by way of written request to the board of directors of Privateco by a holder of the Privateco Share, no share certificate will be issued in respect of the Privateco Shares upon completion of the Distribution In Specie and before completion of the Privateco Offer. No application will be made for the listing of, and permission to deal in, the Privateco Shares on the Stock Exchange or any other stock exchange.

Conditions to the Distribution In Specie

The Distribution In Specie is conditional upon:

- (a) completion of the Group Reorganisation;
- (b) the passing of an ordinary resolution at the EGM to approve the Distribution In Specie;
- (c) the obtaining of approval from Bermuda Monetary Authority in respect of the transfer of the Privateco Shares to the Shareholders who will be holding 5% or more of the issued share capital of the Privateco pursuant to the Distribution In Specie; and
- (d) Share Sale Completion.

None of the above conditions can be waived.

The Vendors and Ultra Harvest have confirmed that they and their respective associates and parties acting in concert with any of them will abstain from voting on the relevant resolution regarding the Distribution In Specie, which will be taken by poll at the EGM.

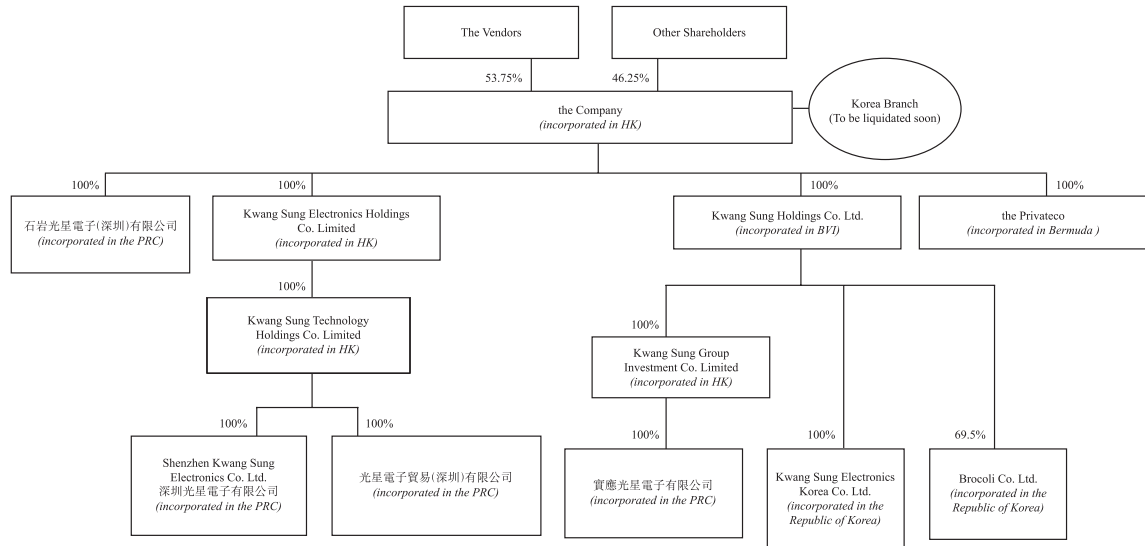
Overseas Shareholders

According to the register of members of the Company as at the Latest Practicable Date, the Company had Shareholders with addresses outside Hong Kong in the Republic of Korea. As the Distribution In Specie to persons not resident in Hong Kong may be affected by the laws of the Republic of Korea, Shareholders who are citizens, residents or nationals of the Republic of Korea should keep themselves informed about and observe any applicable legal or regulatory requirements and where necessary seek legal advice. It is the responsibility of the Overseas Shareholders to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction).

LETTER FROM THE BOARD

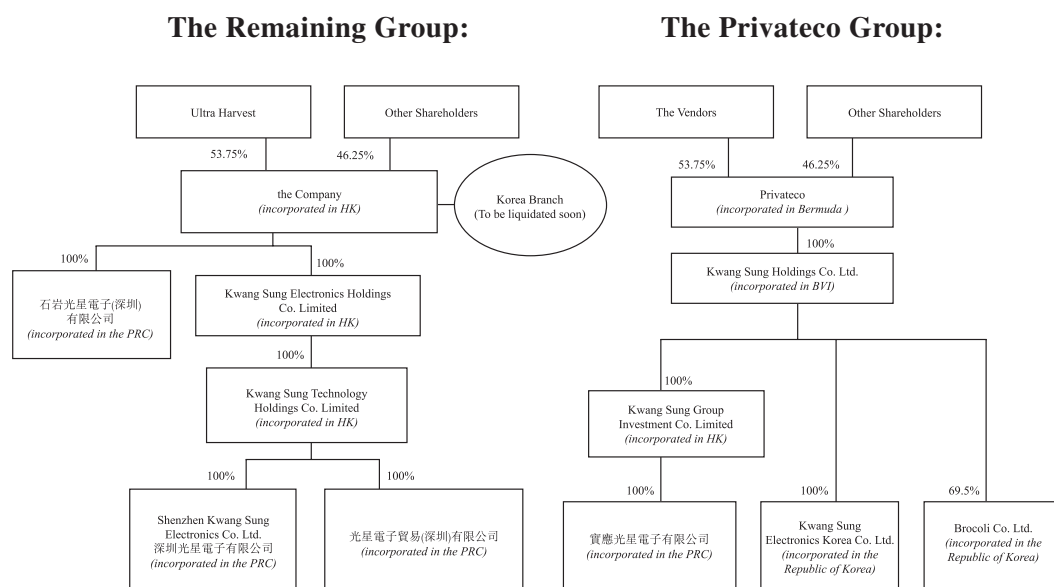
Group structure before and after the Group Reorganisation and the Distribution In Specie

The chart below shows in summary the group structure of the Group as at the Latest Practicable Date and immediately before the implementation of the Group Reorganisation and the Distribution In Specie (assuming no other changes in the shareholding structure of the Group since the Latest Practicable Date):



LETTER FROM THE BOARD

The chart below shows in summary the respective group structure of the Privateco Group and the Remaining Group immediately after completion of the Group Reorganisation, the Share Sale Completion (which is conditional on, among other things, completion of the Group Reorganisation) and completion of the Distribution In Specie (which is conditional on completion of the Group Reorganisation and the Share Sale Completion), but before commencement of the Privateco Offer and the Listco Offer (assuming no other changes in the shareholding structure of the Group during this period):



Reasons for and effects of the Group Reorganisation and the Distribution In Specie

The Company has been informed that during the negotiations between the parties to the Share Sale Agreement, Ultra Harvest has expressed that it is not interested in the Distributed Businesses. As opposed to an outright disposal of the Distributed Businesses to the controlling Shareholder, the Distribution In Specie and the Privateco Offer together provides an option for the Independent Shareholders to keep or through the Privateco Offer dispose of their investments in the Distributed Businesses. The Privateco Offer provides a cash exit option to the Independent Shareholders (at HK\$0.38 per Privateco Share) to realise all or part of their shareholdings in the Privateco, which are unlisted and may be illiquid, upon completion of the Distribution In Specie.

In addition, upon Share Sale Completion, Ultra Harvest will become a controlling Shareholder and is obliged to make the Listco Offer, which will be an unconditional mandatory cash offer, to acquire all the issued Shares (other than those already owned or agreed to be acquired by Ultra Harvest and the parties acting in concert with it) at HK\$0.9263 per Share.

The Group Reorganisation, which reorganises the Distributed Businesses under the Privateco Group, is a crucial step for achieving the Distribution In Specie which in turn will lead to the Privateco Offer, and is a condition precedent to Share Sale Completion which in turn will ultimately lead to the Listco Offer. The Board therefore considers that the Group Reorganisation is in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

The Listco Offer and the Privateco Offer will provide a cash exit to the Shareholders (other than Ultra Harvest and parties acting in concert with it) and the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) who wish to realise all or part of their interests in the Company and the Privateco respectively following the Share Sale Completion and the Distribution In Specie at a discount of approximately 10.5% to the closing price of the Shares of HK\$1.46 as quoted on the Stock Exchange on the Last Trading Day. As such, the Board considers that it is in the interests of the Independent Shareholders to provide them with an opportunity to consider and, if thought fit, approve the resolution for the Distribution In Specie at the EGM.

Information on the Distributed Businesses and the Remaining Businesses

The Group is principally engaged in the manufacturing and sale of electronic components. Its principal customers are located in the PRC, Hong Kong and Korea.

The Distributed Businesses to be operated by the Privateco Group will consist principally of the manufacturing and sale of electronic components to customers in Korea and Japan.

The Remaining Group will be principally engaged in the manufacturing and sale of electronic components to worldwide customers (except for those in Korea and Japan).

Financial information of the Group

Set out below is the turnover, profit or loss before taxation and profit or loss attributable to owners of the Company for each of the three financial years ended 31 December 2011 as extracted from the annual reports of the Company for the financial years ended 31 December 2009, 2010 and 2011, and the six months ended 30 June 2012 as extracted from the interim report of the Company for the six months ended 30 June 2012, as set out in Appendix II to this circular:

	For the year ended 31 December			Six months ended
	2009	2010	2011	30 June 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)
Turnover	592,280	680,481	557,551	232,619
Profit/(loss) before taxation	3,308	14,018	(57,389)	(22,673)
(Loss)/profit attributable to owners of the Company	(35,774)	8,087	(49,714)	(23,611)

The audited equity attributable to owners of the Company as at 31 December 2011 was approximately HK\$324,991,000, representing approximately HK\$1.0034 per Share based on 323,896,933 Shares in issue as at 31 December 2011.

LETTER FROM THE BOARD

Financial information of the Privateco Group

Upon completion of the Group Reorganisation and the Distribution In Specie, the Privateco will be the holding company of the Distributed Businesses.

Set out below is the financial information of the Distributed Businesses for each of the three financial years ended 31 December 2011 and the six months ended 30 June 2012, as set out in Appendix III to this circular:

	For the year ended 31 December			Six months ended
	2009	2010	2011	30 June 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Audited)
Turnover	–	–	58,563	98,108
Loss before taxation	(1,279)	(270)	(9,378)	(11,696)
Loss for the year	(1,244)	(222)	(9,309)	(11,465)

The net assets attributable to owners of the Distributed Businesses as at 30 June 2012 was approximately HK\$85,687,000, as extracted from the accountants' report of the Privateco in Appendix III to this circular.

Financial effects of the Group Reorganisation and the Distribution In Specie

Set out in Appendix V to this circular is the unaudited pro forma financial information of the Remaining Group which illustrates the financial impact of the Group Reorganisation and the Distribution In Specie on the results and cash flows of the Remaining Group as if the Group Reorganisation and the Distribution In Specie had taken place at the commencement of the six months ended 30 June 2012 and the financial impact of the Group Reorganisation and the Distribution In Specie on the assets and liabilities of the Remaining Group as if the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012. Upon completion of the Distribution In Specie, the Privateco Group will cease to be the Company's subsidiaries and their financial results will not be consolidated into the Company's financial results.

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix V to this circular, assuming the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012, the pro forma total assets of the Remaining Group would be approximately HK\$273,980,000, which represented a decrease of approximately HK\$217,920,000 from the Group's total assets as at 30 June 2012, the pro forma total liabilities of the Remaining Group would be approximately HK\$101,212,000, which represented a decrease of approximately HK\$98,267,000 from the Group's total liabilities as at 30 June 2012, and the pro forma net assets of the Remaining Group would be approximately HK\$172,768,000, which represented a decrease of approximately HK\$119,653,000 from the Group's net assets as at 30 June 2012.

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix V to this circular, assuming the Group Reorganisation and the Distribution In Specie had taken place at the commencement of the six months ended 30 June 2012, the Remaining Group would record a pro forma loss of approximately HK\$12,853,000.

LETTER FROM THE BOARD

D. CONTINUING CONNECTED TRANSACTIONS

As a transitional arrangement, the Privateco Group and the Remaining Group will enter into the Framework Supply Agreement after the obtaining of the Independent Shareholders' approval at the EGM and completion of the Distribution In Specie. The arrangement under the Framework Supply Agreement is unilateral whereby the Remaining Group will sell and the Privateco Group will purchase certain electronic components. As the current production facilities of the Privateco Group will not be sufficient to fulfill its customers' requirements, such transitional arrangement is to assist the Privateco Group in meeting demands from its customers (including those customers in Korea and Japan who have previously purchased from the Remaining Group) subsequent to completion of the Distribution In Specie while bringing in revenue for the Remaining Group at the same time.

Set out below are the key terms of the Framework Supply Agreement:

Parties:	(1) KST (2) Kwang Sung Holdings Co., Ltd.
Subject matter:	The Remaining Group will sell and the Privateco Group will purchase certain electronic components in accordance with the terms of the Framework Supply Agreement.
Individual agreements:	Relevant members of the Remaining Group and the Privateco Group will from time to time enter into individual agreements which will set out the terms of the sale and purchase of the relevant electronic components. The terms of the individual agreements will be negotiated based on the following principles:— (a) the sale and purchase of the electronic components shall be on normal commercial terms; (b) the prices payable for the electronic components shall be agreed by reference to the prevailing market prices of products with similar specifications at the relevant time and shall be no less favourable to the Remaining Group than those offered to the Remaining Group from independent third parties from time to time; and (c) other terms and conditions of any such sale and purchase shall be no less favourable to the Remaining Group than those requested from the Remaining Group by independent third parties from time to time.
Term:	The Framework Supply Agreement will be effective from the date of the Framework Supply Agreement and expiring on 31 December 2014 (both dates inclusive).

LETTER FROM THE BOARD

Annual caps: The total value of the contracts in respect of the sale and purchase of the electronic components for the periods concerned under the Framework Supply Agreement shall not exceed the amounts set out below, unless the Remaining Group has complied with the applicable requirements of the Listing Rules:

Period	Total value not exceeding <i>HK\$</i>
1 January 2012 - 31 December 2012	43,400,000
1 January 2013 - 31 December 2013	46,500,000
1 January 2014 - 31 December 2014	49,900,000

The annual caps are determined after taking into account (i) the historical average compound growth rate of the intra-group transaction amount for the relevant sale and purchase of electronic components for the past three years ended 31 December 2011; (ii) the actual transaction amount for the six months ended 30 June 2012; and (iii) a buffer of around 10% to cater for fluctuation of transaction amounts and/or prices of individual years.

The table below illustrates the amount of sales of electronic components by the Remaining Group to (a) the Privateco Group and (b) customers in Korea and Japan for the three years ended 31 December 2011 and six months ended 30 June 2012:

	Year ended 31 December			Six months ended
	2009	2010	2011	30 June 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales to the Privateco Group	–	–	31,592	8,713
Sales to customers in Korea and Japan	28,901	42,377	29,603	10,348
Total	<u>28,901</u>	<u>42,377</u>	<u>61,195</u>	<u>19,061</u>

The transactions contemplated under the Framework Supply Agreement will, upon completion of the Distribution In Specie, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules by virtue of the Privateco Group being an associate of Mr. Yang and thus a connected person of the Company under the Listing Rules. The Board considers that the terms of the Framework Supply Agreement to be on normal commercial terms, fair and reasonable and the entering into of such agreement is in the interests of the Group and the Shareholders as a whole.

Given the material interests of Mr. Yang and Mr. Yang Ho Sung in the Framework Supply Agreement, Mr. Yang and Mr. Yang Ho Sung had abstained from voting at the Board meeting approving the Framework Supply Agreement.

LETTER FROM THE BOARD

As certain applicable percentage ratios in respect of the continuing connected transactions contemplated under the Framework Supply Agreement are more than 5% but less than 25% and each of the annual caps is more than HK\$10,000,000, the Framework Supply Agreement and the transactions contemplated thereunder shall be subject to the reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

E. INFORMATION ON THE REMAINING GROUP

Upon completion of the Group Reorganisation and the Distribution In Specie, the business model of the Remaining Group will remain unchanged. The Remaining Group will be principally engaged in the manufacturing and sale of electronic components to worldwide customers (except for those in Korea and Japan).

The Remaining Group's major customers include well known international and PRC enterprises. The products of the Remaining Group can be classified into composite components and unit electronics components by reference to their functions and applications. Most of these products are designed to meet the specifications of the customers of the Remaining Group. The Remaining Group put emphasis on research and development and production engineering in order to satisfy customers' continuously changing requirements of the products.

The typical production process of the Remaining Group's products use automated surface mount technology techniques and manual intensive components inserting and casting assembly process which provide flexibility in production scheduling of the Remaining Group. Most of the production process is carried out in-house by the Remaining Group's manufacturing plants in Baoan District, Shenzhen, the PRC.

The Directors believe that having stringent quality control and assurance is an important operational aspect in the electronic components industry. The Remaining Group places strong emphasis on quality control and assurance. Its quality control involves sampling, visual inspections and functional test of finished products on a random sampling basis. In addition, quality control procedures are implemented at each step of the production process from purchasing of raw materials and monitoring of the production process to inspection of finished products.

F. FINANCIAL AND TRADING PROSPECT OF THE REMAINING BUSINESSES

Looking ahead, the Remaining Group expects that the keen competition and the weak sentiment in traditional consumer electronics markets will continue to present major challenges to the electronic industry. To alleviate the production pressure, the Remaining Group has realigned its current production to cater for the growing demand of multifunction electronic devices such as television and mobile device related business segments. Leveraging its solid relationship with its customers in the PRC, the tuner module for car audio is expected to provide momentum for future growth. The Remaining Group is also embarking on initiatives to extend business opportunities for its newly launched products and will try to achieve better business results in the coming periods.

LETTER FROM THE BOARD

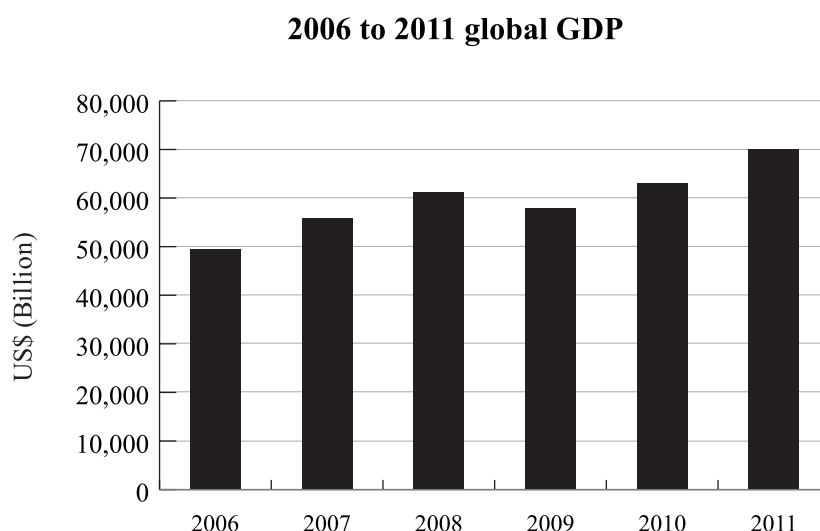
To grasp the dynamic smartphone and tablet personal computer markets, the Remaining Group is focusing on the development and commercialisation of new consumer products such as dual docking systems which were launched in the first half of this year. The Remaining Group enjoys a stable positive partnership with consumer electronic manufacturing pioneers and is proactively engaged in initiatives to capture new business opportunities which are progressing well. The Remaining Group is one of the pioneer vendors providing new consumer products such as dual docking system to a renowned electronic manufacturer in the PRC for its mobile devices and tablet personal computers. With the good sound quality of its wireless solutions products, the Remaining Group is confident it can secure new orders from other customers and extend its business to other segments in the future.

The Remaining Group is also pleased to see the growth potential in transformer products for LCD and LED televisions as well as adapters for mobile devices arising from an increase in demand. In addition, the increasing adoption of automated production among its customers in the PRC is expected to accelerate the demand for this type of products. The Remaining Group is now actively engaged in marketing transformers and adapters for LCD and LED televisions to its major customers. Digital audio broadcasting for audio/video and navigation system is a general market trend for European car manufacturers, which is expected to improve the prospect for the Remaining Group's digital multimedia products in the upcoming years.

Your attention is also drawn to the paragraph headed "Intention of Ultra Harvest regarding the Remaining Group" as set out in Appendix I to this circular.

G. BRIEF INDUSTRY OVERVIEW OF THE MANUFACTURING AND SALE OF ELECTRONICS COMPONENTS TO WORLDWIDE CUSTOMERS

The performance of the Remaining Business of manufacturing and sale of electronics components to worldwide customers (except for those in Korea and Japan) is primarily driven by the global economy. Set out below is the chart showing the trend of the global gross domestic product ("GDP") from 2006 to 2011:

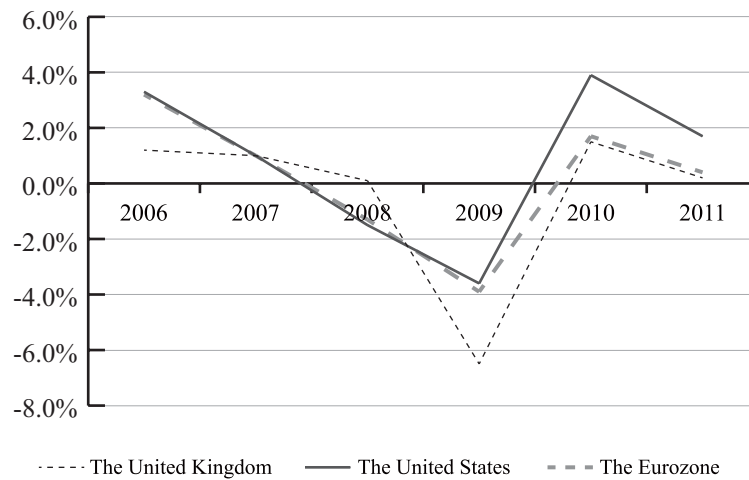


Source: Bloomberg

LETTER FROM THE BOARD

As set out in the chart above, the global GDP was subject to a downturn in 2009, primarily due to the global financial crisis in 2008 and 2009. However, as a result of the effort of the governments of the developed countries and key developing countries, such as the PRC, the level of global GDP in 2010 exceeded that of 2008. In 2011, the global GDP achieved its record high of approximately US\$70,000 billion.

year-on-year changes of disposable income



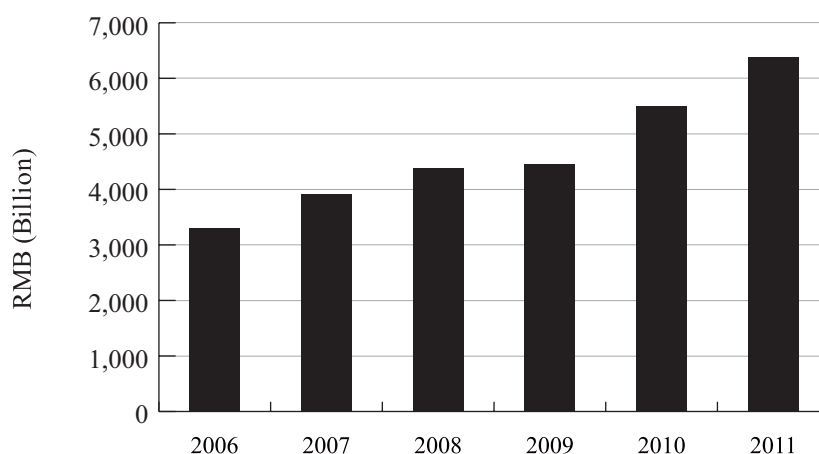
Source: Organization for Economic Co-operation and Development (www.oecd.org/statistics/)

As set out in the chart above, the year-on-year changes of disposable income of key developed economic zones, namely the United Kingdom, the United States and the Eurozone all experienced a general growing trend during the period from 2006 to 2011 (except for 2008 and 2009, when the global financial crisis occurred). Such growth in disposable income in key developed economic zones is expected to support the demand for electronics products.

LETTER FROM THE BOARD

However, the supply of electronic products has also been growing rapidly. In the PRC only, the value of telecommunication products, computers and other electronics equipment produced grew from approximately RMB3,308 billion in 2006 to approximately RMB6,380 billion in 2011, representing a cumulative average growth rate (“CAGR”) of approximately 14%. Such increase also implied an oversupply of electronics products. Set out below is the value of telecommunication products, computers and other electronics equipment produced in the PRC from 2006 to 2011.

Value of telecommunication equipment, computer and other electronic equipment produced



Source: 2007 to 2012 China Statistical Yearbook published by the National Bureau of Statistics of China

On top of fierce market competition as a result of oversupply, electronics components manufacturers in the PRC also generally face rising production costs as a result of general inflation and increase in staff cost in the PRC, which negatively affects the consumer electronics products industry and the Remaining Group’s business. According to China Statistical Yearbook, the nationwide average per capita staff cost for manufacturing increased from approximately RMB18,225 in 2006 to approximately RMB36,665 in 2011, representing a CAGR of approximately 15%.

To alleviate adverse impact on its business results from some of the sluggish market segments in the coming periods, the Remaining Group has been making efforts to diversify its concentrated market on consumer electronics, especially home audios into automotive, communications, and industrial segments during the past periods. Facing the opportunities and uncertainties in the year ahead, the Remaining Group will continue to adjust its business strategies by actively launching new products with better profitability and address the ever-changing market trends in a prudent and pragmatic way to meet changing market demand.

LETTER FROM THE BOARD

H. RISK FACTORS RELATING TO THE REMAINING BUSINESS

a) Sustainability of business growth

The Remaining Group operates in a market which is characterised by rapid changes in technology, industry standards and customers' requirements. The ability of the Remaining Group to maintain its business growth will depend, in part, on its ability to provide high quality electronics components that address the increasingly sophisticated and varied needs of existing and prospective customers in an effective and timely manner. If the Remaining Group fails to keep pace with such changes successfully, the performance of the Remaining Group may be adversely affected.

b) Inventory risk

For each of the three years ended 31 December 2011 and the six months ended 30 June 2012, the Remaining Group recorded the provision on inventory of approximately HK\$4,394,000, HK\$2,013,000, HK\$18,897,000 and nil, respectively. In the event that the Remaining Group fails to project its inventory requirement accurately, it may result in an increase in the provision of slow moving inventory and the Remaining Group's profitability may be adversely affected.

c) Competition

The electronics industry is characterised by vigorous competition. The Directors believe that the Remaining Group's customers place considerable emphasis on product price, consistency in quality and reliability of their suppliers' products and suppliers' speediness in adapting to their specific requirements. Accordingly, the Remaining Group's customers may place order with the Remaining Group if its selling price is in a similar range or lower than that of the Group's competitors and/or the quality of its products is of similar standards or outperforms those of the Group's competitors. The Directors believe that the Remaining Group faces intense competition from other electronics component manufacturers. Any failure by the Remaining Group to adjust promptly to meet customers' specific requirement would have a material adverse effect on the Remaining Group's future reputation, growth and profitability.

I. MANAGEMENT OF THE REMAINING BUSINESS

Other than Mr. Hong Sang Joon, each of the existing Directors will tender their respective resignation from the Board with effect from such date as is required by Ultra Harvest but not before the earliest date as permitted under Rule 7 of the Takeovers Code. As disclosed in the Joint Announcement, Ultra Harvest also intends to appoint new Directors to the Board with effect not earlier than such date as permitted under Rule 26.4 of the Takeovers Code. By that time, the Remaining Group will be managed by the then existing Directors (including Mr. Hong Sang Joong) and the senior management team of the Company and the Remaining Group.

Details of the senior management team who will continue to manage the Remaining Business are set out below:

LETTER FROM THE BOARD

Mr. HONG Sang Joon, who is the chief financial officer and an executive Director and holds position as director of certain subsidiaries of the Company. He is responsible for corporate planning, financial and operational management of the Remaining Group.

Mr. KO Byoung Hwan, who is a director of a subsidiary of the Remaining Group. He is responsible for sales and overall factory management such as production material control, production, and inventory management of Shenzhen Kwang Sung Electronics Co., Ltd..

Mr. LEE Bae Sung, who is a general manager and the head of Research and Development and Production Technology Group of the Remaining Group. He is responsible for research and development and production technology.

Mr. KWOK Kim Hung Eddie, who is financial controller and company secretary of the Company. He is responsible for accounting and company secretarial matters.

Mr. CUI Wu Nan, who is deputy general manager of a subsidiary in the Remaining Group. He is responsible for overseeing the factory management of 石岩光星電子(深圳)有限公司.

Mr. LEE Hyun Seok, who is a deputy general manager of a subsidiary in the Remaining Group. He is responsible for purchasing function.

J. GENERAL

EGM

The EGM will be held for the purpose of considering and, if thought fit, approving the resolutions in respect of the Distribution In Specie, the Framework Supply Agreement and the respective transactions contemplated thereunder by the Independent Shareholders by way of poll at the EGM. The Vendors, Ultra Harvest, their respective associates and parties acting in concert with any of them and any Shareholder with a material interest in the continuing connected transactions under the Framework Supply Agreement are required to and will abstain from voting on the relevant resolution(s) at the EGM.

As at the Latest Practicable Date, the Vendors, their respective associates and parties acting in concert with any of them hold 174,082,000 Shares, representing approximately 53.75% of the existing issued Shares.

Independent Board Committee and Independent Financial Adviser

The Independent Board Committee comprising all the independent non-executive Directors has been formed in order to make a recommendation to the Independent Shareholders regarding the Distribution In Specie, the Framework Supply Agreement and the respective transactions contemplated thereunder.

Goldin Financial Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Distribution In Specie, the Framework Supply Agreement and the respective transactions contemplated thereunder.

LETTER FROM THE BOARD

K. RECOMMENDATION

The Board believes that the terms of the Distribution In Specie and the Framework Supply Agreement are fair and reasonable and the Distribution In Specie and the Framework Supply Agreement are in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Distribution In Specie and the Framework Supply Agreement.

In addition, your attention is drawn to the letter from the Independent Board Committee set out on pages 29 to 30 of this circular which contains its recommendation to the Independent Shareholders in respect of the Distribution In Specie and the Framework Supply Agreement, based on the letter of advice from the Independent Financial Adviser set out on pages 31 to 55 of this circular which contains their recommendation to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into consideration.

L. FURTHER INFORMATION

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

Yours faithfully,
By order of the Board
Kwang Sung Electronics H.K. Co. Limited
HONG Sang Joon
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



KWANG SUNG ELECTRONICS H.K. CO. LIMITED

光 星 電 子 香 港 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2310)

19 November 2012

To the Independent Shareholders

Dear Sir/Madam,

(1) GROUP REORGANISATION OF KWANG SUNG ELECTRONICS H.K. CO. LIMITED

(2) DISTRIBUTION IN SPECIE OF THE PRIVATECO SHARES

(3) CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 19 November 2012 (the “Circular”), in which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Distribution In Specie and the Framework Supply Agreement are fair and reasonable so far as the Company and the Shareholders are concerned and whether the Distribution In Specie and the Framework Supply Agreement are in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from Goldin Financial Limited, being the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Distribution In Specie and the Framework Supply Agreement as set out on pages 31 to 55 of the Circular, and the letter from the Board set out on pages 7 to 28 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, among other matters, the factors and reasons considered by, and the opinion of Goldin Financial Limited as stated in their letter of advice, we consider that the terms of the Distribution In Specie and the Framework Supply Agreement are fair and reasonable and 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 resolutions to be proposed at the EGM to approve the Distribution In Specie and the Framework Supply Agreement.

Yours faithfully,

Independent Board Committee

Dr. KIM Chung Kweon Dr. HAN Byung Joon Mr. KIM Chan Su

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Goldin Financial Limited setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Distribution In Specie and the Framework Supply Agreement, which has been prepared for the purpose of inclusion in this circular.



高銀融資有限公司

GOLDIN FINANCIAL LIMITED

Goldin Financial Limited

23rd Floor

Two International Finance Centre

8 Finance Street

Central

Hong Kong

19 November 2012

*To: the Independent Board Committee and
the Independent Shareholders of
Kwang Sung Electronics H.K. Co. Limited*

Dear Sirs,

DISTRIBUTION IN SPECIE OF THE PRIVATECO SHARES AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Distribution In Specie and the Framework Supply Agreement, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular dated 19 November 2012 issued by the Company (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely Dr. KIM Chung Kweon, Dr. HAN Byung Joon and Mr. KIM Chan Su, has been established to make recommendations to the Independent Shareholders as to whether the respective terms and conditions of the Distribution In Specie and the Framework Supply Agreement are fair and reasonable and whether the Distribution In Specie and the Framework Supply Agreement are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser.

We, Goldin Financial Limited, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Distribution In Specie and the Framework Supply Agreement, and to make recommendations as to, among others, whether the respective terms and conditions of the Distribution In Specie and the Framework Supply Agreement are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole and as to voting in respect of the relevant resolutions at the EGM. Our appointment has been approved by the Independent Board Committee.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the Joint Announcement, the Share Sale Agreement (as amended and supplemented by the Supplemental Agreement), the annual reports of the Company for the three financial years ended 31 December 2009, 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012. We have also reviewed certain information provided by the management of the Company relating to the operation, financial condition and prospect of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the financials, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms and conditions of the Distribution In Specie and the Framework Supply Agreement and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion was necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendations on the Distribution In Specie and the Framework Supply Agreement to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Principal terms of the Group Reorganisation, Distribution In Specie, the Listco Offer and the Privateco Offer

Set out below are the principal terms of the Group Reorganisation, Distribution In Specie, the Listco Offer and the Privateco Offer as extracted from the Circular. Further details of the terms of the Group Reorganisation, Distribution In Specie, the Listco Offer and the Privateco Offer, including conditions precedent thereof, are set out in the Letter from the Board and Appendix I to the Circular. As stated in Appendix I to the Circular, information in relation to the Listco Offer and the Privateco Offer contained therein is reproduced from the Joint Announcement for the purpose of providing the Independent Shareholders with reference in respect of the key terms of the Listco Offer and the Privateco Offer. Information reproduced from the Joint Announcement reflects the situation as of the date of the Joint Announcement. To the best of the knowledge and belief of the Directors after all reasonable enquiries, there is no material

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

change to the information contained in Appendix I to the Circular since the date of the Joint Announcement.

(a) Group Reorganisation

Pursuant to the Group Reorganisation:

- (i) the Privateco will be incorporated and the Distributed Businesses will be injected into the Privateco;
- (ii) the operations of the Remaining Group and the Privateco Group will be delineated by, among others, the Privateco Group entering into employment contracts with those employees who will be transferred from the Remaining Group to the Privateco Group;
- (iii) all outstanding bank loans of the Remaining Group will be settled in cash by the Remaining Group by utilising the intra-group balances settlement received from the Privateco Group referred to in (v) below;
- (iv) all amounts due from Mr. Yang and KSE to the Group will be settled by them in cash;
- (v) the outstanding intra-group balances (including certain non-trade balances) between the Remaining Group and the Privateco Group will be settled upon or before Share Sale Completion and completion of the Distribution In Specie by (a) the subscription by the Company for one Privateco Share, credited as fully paid, at the subscription price of HK\$36,400,000, which will be offset by a loan due from the Privateco to the Company in the amount of HK\$36,400,000; and (b) the outstanding balances will be settled in cash by Mr. Yang by utilising the sale proceeds to be received under the Share Sale Agreement; and
- (vi) KST and Kwang Sung Holdings Co., Ltd. will enter into the Framework Supply Agreement.

There is no condition precedent to the completion of the Group Reorganisation.

(b) Distribution In Specie

Immediately upon Share Sale Completion, the Company will distribute all of its Privateco Shares in specie to the Shareholders whose names appear on the register of members of the Company on the Record Date (being a date falling before the date of Share Sale Completion, which is to be fixed for determining entitlements to the Distribution In Specie) on the basis of one Privateco Share for every Share held.

The Distribution In Specie will be effected by distribution from the distributable reserves of the Company and the amount to be distributed will be equivalent to the net asset value of the Privateco Group (assuming all the steps set out in the sub-section headed “(a) Group Reorganisation” above have been completed) which will be ascertained immediately prior to Share Sale Completion.

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The Privateco Shares when issued will rank pari passu in all respects with each other. No application will be made for the listing of, and permission to deal in, the Privateco Shares on the Stock Exchange or any other stock exchange.

As a result of the Distribution In Specie, the Privateco and its subsidiaries will cease to be subsidiaries of the Company, and the Remaining Group will carry on the Remaining Businesses, being the manufacturing and sale of electronic components to worldwide customers (except for those in Korea and Japan).

The Distribution In Specie is conditional upon, among other things, completion of the Group Reorganisation, the passing of ordinary resolution at the EGM to approve the Distribution In Specie and the Share Sale Completion. Completion of the Distribution In Specie will not take place unless all the conditions precedent of the Distribution In Specie have been fulfilled. Subject to completion of the Distribution In Specie, Quam Securities will, on behalf of Smart Top and pursuant to the Takeovers Code, make the Privateco Offer.

(c) *The Listco Offer*

Upon Share Sale Completion, Ultra Harvest will hold 174,082,000 Shares, representing approximately 53.75% of the issued share capital of the Company. Subject to Share Sale Completion, Haitong International Securities will, on behalf of Ultra Harvest and pursuant to the Takeovers Code, make the Listco Offer, which will be an unconditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Ultra Harvest and parties acting in concert with it) on the following basis:

for each Share held HK\$0.9263 in cash

The making of the Listco Offer is subject to Share Sale Completion which in turn is subject to a number of conditions precedent as referred to in the paragraph headed “Conditions precedent” in the section headed “A. Share Sale Agreement” in the Letter from the Board. In the event that the Listco Offer is made, it will be an unconditional cash offer.

None of Ultra Harvest and parties acting in concert with it has received any indication or irrevocable commitment from any Shareholder that he/she/it will accept or reject the Listco Offer as at the date of the Joint Announcement.

The ad valorem stamp duty payable by the accepting Shareholders in connection with the Listco Offer amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration or the then market price of the Shares (whichever is higher) will be payable by the accepting Shareholders and will be deducted by Ultra Harvest from the consideration payable to them on acceptance of the Listco Offer. Ultra Harvest will then pay the stamp duty on behalf of the accepting Shareholders.

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Ultra Harvest intends to maintain the listing status of the Company and it will irrevocably undertake that it will be responsible for maintaining the 25% public float requirement upon the closing of the Listco Offer.

(d) *The Privateco Offer*

Based on the current shareholding structure of the Company, Mr. Yang and parties acting in concert with him will be interested in a total of 174,082,000 Privateco Shares, representing approximately 53.75% of the issued share capital of Privateco following completion of the Distribution In Specie. Given that the Privateco Shares will not be listed on the Stock Exchange or any other stock exchange, it will be difficult, if not impossible, for holders of the Privateco Shares to liquidate their holdings in the Privateco Shares. Mr. Yang considers, in these circumstances, that it is appropriate to provide the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) with an opportunity to realise their holdings in the Privateco Shares by making the Privateco Offer on a voluntary basis pursuant to the Takeovers Code.

As at the date of the Joint Announcement, there was one Privateco Share in issue and the Privateco had no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of the Privateco Shares and the Privateco had no other relevant securities (as defined in Note 4 to Rule 22 of the Takeover Code) as at the date of the Joint Announcement.

Upon completion of the Distribution In Specie, Quam Securities will, on behalf of Smart Top (a company wholly-owned by Mr. Yang) and pursuant to the Takeovers Code, make the Privateco Offer to the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) to acquire all the Privateco Shares (other than those to be owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them) on the following basis:

for each Privateco Share held..... HK\$0.38 in cash

* *The number of the Privateco Shares to be in issue will be equal to the total number of the Shares in issue on the Record Date.*

As the Privateco Offer will only be made following completion of the Distribution In Specie, which is subject to a number of conditions precedent to the Distribution In Specie, the making of the Privateco Offer may or may not proceed and, as such is a possibility only. In the event that the Privateco Offer is made, it will be an unconditional cash offer.

Subject to sufficient Privateco Shares being acquired, pursuant to sections 102 and 103 of the Companies Act, Smart Top intends to avail itself of the right to compulsorily acquire the remaining Privateco Shares not already acquired under the Privateco Offer. Details of the possible compulsory acquisition are set out in Appendix I to the Circular.

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The Privateco Shares subject to the Privateco Offer will be acquired by Smart Top with the right to receive all dividends and distributions declared, paid or made on or after the date of the issue of the Privateco Shares and free from all third party rights.

Given that Privateco is a company incorporated in Bermuda where its register of members is located and maintained, no Hong Kong stamp duty will be payable on any transfer of the Privateco Shares.

2. Reasons for the Group Reorganisation and Distribution In Specie

During the negotiations between the parties to the Share Sale Agreement, Ultra Harvest has expressed that it is not interested in the Distributed Businesses. As opposed to an outright disposal of the Distributed Businesses to the controlling Shareholder, the Distribution In Specie and the Privateco Offer together provides an option for the Independent Shareholders to keep or through the Privateco Offer dispose of their investments in the Distributed Businesses. The Privateco Offer provides a cash exit option to the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) (at HK\$0.38 per Privateco Share) to realise all or part of their shareholding in the Privateco, which are unlisted and may be illiquid, upon completion of the Distribution In Specie.

In addition, upon Share Sale Completion, Ultra Harvest will become a controlling Shareholder and is obliged to make the Listco Offer, which will be an unconditional mandatory cash offer, to acquire all the issued Shares (other than those already owned or agreed to be acquired by Ultra Harvest and the parties acting in concert with it) at HK\$0.9263 per Share.

The Group Reorganisation, which reorganises the Distributed Businesses under the Privateco Group, is a crucial step for achieving the Distribution In Specie which in turn will lead to the Privateco Offer, and is a condition precedent to Share Sale Completion which in turn will ultimately lead to the Listco Offer. The Board therefore considers that the Group Reorganisation is in the interests of the Shareholders as a whole.

The Listco Offer and the Privateco Offer will provide a cash exit to the Shareholders (other than Ultra Harvest and parties acting in concert with it) and the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) who wish to realise all or part of their interests in the Company and the Privateco respectively following the Share Sale Completion and the Distribution In Specie at a discount of approximately 10.5% to the closing price of the Shares of HK\$1.46 as quoted on the Stock Exchange on the Last Trading Day. As such, the Board considers that it is in the interests of the Independent Shareholders to provide them with an opportunity to consider and, if thought fit, approve the resolution for the Distribution In Specie at the EGM.

For those Shareholders who wish to retain their investments in the Distributed Businesses after completion of the Distribution In Specie, they can choose not to accept the Privateco Offer and continue to hold the Privateco Shares. They should, however, be aware that there will be no liquid market for the Privateco Shares as there is no intention to list the Privateco Shares on any stock exchange. Moreover, the Privateco Shares may be subject to the compulsory acquisition provision pursuant to the Companies Act 1981 of Bermuda (as may be amended from time to time) if sufficient Privateco Shares are acquired by Smart Top under the Privateco Offer. Details of the possible compulsory acquisition are set out in Appendix I to the Circular.

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Given the aforesaid and having considered that the Share Sale Completion, the completion of Group Reorganisation and the Distribution In Specie will provide a cash exit to the Shareholders to realise all or part of their interests in the Company and the Privateco respectively through the Listco Offer and the Privateco Offer at a Combined Offer Price (as defined below) which has a premium of approximately 45.5% over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$0.898 per Share based on the interim report of the Company for the six months ended 30 June 2012 and approximately 177.9% over the average closing price of the Shares of HK\$0.47 during the period from the beginning of September 2011 (being the first trading day of the 12-month period ending on the Last Trading Day) up to 14 June 2012 (being the last trading day prior to the issue of the announcement dated 19 June 2012 in relation to the possible sale and purchase of Shares owned by Mr. Yang), we are of the view that the Group Reorganisation and Distribution In Specie are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

3. Information on the Remaining Group and the Privateco Group

The Group is principally engaged in the manufacturing and sale of electronic components. Its principal customers are located in the PRC, Hong Kong and Korea.

Upon completion of the Group Reorganisation and the Distribution In Specie, the Distributed Businesses will be distributed to the Privateco Group which includes the Privateco and its subsidiaries. The Distributed Businesses to be operated by the Privateco Group will consist principally of the manufacturing and sale of electronic components to customers in Korea and Japan.

Upon completion of the Group Reorganisation and the Distribution In Specie, the Remaining Group will comprise the subsidiaries of the Group other than the Privateco and its subsidiaries. The Remaining Group will be principally engaged in the manufacturing and sale of electronic components to worldwide customers (except for those in Korea and Japan).

(a) *Financial performance of the Group*

Set out below are the financial information of the Group as extracted from the annual reports of the Company for the two years ended 31 December 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012:

Table 1: Financial highlights of the Group

	For the year ended 31 December			For the six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Turnover	592,280	680,481	557,551	268,105	232,619
Profit/(loss) attributable to owners of the Company	(35,774)	8,087	(49,714)	(27,861)	(23,611)

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	As at 31 December			As at 30 June
	2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited and restated)	(audited and restated)	(unaudited)
Non-current assets	104,708	163,708	220,113	240,885
Current assets	390,091	366,194	332,908	251,015
(Current liabilities)	(128,360)	(141,586)	(216,503)	(184,832)
Net current assets	261,731	224,608	116,405	66,183
Net assets	354,579	374,349	320,735	292,421

For the year ended 31 December 2010, the turnover of the Group increased from approximately HK\$592.28 million in prior year to approximately HK\$680.48 million, representing a growth of approximately 14.89%. Profit attributable to owners of the Company recorded a turnaround from a loss of approximately HK\$35.77 million in previous year to a profit of approximately HK\$8.09 million. As advised by the management of the Company, such improvement in financial performance was attributable to, among others, the surge in sales of unit electronic components supported by the launch of several innovative products during the year and decrease in overall tax expenses from approximately HK\$39.59 million in 2009 to approximately HK\$6.33 million in 2010. The net assets of the Group as at 31 December 2010 was approximately HK\$374.35 million, representing an increase of approximately HK\$19.77 million or 5.58% compared with that as at 31 December 2009.

For the year ended 31 December 2011, the turnover of the Group decreased from approximately HK\$680.48 million in previous year to approximately HK\$557.55 million, representing a drop of approximately 18.07%. The Group recorded a loss attributable to owners of the Company of approximately HK\$49.71 million, representing a decrease of approximately HK\$57.80 million compared with a profit of approximately HK\$8.09 million in 2010. As advised by the management of the Company, such decrease in financial results was mainly attributable to the reduction in sales of composite components and unit electronic components as a result of the declining demand for traditional home electronics products. The net assets of the Group as at 31 December 2011 was approximately HK\$320.74 million, representing a decrease of approximately HK\$53.61 million or 14.32% compared with that as at 31 December 2010.

For the six months ended 30 June 2012, the turnover of the Group decreased from approximately HK\$268.11 million in the corresponding period of 2011 to approximately HK\$232.62 million, representing a drop of approximately 13.24%. The Group recorded a loss attributable to owners of the Company of approximately HK\$23.61 million during the period. As advised by the management of the Company, such unfavourable financial results were mainly due to the continuous decline in demand for traditional home

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electronics products and the challenging business environment mainly brought by the rising market competition and price pressure for the existing products. The net assets of the Group as at 30 June 2012 was approximately HK\$292.42 million, representing a decrease of approximately HK\$28.31 million or 8.83% compared with that as at 31 December 2011.

(b) *Prospect of the Remaining Group*

As stated in the paragraphs headed “Information on Ultra Harvest” and “Intention of Ultra Harvest regarding the Remaining Group” set out in Appendix I to the Circular, it is the intention of Ultra Harvest to continue the Remaining Businesses. In addition to the Remaining Businesses, Ultra Harvest will, following the Share Sale Completion, conduct a detailed review of the operations of the Remaining Group with a view to establishing a suitable business strategy to enhance the growth of its business and asset base as well as to broaden its income stream, which may include investment in and/or acquisition of assets or business from other parties (including but not limited to Ultra Harvest (or its associate(s))) when suitable investment opportunities arise. Such investment or acquisition (if any) will be made in compliance with the Listing Rules. Ultra Harvest intends to maintain the listing status of the Company which comprises the Remaining Group upon closing of the Listco Offer.

Up to the date of the Joint Announcement, Ultra Harvest had no plan and has not engaged in any discussion or negotiation on any injection of any assets or businesses into the Remaining Group and has no intention to introduce any significant changes in the business of the Remaining Group, including any acquisitions, disposals and/or redeployment of assets and businesses of the Remaining Group, other than in its ordinary course of business.

(c) *Prospect of the Privateco Group*

As stated in the paragraph headed “Background of Smart Top and its intention regarding the Privateco” set out in Appendix I to the Circular, it is the intention of Smart Top that the Privateco Group will not make changes to its principal businesses nor conduct any business other than the Distributed Businesses. It is also the intention of Smart Top that the Privateco Group will not hold any other assets other than those relating to the Distributed Businesses, nor be injected any major assets, nor dispose of any major assets, after the close of the Privateco Offer, unless prior approval by the Privateco Shareholders has been obtained.

According to the accountants’ report of the Privateco Group set out in Appendix III to the Circular, the Privateco Group was loss-making for the year ended 31 December 2009 and 2010 as no turnover was generated during the respective financial year. The Privateco Group recorded a net loss of approximately HK\$9.31 million for the year ended 31 December 2011 due to high production cost and allowance for inventories of approximately HK\$2.22 million resulting in low gross profit margin as well as impairment loss on property, plant and equipment of approximately HK\$1.10 million and impairment loss on goodwill of approximately HK\$5.86 million. Given (i) the rising trend of production cost; (ii) the growing labour cost in the PRC; and (iii) the fluctuation in the growth of the demand for electronic components in Japan and Korea, we are of the view that the market of manufacturing and sale of electronic components in Korea and Japan is competitive and the prospect of the Privateco Group is uncertain.

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4. The Listco Offer, the Privateco Offer and the Combined Offer

Given the Share Sale Completion is a condition to the Distribution In Specie, the Listco Offer and the Privateco Offer will only be made upon completion of the Share Sale Completion and the Distribution In Specie, respectively. Having considered that (i) the Privateco Shares will not be listed on the Stock Exchange or any other stock exchange and the Privateco Shareholders will have an opportunity to realise their holdings in the Privateco Shares under the Privateco Offer; (ii) the fact that the existing market price of the Shares reflects the investors' perceived aggregate value of the Remaining Group and the Privateco Group; and (iii) the Independent Shareholders will become the Privateco Shareholders upon completion of the Distribution In Specie, we consider that it is fair and reasonable to assess the terms of the Listco Offer and the Privateco Offer on a combined basis (the "Combined Offer") for the purpose of evaluating the potential return that the Independent Shareholders will be able to receive following the Share Sale Completion, completion of the Group Reorganisation and the Distribution In Specie. The detailed analysis on the Listco Offer and the Privateco Offer will be set out in the respective offer documents in relation to the Listco Offer and the Privateco Offer to be sent to the Shareholders and the Privateco Shareholders respectively, in the event that the Share Sale Agreement and the Distribution In Specie are completed respectively.

(a) *The Listco Offer*

Upon Share Sale Completion, Ultra Harvest will hold 174,082,000 Shares, representing approximately 53.75% of the issued share capital of the Company. Subject to the Share Sale Completion, Haitong International Securities will, on behalf of Ultra Harvest and pursuant to the Takeovers Code, make the Listco Offer, which will be an unconditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Ultra Harvest and parties acting in concert with it) on the basis of HK\$0.9263 in cash for each Share.

On the basis of the Listco Offer price of HK\$0.9263 per Share and 323,896,933 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at HK\$300,025,729.037. Excluding 174,082,000 Shares to be held by Ultra Harvest and its parties acting in concert upon Share Sale Completion, 149,814,933 Shares (at the Listco Offer price of HK\$0.9263 per Share) will be subject to the Listco Offer and the Listco Offer is valued at an aggregate amount of approximately HK\$138,773,572.437.

(b) *The Privateco Offer*

Based on the current shareholding structure of the Company, Mr. Yang and parties acting in concert with him will be interested in a total of 174,082,000 Privateco Shares, representing approximately 53.75% of the issued share capital of Privateco following completion of the Distribution In Specie. Given that the Privateco Shares will not be listed on the Stock Exchange or any other stock exchange, it will be difficult, if not impossible, for holders of the Privateco Shares to liquidate their holdings in the Privateco Shares. Mr. Yang considers, in these circumstances, that it is appropriate to provide the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) with an opportunity to realise their holdings in the Privateco Shares by making the Privateco Offer on a voluntary basis pursuant to the Takeovers Code.

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Upon completion of the Distribution In Specie, Quam Securities will, on behalf of Smart Top (a company wholly-owned by Mr. Yang) and pursuant to the Takeovers Code, make the Privateco Offer to the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) to acquire all the Privateco Shares (other than those to be owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them) on the basis of HK\$0.38 in cash for each Privateco Share.

The Privateco Offer price of HK\$0.38 per Privateco Share, which represents a slight premium of approximately 0.8% over the unaudited pro forma net asset value per Privateco Share of approximately HK\$0.377, calculated on the basis of the unaudited pro forma net asset value of the Privateco Group of approximately HK\$122,087,000 as at 30 June 2012 as set out in Appendix VI to the Circular and assuming that the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012 and a total of 323,896,933 Privateco Shares were in issue as at 30 June 2012, has been determined after taking into account factors including (i) the consolidated net asset value of the Privateco Group as at 30 June 2012 estimated based on the management accounts prepared by the Company, taking into consideration the effects including mainly the Group Reorganisation (which includes the intended settlement or assignment of, among others, certain intra-group balances between the Remaining Group and the Privateco Group), the Share Sale Completion and the Distribution In Specie, which approximates the Privateco Offer Price; (ii) the Listco Offer price of HK\$0.9263 per Share; and (iii) the prevailing market prices of the Shares as further described in the paragraph headed “Comparison of the combined offer price with market prices of the Shares and net asset value per Share” in the Appendix I to the Circular.

On the basis of 323,896,933 Shares in issue as at the Latest Practicable Date, 323,896,933 Privateco Shares will be in issue upon completion of the Distribution In Specie and based on the Privateco Offer price of HK\$0.38 per Privateco Share, the entire issued share capital of the Privateco is valued at approximately HK\$123,080,834.54. Assuming the Distribution In Specie has been completed and based on 174,082,000 Privateco Shares (representing approximately 53.75% of the share capital of the Privateco expected to be in issue) to be beneficially owned by Mr. Yang and parties acting in concert with him, 149,814,933 Privateco Shares (representing approximately 46.25% of the share capital of Privateco expected to be in issue) will be subject to the Privateco Offer and the Privateco Offer is valued at approximately HK\$56,929,674.54.

(c) *The Combined Offer*

The following analysis on the Combined Offer has been conducted on the assumption that the Independent Shareholders will be able to receive a potential aggregate cash consideration of HK\$1.3063 (the “Combined Offer Price”) under the Combined Offer for every Listco Share and Privateco Offer Share held by them after the completion of the Group Reorganisation and the Distribution In Specie.

(i) *Share price performance*

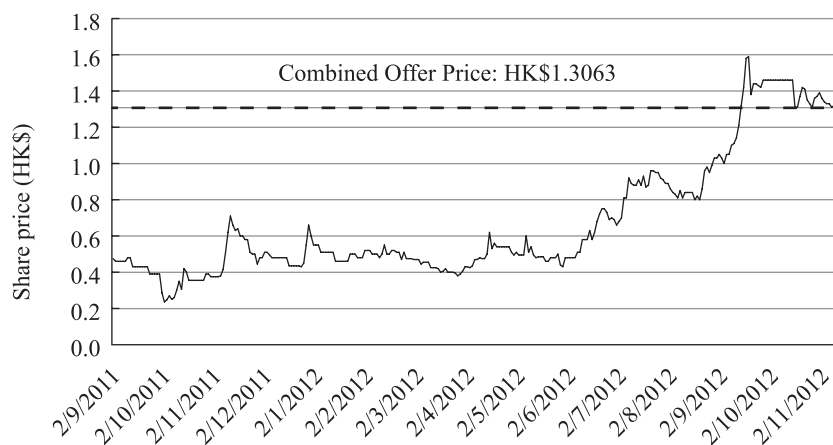
The Combined Offer Price of HK\$1.3063 per Share represents:

- a premium of approximately 125.2% over the closing price of HK\$0.58 per Share as quoted on the Stock Exchange on 14 June 2012 (being the last trading day prior to the issue of the announcement dated 19 June 2012 in relation to the possible sale and purchase of Shares owned by Mr. Yang and parties acting in concert with him);

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- a discount of approximately 10.5% to the closing price of HK\$1.46 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 9.2% to and a premium of approximately 14.3% over the average of the closing prices of approximately HK\$1.438 and HK\$1.143 per Share respectively as quoted on the Stock Exchange for the 5 and 30 consecutive trading days up to and including the Last Trading Day;
- a premium of approximately 52.4% over the average of the closing prices of approximately HK\$0.857 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day;
- a discount of approximately 0.3% to the closing price of HK\$1.31 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a premium of approximately 45.5% over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$0.898 per Share as at 30 June 2012 based on the interim report of the Company for the six months ended 30 June 2012.

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 1 September 2011 (being the first trading day of the 12-month period ending on the Last Trading Day) up to and including the Latest Practicable Date (the “Review Period”).



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

Note: Trading in the Shares was suspended from 15 June 2012 to 18 June 2012 and from 28 September 2012 to 17 October 2012, pending the release of the Joint Announcement.

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As shown in the chart above, during the Review Period, the highest closing price and the lowest closing price of the Shares were HK\$1.59 on 19 September 2012 and HK\$0.236 on 4 October 2011, respectively, with an average closing price of approximately HK\$0.68. The Shares were traded in most of the time during the Review Period below the Combined Offer Price. The Combined Offer Price also represents a premium of approximately 92.10% over such average closing price during the Review Period.

During the period from 2 September 2011 to 14 June 2012, being the last trading day prior to the issue of the announcement (the “Possible Offer Announcement”) dated 19 June 2012 in relation to the possible sale and purchase of Shares owned by Mr. Yang, the price of Shares fluctuated in a range from HK\$0.236 to HK\$0.71. Subsequently, the trading of the Shares, at the request of the Company, was suspended from 15 June 2012 to 18 June 2012, pending the release of the Possible Offer Announcement. During the period from 19 June 2012, being the date of publication of the Possible Offer Announcement, to the Latest Practicable Date, the Share price surged from HK\$0.58 to HK\$1.59. Save for the Possible Offer Announcement and the Joint Announcement in which the Directors confirmed that they were not aware of the reasons for the increase in price and transaction volume of the Shares, further details of which are set out in the paragraphs under the section headed “5. Liquidity” below, the Company did not issue any other announcement which is price-sensitive in nature during the period from 19 June 2012 to the Latest Practicable Date, and we are of the view that the surge in the Share price subsequent to the publication of the Possible Offer Announcement may likely be driven by the market speculation on the possible sale and purchase of Shares owned by Mr. Yang. Given that the recent surge in the Share price subsequent to the publication of the Possible Offer Announcement is likely driven by market speculation rather than fundamentals of the Company, and that the trading volume of the Shares has been extremely low as discussed in the paragraphs under the section headed “5. Liquidity” below, the market price of the Shares may not be an appropriate indicator of the valuation of the Shares, in particular the realizable value one could get by disposing of the Shares in the open market. In the absence of a meaningful market of reasonable depth for the Shares, we consider that the Combined Offer Price, which was agreed between the Vendors and Ultra Harvest after arm’s length negotiations and being the actual transacted price for a sizable amount of the Shares, would be a more accurate indicator of the underlying value that a willing buyer, if any, is prepared to pay for the Shares in the open market, without taking into consideration any control premium that might have been accounted for in the Combined Offer Price.

Given the Combined Offer Price represents a premium of approximately 92.10% over the average closing price of the Shares of approximately HK\$0.68 during the Review Period, we are of the view that the Combined Offer Price would be attractive to the Independent Shareholders who are interested to realise all or part of their investments in the Company through the Listco Offer and the Privateco Offer.

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(ii) *Comparison of the Combined Offer Price with price to book multiples of the market comparables*

The price-to-earning multiple (“P/E Ratio”) is regarded as the most widely used and accepted method to value a company with recurrent income base and we attempted to use P/E Ratio in evaluating the Company. Given the Company is at a loss-making position for the financial year ended 31 December 2011, we consider the analysis of P/E Ratio not applicable. Alternatively, we have adopted the price-to-book multiple (“P/B Ratio”), which is also one of the commonly adopted trading multiple analyses. In order to assess the fairness and reasonableness of the Combined Offer Price, we have conducted researches from the public domain and have identified twelve companies, being an exhaustive list, which (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in the manufacture and/or sale of electronic components (accounted for more than 50% of their turnovers for their respective latest financial year); and (iii) had a market capitalisation of less than HK\$1,000 million as at the Latest Practicable Date, and compared their P/B Ratios to that of the Company as implied by the Combined Offer Price. Based on the aforesaid selection criteria, we consider the selected companies represent fair and representative samples considering that the selected companies are engaged in principal business similar to that of the Company, i.e. manufacture and/or sale of electronic components, the P/B Ratios of which could reflect how the market values companies taking part in such industry, and could provide a general reference when assessing the fairness of the Combined Offer Price. The list of the selected companies and their respective P/B Ratios, which is exhaustive, are set out below:

Table 2: Comparison with selected companies

Company name (Note 1)	Stock code	Principal business	Market capitalisation	Net asset value	P/B Ratio (3)=(1)/(2) (times)
			(Note 2)	(Note 3 & 4)	
			(1) (HK\$' million)	(2) (HK\$' million)	
Advanced Semiconductor Manufacturing Corporation Limited	3355	Manufacture and sale of semiconductor wafers	305.46	1030.94	0.30
AV Concept Holdings Limited	595	Marketing and distribution of electronic components, the product design, development and sale of electronic products, and distribution of light-emitting diode business	295.57	634.69	0.47
Capxon International Electronic Company Limited	469	Manufacture of vertically-integrated aluminum electrolytic capacitors	148.64	948.71	0.16
CEC International Holdings Limited	759	Design, development, manufacture and sale of coils, ferrite powder and other electronic components, retailing of food and beverages, and investment property holding	419.70	480.60	0.87
Daisho Microline Holdings Limited	567	Manufacture and trading of printed circuit boards	120.06	402.56	0.30

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Company name (Note 1)	Stock code	Principal business	Market capitalisation (Note 2) (1) (HK\$' million)	Net asset value (Note 3 & 4) (2) (HK\$' million)	P/B Ratio (3)=(1)/(2) (times)
Kingwell Group Limited	1195	Manufacture and sales of printed circuit boards ("PCBs"), PCBs assembling products and provision of surface mount technology processing service	650.93	191.14	3.41
Man Yue Technology Holdings Limited	894	Manufacture and trading of electronic components and trading of raw materials	646.77	1,370.20	0.47
S.A.S. Dragon Holdings Limited	1184	Distribution of electronic components and semiconductors products, properties investments and distribution of sports products	427.29	626.36	0.68
Same Time Holdings Limited	451	Manufacture and selling of printed circuit boards and consumer electronic products	532.02	505.43	1.05
TC Orient Lighting Holdings Limited	515	Manufacture and trading of Single-sided printed circuit boards (PCB), manufacture and trading of double-sided PCB, and manufacture and trading of multi-layered PCB	349.56	944.99	0.37
Topsearch International (Holdings) Limited	2323	Manufacture and sale of printed circuit boards	200.00	555.14	0.37
Wing Lee Holdings Limited	876	Manufacture of and trading in electronic components and properties investment	467.97	956.26	0.49
			Median		0.47
			Mean		0.74
			Maximum		3.41
			Minimum		0.16
P/B Ratio represented by the Combined Offer Price (Note 5)					1.45

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

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Notes:

- (1) Sino-Tech International Holdings Limited (stock code: 724), which is principally engaged in the manufacture and trading of electronic and electrical parts and components, has been suspended since 14 March 2012 and is not selected for comparison.*
- (2) Based on the respective closing prices on the Last Trading Day and number of shares (or H shares, as the case may be) in issue as at 30 September 2012.*
- (3) Based on the latest financial data as published in the respective annual/interim reports by the Latest Practicable Date.*
- (4) Figures in RMB and US\$ have been converted into HK\$ using the approximate exchange rates of RMB1 to HK\$1.226 and US\$1 to HK\$7.75 respectively.*
- (5) The P/B Ratio of the Combined Offer is calculated based on the Combined Offer Price of HK\$1.3063 over the net asset value per Share of approximately HK\$0.90 according to the interim report of the Group for the six months ended 30 June 2012.*

As shown in the table above, the P/B Ratios of the selected companies ranged from approximately 0.16 times to approximately 3.41 times, with a mean and a median of approximately 0.74 times and approximately 0.47 times, respectively. The P/B Ratio of approximately 1.45 times as implied by the Combined Offer Price falls within the range and is higher than the mean and the median of the P/B Ratios of the selected companies, representing premiums of approximately 95.95% and approximately 208.51% respectively.

Based on the above comparison of the Combined Offer Price with the historical price performance of the Shares and the P/B Ratio analysis, we consider that the Combined Offer Price represents a reasonable premium over the net asset value of the Shares, over the average closing price of the Shares during the Review Period and over the average P/B Ratio of the abovementioned selected companies and are of the view that the Combined Offer Price is favourable so far as the Independent Shareholders are concerned.

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5. Liquidity

The following table sets out the trading volume of the Shares during the Review Period:

Table 3: Historical trading volume of the Shares

Month	Total trading volume (no. of Shares)	No. of Trading days	Average daily trading volume (no. of Shares)	Percentage of average daily trading volume to no. of outstanding Shares (Approximate %) (Note 1)	Percentage of average daily trading volume to no. of Shares held by the public (Approximate %) (Note 2)
Sept-11	306,000	20	15,300	Negligible	0.01
Oct-11	1,550,000	20	77,500	0.02	0.05
Nov-11	16,582,000	22	753,727	0.23	0.50
Dec-11	1,050,000	20	52,500	0.02	0.04
Jan-12	286,000	18	15,889	Negligible	0.01
Feb-12	1,228,000	21	58,476	0.02	0.04
Mar-12	970,000	22	44,091	0.01	0.03
Apr-12	3,034,000	18	168,556	0.05	0.11
May-12	2,202,000	22	100,091	0.03	0.07
Jun-12	18,358,000	19	966,211	0.30	0.65
Jul-12	32,898,000	21	1,566,571	0.48	1.05
Aug-12	12,540,000	23	545,217	0.17	0.36
Sept-12	32,508,000	19	1,710,947	0.53	1.14
Oct-12	18,934,000	9	2,103,778	0.65	1.41
Nov-12	4,583,000	10	458,300	0.14	0.31
(Up to the Latest Practicable Date)					

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

Notes:

(1) Based on the 323,896,933 Shares in issue as at the Latest Practicable Date.

(2) Based on the 149,694,933 Shares held by the public as at the Latest Practicable Date.

As illustrated in the table above, during the Review Period, we noted that the average daily trading volume of Shares as a percentage of the average total number of issued Shares ranged from negligible to approximately 0.65% while the average daily trading volume of Shares as a percentage of the average total number of the Shares held by the public ranged from approximately 0.01% to approximately 1.41%. Based on the above, the trading volume of the Shares during the Review Period was very thin, which the average daily trading volume accounted for less than 0.65% of the total number of the Shares in issue and for less than 1.41% of the Shares held by the public in all months during the Review Period except for the recent increase in the daily turnover for the dates following the publication of the Joint Announcement.

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Given the consistently low liquidity, it may be difficult for the Shareholders to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares. As such, we are of the view that the Combined Offer provides an alternative exit to the Independent Shareholders to realize their investment in the Shares.

6. Possible financial effects of the Group Reorganisation and the Distribution In Specie

(a) *Earnings*

Following completion of the Group Reorganisation and the Distribution In Specie, those existing subsidiaries of the Group carrying on the Distributed Businesses (i.e. the businesses of the manufacturing and sale of electronic components to customers in Korea and Japan) will no longer be members of the Group as they will become subsidiaries of the Privateco. Accordingly, their financial results will not be consolidated into the Group in the future. Based on the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group set out in Appendix V to the Circular (which was prepared on the assumption that the Group Reorganisation and the Distribution In Specie had been completed as at 1 January 2012), the loss attributable to Shareholders of approximately HK\$24.32 million would decrease by approximately HK\$11.47 million to approximately HK\$12.85 million. Such change in the Group's results are principally due to the exclusion of the income and expenses attributable to the Distributed Businesses upon completion of the Group Reorganisation and the Distribution In Specie.

(b) *Net assets*

According to the unaudited pro forma consolidated statement of financial position of the Remaining Group set out in Appendix V to the Circular, assuming completion of the Group Reorganisation and the Distribution had been completed as at 30 June 2012, the Group's net assets would decrease by 40.92% from approximately HK\$292.42 million to approximately HK\$172.77 million as a result of the exclusion of the assets and liabilities attributable to the Distributed Businesses from the Group.

The reduction in the net assets of the Remaining Group as a result of the Group Reorganisation and the Distribution In Specie is reasonably expected given that the net assets associated with the Distributed Businesses are no longer held by the Group upon completion of the Group Reorganisation and the Distribution In Specie. Notwithstanding that the net assets of the Group will reduce as a result of the successful implementation of the Group Reorganisation and the Distribution In Specie, all Shareholders will at the same time receive the Privateco Shares under the Distribution In Specie, the net asset value of which is not expected to differ materially from the decrease in the net asset value of the Remaining Group. In this connection, we have reviewed the unaudited pro forma consolidated statement of financial position of the Privateco Group set out in Appendix VI to the Circular (which was prepared on the assumption that the Group Reorganisation and the Distribution In Specie had been completed as at 30 June 2012) and noted that the unaudited pro forma net asset value of the Privateco Group would amount to approximately HK\$122.09 million immediately upon completion of the Group Reorganisation and the Distribution In Specie. Such net asset value of the Privateco

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Group as at 30 June 2012 represents substantially the reduction in the unaudited pro forma net asset value of the Remaining Group of approximately HK\$119.65 million as mentioned above. From the perspective of the Shareholders, their interests in the net worth of the existing Group are not expected to be adversely affected since the net assets of the existing Group will be split between that of the Remaining Group and the Privateco Group upon the completion of the Group Reorganisation and the Distribution In Specie and the Shareholders will hold both the Shares and the Privateco Shares. As such, we are of the view that the expected reduction in the Group's net asset value due to the Group Reorganisation and the Distribution In Specie is acceptable so far as the Independent Shareholders are concerned.

(c) *Liquidity and gearing*

Based on the consolidated statements of financial positions of the Group as at 30 June 2012, the Group had unaudited current assets of approximately HK\$251.02 million and unaudited current liabilities of approximately HK\$184.83 million, representing a current ratio of approximately 1.36 times. The gearing ratio (defined as total bank borrowings divided by equity attributable to the Shareholders) as at 30 June 2012 was approximately 0.27 times. Based on the unaudited pro forma statement of the financial position of the Remaining Group set out in Appendix V to the Circular (which was prepared on the assumption that the Group Reorganisation and the Distribution In Specie had been completed as at 30 June 2012), the current ratio and the gearing ratio will become 2.26 times and nil respectively as a result of the deconsolidation of the Privateco Group from the Group.

As set out in Appendix II to the Circular, the Directors are of the opinion that taking into account the internal resources available to the Remaining Group and barring any unforeseen circumstances, the Remaining Group will have sufficient working capital for at least twelve months from the date of the Circular. In view of the existing financial position of the Group, we do not consider that the Group Reorganisation and the Distribution In Specie will have any immediate impact on the working capital requirements of the Remaining Group.

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7. Effect of the Share Sale Completion on shareholding structure of the Company

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately upon Share Sale Completion (assuming no other changes in the issued share capital and shareholding in the Company from the Latest Practicable Date up to Share Sale Completion but before the commencement of the Listco Offer):

	As at the Latest Practicable Date		Immediately upon Share Sale Completion but before the commencement of the Listco Offer	
	Number of Shares	Approximate % (Note 2)	Number of Shares	Approximate %
Vendors:				
Mr. Yang	114,582,000	35.38	—	—
KSE	59,500,000	18.37	—	—
Ultra Harvest and parties acting in concert with it	—	—	174,082,000	53.75
Dr. Kim Chung Kweon (Note 1)	20,000	0.01	20,000	0.01
Mr. Hong Sang Joon (Note 1)	100,000	0.03	100,000	0.03
Public	149,694,933	46.22	149,694,933	46.22
Total	323,896,933	100.00	323,896,933	100.00

Notes:

(1) Dr. Kim Chung Kweon and Mr. Hong Sang Joon are Directors.

(2) The percentage does not add up to 100 due to rounding.

Upon Share Sale Completion but before the commencement of the Listco Offer, Ultra Harvest and parties acting in concert with it will be interested in a total of 174,082,000 Shares, representing approximately 53.75% of the total issued share capital of the Company. As illustrated in the table above, the interest of the Independent Shareholders will remain unchanged upon Share Sale Completion.

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8. The Framework Supply Agreement

Background of, reason for, and benefit of the entering into of the Framework Supply Agreement

As a result of the Group Reorganisation and the Distribution In Specie, the operations of the Remaining Group and the Privateco Group will be delineated, pursuant to which the Remaining Group will carry on the Remaining Businesses, being the manufacturing and sale of electronic components to worldwide customers (except for those in Korea and Japan), while the Distributed Businesses, which consist principally of the manufacturing and sale of electronic components to customers in Korea and Japan, will be distributed to the Privateco Group which will cease to be subsidiaries of the Company.

As the current production facilities of the Privateco Group will not be sufficient to fulfil its customer's requirements, the Privateco Group and the Remaining Group will enter into the Framework Supply Agreement, as a transitional arrangement, to assist the Privateco Group in meeting demands from its customers (including those customers in Korea and Japan who have previously purchased from the Remaining Group) subsequent to completion of the Group Reorganisation and the Distribution In Specie, while bringing in revenue for the Remaining Group at the same time, and at the same time enabling the Privateco Group to maintain business relationship with its customers.

The arrangement under the Framework Supply Agreement is unilateral whereby the Remaining Group will sell and the Privateco Group will purchase certain electronic components. It is noted that prior to the Group Reorganisation and the proposed Distribution In Specie, the Remaining Group has from time to time conducted intra-group transactions in relation to the sales of certain electronic components to the Privateco Group as part of the ordinary and usual course business of the Group. Accordingly, we are of the view that the transactions under the Framework Supply Agreement have been carried out in the ordinary and usual course of business of the Group, and will be carried out in the ordinary and usual course of business of the Remaining Group.

Having consider that (i) the transactions under the Framework Supply Agreement have been carried out in the ordinary and usual course of business of the Group, and will be carried out in the ordinary and usual course of business of the Remaining Group; and (ii) the transactions under the Framework Supply Agreement will bring in revenue for the Remaining Group, which is in the interests of the Company and the Shareholders, we are of the view that the entering into of the Framework Supply Agreement is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Framework Supply Agreement

Pursuant to the Framework Supply Agreement, the Remaining Group will sell and the Privateco Group will purchase certain electronic components. Relevant members of the Remaining Group and the Privateco Group will from time to time enter into individual agreements which will set out the terms of the sale and purchase of the relevant electronic components.

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Pursuant to the Framework Supply Agreement, the terms of the individual agreements to be entered into shall be normal commercial terms, negotiated based on the terms and conditions of any such sale and purchase. The prices payable for the electronic components shall be agreed with reference to the prevailing market prices of products with similar specifications at the relevant time and shall be no less favourable to the Remaining Group than those offered to the Remaining Group from independent third parties from time to time and other terms and conditions shall be no less favourable to the Remaining Group than those requested from the Remaining Group by independent third parties from time to time.

As advised by the management of the Company, the Remaining Group will semiannually (i) review the pricing of transactions under the Framework Supply Agreement and compare them with the terms of agreements entered into between the Remaining Group and independent third parties in relation to the sale of products with similar specifications to ensure that the price charged by the Remaining Group under the Framework Supply Agreement is not less favourable to the Remaining Group than that offered to independent third parties; and (ii) monitor the total historical transaction amounts and estimate the amount of transactions that may possibly be incurred in the coming months to ensure that the Annual Caps not being exceeded, which we consider adequate measures for internal control.

Having considered that (i) the supply of the electronic components will be carried out by the Remaining Group in its ordinary and usual course of business; (ii) the prices payable for the electronic components shall be agreed with reference to the prevailing market prices of products with similar specifications at the relevant time and shall be no less favourable to the Remaining Group than those offered to the Remaining Group from independent third parties from time to time and; (iii) other terms and conditions of the individual agreements to be entered into shall be normal commercial terms, negotiated based on the terms and conditions of any such sale and purchase shall be no less favourable to the Remaining Group than those requested from the Remaining Group by independent third parties from time to time, we are of the view that the terms of the Framework Supply Agreement are normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Proposed annual caps of the Framework Supply Agreement

According to the Framework Supply Agreement, the annul caps for the transactions under the Framework Supply Agreement (the “Annual Caps”) are as follows:

	For the year ending 31 December		
	2012	2013	2014
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Annual Caps	43,400,000.00	46,500,000.00	49,900,000.00

As stated in the Letter from the Board, the Annual Caps were determined after taking into account: (i) the historical average compound growth rate of the intra-group transaction amount for the relevant sale and purchase of electronic components for the past 3 years ended 31 December 2011; (ii) the actual transaction amount for the six months ended 30 June 2012; and (iii) a buffer of around 10% to cater for fluctuation of transaction amounts and/or prices of individual years.

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The table below illustrates the historical amount of sales of electronic components by the Remaining Group to (a) the Privateco Group and (b) customers in Korea and Japan for the three years ended 31 December 2011 and six months ended 30 June 2012:

	For the year ended 31 December			For the six months ended
	2009	2010	2011	30 June 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to the Privateco Group	–	–	31,592	8,713
Sales to customers in Korea and Japan	28,901	42,377	29,603	10,348
Total	<u>28,901</u>	<u>42,377</u>	<u>61,195</u>	<u>19,061</u>

We noted that the Annual Caps for 2012 of HK\$43.40 million was derived based on the historical transaction amount for the six months ended 30 June 2012 of approximately HK\$19.06 million, with a buffer of 10% applied to the implied full year projected sales. We also noted that the Annual Caps for 2013 and 2014 represent an increase of approximately 7.14% and approximately 7.31% as compared to the Annual Caps for 2012 and 2013, respectively, and the Annual Caps for 2013 and 2014 were set after taking into account the historical average compound growth rate of the intra-group transaction amount for the relevant sale and purchase of electronic components for the past 3 years ended 31 December 2011. We are of the view that the Annual Caps for the three years ending 31 December 2014 are determined based on reasonable estimation of the demand for electronic components of the Group after due and careful consideration and that it is fair and reasonable for the management of the Company to make reference to the aforesaid factors as the basis to determine the Annual Caps, and accordingly, the setting of the Annual Caps for the three years ending 31 December 2014 is fair and reasonable.

Annual review of the transactions

The proposed annual caps under the Framework Supply Agreement will be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual reports and accounts. In addition, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board confirming, among others, that the transactions contemplated under the Framework Supply Agreement are conducted in accordance with their terms and that the proposed annual caps under the Framework Supply Agreement not being exceeded. Moreover, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual cap not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the transactions contemplated under the Framework Supply Agreement and safeguard the interests of the Independent Shareholders.

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RECOMMENDATIONS

Based on the abovementioned principal factors and reasons for the Distribution In Specie and the Framework Supply Agreement, in particular that:

- (a) the Share Sale Completion that leads to the Listco Offer is conditional upon, among others, the completion of the Group Reorganisation and the Independent Shareholder's approval on the Distribution In Specie;
- (b) the making of the Listco Offer and the Privateco Offer, which is subject to the Share Sale Completion and completion of the Distribution In Specie, will provide a cash exit to the Shareholders to realise all or part of their interests in the Company and the Privateco respectively through Listco Offer and Privateco Offer at the Combined Offer Price;
- (c) the Combined Offer Price represents a premium over the closing price of the Shares over the closing price on 14 June 2012 (being the last trading day prior to the issue of the Possible Offer Announcement; as well as the respective average closing prices of the Shares for the 90 consecutive trading days up to and including the Last Trading Day and over the unaudited consolidated net asset value of the Company as at 30 June 2012;
- (d) the overall low liquidity of the Shares during the Review Period, which may be difficult for the Shareholders to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares and the Combined Offer provides an alternative exit to the Independent Shareholders to realize their investment in the Shares;
- (e) the transactions under the Framework Supply Agreement have been carried out in the ordinary and usual course of business of the Group, and will be carried out in the ordinary and usual course of business of the Remaining Group; and
- (f) the prices payable for the electronic components shall be no less favourable to the Remaining Group than those offered to the Remaining Group from independent third parties from time to time and other terms and conditions of the agreements to be entered under the Framework Supply Agreement shall be no less favourable to the Remaining Group than those requested from the Remaining Group by independent third parties, and the Annual Caps are determined based on fair and reasonable assumptions,

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We are of the view that the terms of Distribution In Specie are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We are also of the view that the transaction under the Framework Agreement (including the Annual Caps) is on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable, and the entering into of the Framework Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution(s) in respect of the Distribution In Specie and the Framework Supply Agreement.

Yours faithfully,
For and on behalf of
Goldin Financial Limited
Billy Tang
Director

Information contained in this appendix is reproduced from the Joint Announcement for the purpose of providing the Independent Shareholders with reference in respect of the key terms of the Listco Offer and the Privateco Offer.

Information reproduced from the Joint Announcement reflects the situation as of the date of the Joint Announcement. To the best of the knowledge and belief of the Directors after all reasonable enquiries, there is no material change to the information contained in this appendix since the date of the Joint Announcement. Detailed terms of the Listco Offer and the Privateco Offer were set out in the Joint Announcement and will be set out in the Listco Offer Document and the Privateco Offer Document (as the case may be).

The Joint Announcement also contains the following responsibility statements:

“The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than those relating to Ultra Harvest, Smart Top and the Vendors) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this joint announcement have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.”

“The sole director of the Privateco accepts full responsibility for the accuracy of the information contained in this joint announcement (other than those relating to Ultra Harvest, Smart Top and the Vendors) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this joint announcement have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this announcement misleading.”

“The sole director of Smart Top accepts full responsibility for the accuracy of the information contained in this joint announcement (other than those relating to Ultra Harvest, the Privateco and the Group) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this joint announcement have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.”

“The directors of Ultra Harvest jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than those relating to the Privateco, Smart Top, the Vendors and the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this joint announcement have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.”

POSSIBLE UNCONDITIONAL MANDATORY CASH OFFERS FOR THE SHARES**Terms of the Listco Offer**

Upon Share Sale Completion, Ultra Harvest will hold 174,082,000 Shares, representing approximately 53.75% of the issued share capital of the Company. Subject to Share Sale Completion, Haitong International Securities will, on behalf of Ultra Harvest and pursuant to the Takeovers Code, make the Listco Offer, which will be an unconditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by Ultra Harvest and parties acting in concert with it) on the following basis:

for each Share held HK\$0.9263 in cash

The making of the Listco Offer is subject to Share Sale Completion which in turn is subject to a number of conditions precedent as referred to in the paragraph headed “Conditions precedent” in the section headed “A. Share Sale Agreement” above and therefore is a possibility only and it may or may not proceed. Investors and Shareholders are urged to exercise caution when dealing in the Shares.

In the event that the Listco Offer is made, it will be an unconditional cash offer.

As at the date of this joint announcement, there are 323,896,933 Shares in issue. As at the date of this joint announcement, the Company has no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of Shares and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the date of this joint announcement.

None of Ultra Harvest and parties acting in concert with it has received any indication or irrevocable commitment from any Shareholder that he/she/it will accept or reject the Listco Offer as at the date of this joint announcement.

Total consideration for the Listco Offer

On the basis of the Listco Offer price of HK\$0.9263 per Share and 323,896,933 Shares in issue as at the date of this joint announcement, the entire issued share capital of the Company is valued at HK\$300,025,729.039. Excluding 174,082,000 Shares to be held by Ultra Harvest and its parties acting in concert upon Share Sale Completion, 149,814,933 Shares at the Listco Offer price of HK\$0.9263 per Share) will be subject to the Listco Offer and the Listco Offer is valued at an aggregate amount of approximately HK\$138,773,572.439.

Financial resources

The amount of funds required for the acquisition of the Sale Shares and the full acceptance of the Listco Offer by Ultra Harvest will be financed by the internal resources of Ultra Harvest and a loan facility in the principal amount of HK\$150 million (the “**Loan Facility**”) advanced to Ultra Harvest by Haitong International Securities. The Loan Facility is secured by, among other things, a first fixed charge over all the Share(s) beneficially held (whether at the time the Share Charge (as defined below) was executed or thereafter) by Ultra Harvest, together with all rights attaching to such Shares, as created by a deed of share charge (the “**Share Charge**”) dated 27 September 2012 executed by Ultra Harvest in favour of Haitong International Securities. Haitong International Capital, the financial adviser to Ultra Harvest in respect of the Listco Offer, is satisfied that sufficient financial resources are available to Ultra Harvest to satisfy the amount of funds required for the acquisition of the Sale Shares and full acceptance of the Listco Offer.

Payments

Payment in cash in respect of acceptance of the Listco Offer will be made as soon as possible but in any event within 7 business days (being days on which the Stock Exchange is open for transaction of business) from the receipt by Ultra Harvest or its agent acting on its behalf of duly completed acceptances.

Stamp duty

The ad valorem stamp duty payable by the accepting Shareholders in connection with the Listco Offer amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration or the then market price of the Shares (whichever is higher) will be payable by the accepting Shareholders and will be deducted by Ultra Harvest from the consideration payable to them on acceptance of the Listco Offer. Ultra Harvest will then pay the stamp duty on behalf of the accepting Shareholders.

Overseas Shareholders

As the Listco Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident, Overseas Shareholders who are citizens or residents or nationals of a jurisdiction outside Hong Kong should keep themselves informed about and observe any applicable legal or regulatory requirements and where necessary seek legal advice. It is the responsibility of the Overseas Shareholders who wish to accept the Listco Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction).

Information on Ultra Harvest

Ultra Harvest is a company incorporated in BVI with limited liability. As at the date of this joint announcement, Ultra Harvest is owned as to 60% and 40% by Mr. Shen Yong and Mr. Shen Ke, respectively.

Each of Mr. Shen Yong and Mr. Shen Ke has experiences in investment as well as corporate and general management as mentioned below, despite the fact that neither of them possesses any direct experience in the manufacturing and sale of electronic components.

Mr. Shen Yong is a director of Chongqing Forebase Industrial Investment (Holdings) Co. Ltd.* (重慶申基實業(集團)有限公司) (“**Chongqing Forebase**”). The business of Chongqing Forebase includes hotel properties development, hotel management, tourism, yacht rental and automobile dealership. Mr. Shen Yong has more than 15 years of experiences in hotel and commercial properties development.

Mr. Shen Ke is also a director of Chongqing Forebase and has more than four years of experiences in hotel and commercial property development. Mr. Shen Ke is the son of Mr. Shen Yong.

Intention of Ultra Harvest regarding the Remaining Group

Following the Share Sale Completion, Ultra Harvest intends to continue the Remaining Businesses. In addition to the Remaining Businesses, Ultra Harvest will, following the Share Sale Completion, conduct a detailed review of the operations of the Remaining Group with a view to establishing a suitable business strategy to enhance the growth of its business and asset base as well as to broaden its income stream, which may include investment in and/or acquisition of assets or business from other parties (including but not limited to Ultra Harvest (or its associate(s))) when suitable investment opportunities arise. Such investment or acquisition (if any) will be made in compliance with the Listing Rules. However, up to the date of this joint announcement, Ultra Harvest has no plan and has not engaged in any discussion or negotiation on any injection of any assets or businesses into the Remaining Group and has no intention to introduce any significant changes in the business of the Remaining Group, including any acquisitions, disposals and/or redeployment of assets and businesses of the Remaining Group, other than in its ordinary course of business.

Other than Mr. Hong Sang Joon, each of the existing Directors will tender their respective resignation from the Board with effect from such date as is required by Ultra Harvest but not before the earliest date as permitted under Rule 7 of the Takeovers Code. Ultra Harvest also intends to appoint new Directors to the Board with effect not earlier than such date as permitted under Rule 26.4 of the Takeovers Code. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules. Further announcement will be made upon any change in the composition of the Board. Save as disclosed above, Ultra Harvest does not intend to undergo substantial changes with regard to employment matters of the Remaining Group after the close of the Listco Offer.

Maintaining the listing status of the Company

Ultra Harvest intends to maintain the listing status of the Company and it will irrevocably undertake that it will be responsible for maintaining the 25% public float requirement upon the closing of the Listco Offer.

If, at the close of the Listco Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that:

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

the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

POSSIBLE UNCONDITIONAL VOLUNTARY CASH OFFER FOR THE PRIVATECO SHARES

Based on the current shareholding structure of the Company, Mr. Yang and parties acting in concert with him will be interested in a total of 174,082,000 Privateco Shares, representing approximately 53.75% of the issued share capital of the Privateco following completion of the Distribution In Specie. Given that the Privateco Shares will not be listed on the Stock Exchange or any other stock exchange, it will be difficult, if not impossible, for holders of the Privateco Shares to liquidate their holdings in the Privateco Shares. Mr. Yang considers, in these circumstances, that it is appropriate to provide the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) with an opportunity to realise their holdings in the Privateco Shares by making the Privateco Offer on a voluntary basis pursuant to the Takeovers Code.

As at the date of this joint announcement, there is one Privateco Share in issue and the Privateco has no outstanding securities, options, warrants or derivatives which are convertible into or which confer rights to require the issue of the Privateco Shares and Privateco has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the date of this joint announcement.

Terms of the Privateco Offer

Upon completion of the Distribution In Specie, Quam Securities will, on behalf of Smart Top (a company wholly-owned by Mr. Yang) and pursuant to the Takeovers Code, make the Privateco Offer to the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) to acquire all the Privateco Shares (other than those to be owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them) on the following basis:

for each Privateco Share held HK\$0.38 in cash

- * *The number of the Privateco Shares to be in issue will be equal to the total number of the Shares in issue on the Record Date. The Company will announce the Record Date in accordance with Rule 13.66 of the Listing Rules as and when appropriate.*

As the Privateco Offer will only be made following completion of the Distribution In Specie, which is subject to a number of conditions precedent to the Distribution In Specie, the making of the Privateco Offer may or may not proceed and, as such is a possibility only. In the event that the Privateco Offer is made, it will be an unconditional cash offer. Investors and the Privateco Shareholders are urged to exercise caution when dealing in the Privateco Shares.

The Privateco Offer price of HK\$0.38 per Privateco Share, which is expected to be close to or represents a slight premium over the estimated net asset value of the Privateco Group per Privateco Share, has been determined after taking into account factors including (i) the consolidated net asset value of the Privateco Group as at 30 June 2012 estimated based on the management accounts prepared by the Company, taking into consideration the effects including mainly the Group Reorganisation (which includes the intended settlement or assignment of, among others, certain intra-group balances between the Remaining Group and the Privateco Group), the Share Sale Completion and the Distribution In Specie, which approximates the Privateco Offer price; (ii) the Listco Offer price of HK\$0.9263 per Share; and (iii) the prevailing market prices of Shares as further described in the section headed “G. Comparison of the combined offer price with market prices of the Shares and net asset value per Share” below.

Total consideration for the Privateco Offer

On the basis of 323,896,933 Shares in issue as at the date of this joint announcement, 323,896,933 Privateco Shares will be in issue upon completion of the Distribution In Specie and based on the Privateco Offer price of HK\$0.38 per Privateco Share, the entire issued share capital of the Privateco is valued at approximately HK\$123,080,834.54. Assuming the Distribution In Specie has been completed and based on 174,082,000 Privateco Shares (representing approximately 53.75% of the share capital of Privateco expected to be in issue) to be beneficially owned by Mr. Yang and parties acting in concert with him, 149,814,933 Privateco Shares (representing approximately 46.25% of the share capital of the Privateco expected to be in issue) will be subject to the Privateco Offer and the Privateco Offer is valued at approximately HK\$56,929,674.54.

Financial Resources

The amount of funds required for the full acceptance of the Privateco Offer by Smart Top will be financed by (i) an unsecured loan agreement entered into between Mr. Yang and an Independent Third Party of HK\$15,000,000; (ii) a loan facility advanced to Mr. Yang by Quam Securities of HK\$16,930,000; and (iii) the own resources of Mr. Yang as to the balance. Quam Capital Limited and Guotai Junan Capital Limited, the joint financial advisers to Smart Top, are satisfied that sufficient financial resources are available to Smart Top or Mr. Yang to satisfy full acceptance of the Privateco Offer.

Overseas Shareholders

As the Privateco Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdiction in which they are resident, Overseas Shareholders who are citizens or residents or nationals of a jurisdiction outside Hong Kong should keep themselves informed about and observe any applicable legal or regulatory requirements and where necessary seek legal advice. It is the responsibility of the Overseas Shareholders who wish to accept the Privateco Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction).

Compulsory acquisition right

Subject to sufficient Privateco Shares being acquired, pursuant to sections 102 and 103 of the Companies Act, Smart Top intends to avail itself of the right to compulsorily acquire the remaining Privateco Shares not already acquired under the Privateco Offer. Under section 102 of the Companies Act, the relevant threshold will be Smart Top within four months of commencement of the Privateco Offer receiving acceptances from the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) representing not less than 90% in value of the Privateco Shares subject to the Privateco Offer provided that if Smart Top already holds over 10% of the Privateco Shares, the acceptances must also represent 75% in number of the Privateco Shareholders (other than Mr. Yang and parties acting in concert with him) accepting the Privateco Offer. Under section 103 of the Companies Act, Smart Top can compulsorily acquire the Privateco Shares held by the remaining Privateco Shareholders once it holds 95% of all issued Privateco Shares. In addition to the aforesaid requirement, Rule 2.11 of the Takeovers Code requires that acceptances of the Privateco Offer during the period of 4 months after posting of the Privateco Offer document total 90% of the disinterested Privateco Shares. For the purpose of Rule 2.11 of the Takeovers Code, disinterested Privateco Shares mean Privateco Shares which are not owned or agreed to be acquired by Mr. Yang and/or Smart Top or persons acting in concert with any of them. Further announcements will be made about the exercise of such right of compulsory acquisition.

Other arrangements

The Privateco Shares subject to the Privateco Offer will be acquired by Smart Top with the right to receive all dividends and distributions declared, paid or made on or after the date of the issue of the Privateco Shares and free from all third party rights.

The Privateco was incorporated in Bermuda on 9 October 2012 with limited liability pursuant to the Group Reorganisation for the purpose of carrying out the Distributed Businesses and as a wholly-owned subsidiary of the Company prior to the Distribution In Specie.

Given that the Privateco is a company incorporated in Bermuda where its register of members is located and maintained, no Hong Kong stamp duty will be payable on any transfer of the Privateco Shares.

For those Privateco Shareholders who wish to retain their investments in the Distributed Businesses after completion of the Distribution In Specie, they can choose not to accept the Privateco Offer and continue to hold the Privateco Shares. **They should, however, be aware that there will be no liquid market for the Privateco Shares as there is no intention to list the Privateco Shares on any stock exchange.**

Background of Smart Top and its intention regarding the Privateco

Smart Top is a company incorporated in the BVI with limited liability. As at the date of this joint announcement, Smart Top is wholly-owned by Mr. Yang.

Mr. Yang is the existing controlling Shareholder and together with his associates and parties acting in concert with him holds a total of 174,082,000 Shares as at the date of this joint announcement.

It is the intention of Smart Top that the Privateco Group will not make changes to its principal businesses nor conduct any business other than the Distributed Businesses. It is also the intention of Smart Top that the Privateco Group will not hold any assets other than those relating to the Distributed Businesses, nor be injected any major assets, nor dispose of any major assets, after the close of the Privateco Offer, unless prior approval by the Privateco Shareholders has been obtained.

None of the independent non-executive Directors will be appointed as a director of the Privateco. Following the despatch of the Privateco Offer Document, the composition of the board of directors of the Privateco may change. Further announcement(s) will be made in this regard as and when appropriate.

COMPARISON OF THE COMBINED OFFER PRICE WITH MARKET PRICES OF THE SHARES AND NET ASSET VALUE PER SHARE

The combined consideration under the Listco Offer and the Privateco Offer is equivalent to HK\$1.3063 per Share, which represents:

- a premium of approximately 125.2% over the closing price of HK\$0.58 per Share as quoted on the Stock Exchange on 14 June 2012 (being the last trading day prior to the issue of the announcement dated 19 June 2012 in relation to the possible sale and purchase of Shares owned by Mr. Yang);
- a discount of approximately 10.5% to the closing price of HK\$1.46 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 9.2% to and a premium of approximately 14.3% over the average of the closing prices of approximately HK\$1.438 and HK\$1.143 per Share respectively as quoted on the Stock Exchange for the 5 and 30 consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 52.4% over the average of the closing prices of approximately HK\$0.857 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 45.5% over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$0.898 per Share as at 30 June 2012 based on the interim report of the Company for the six months ended 30 June 2012.

For illustration only, the Listco Offer price of HK\$0.9263 per Share represents:

- a premium of approximately 59.7% over the closing price of HK\$0.58 per Share as quoted on the Stock Exchange on 14 June 2012 (being the last trading day prior to the issue of the announcement dated 19 June 2012 in relation to the possible sale and purchase of Shares owned by Mr. Yang and parties acting in concert with him);
- a discount of approximately 36.6% to the closing price of HK\$1.46 per Share as quoted on the Stock Exchange on the Last Trading Day;

- discounts of approximately 35.6% and 19% to the average of the closing prices of approximately HK\$1.438 and HK\$1.143 per Share respectively as quoted on the Stock Exchange for the 5 and 30 consecutive trading days up to and including the Last Trading Day;
- a premium of approximately 8.1% over the average of the closing prices of approximately HK\$0.857 per Share as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day; and
- a premium of approximately 3.2% over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$0.898 per Share as at 30 June 2012 based on the interim report of the Company for the six months ended 30 June 2012.

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The audited consolidated financial statements of the Group for the year ended 31 December 2011 has been set out in pages 59 to 157 of the annual report 2011 of the Company which was posted on 24 April 2012 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2011:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0424/LTN20120424177.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2010 has been set out in pages 63 to 172 of the annual report 2010 of the Company which was posted on 26 April 2011 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2010:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0426/LTN20110426144.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2009 has been set out in pages 65 to 164 of the annual report 2009 of the Company which was posted on 21 April 2010 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2009:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2010/0421/LTN20100421629.pdf>

2. UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENT OF THE GROUP

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2012 has been set out in pages 26 to 60 of the interim report 2012 of the Company which was posted on 20 September 2012 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the interim report 2012:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0920/LTN20120920212.pdf>

3. INDEBTEDNESS STATEMENT

As at the close of business on 30 September 2012, being the latest practicable date for the purpose of this indebtedness statement, the Group had secured bank borrowings of approximately HK\$48,510,000 and unsecured bank borrowings of approximately HK\$32,388,000.

Pledge of assets

As at the close of business on 30 September 2012, land and buildings held for own use of approximately HK\$72,307,000 and bank balance of approximately HK\$1,961,000 were pledged to secure the banking facilities of the Group.

Commitments

- (a) As at the close of business on 30 September 2012, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<i>HK\$'000</i>
Within one year	3,578
In the second to fifth year inclusive	7,312
	<u>10,890</u>

- (b) As at the close of business on 30 September 2012, the Group had capital expenditure in respect of acquisition of property, plant and equipment are as follows:

	<i>HK\$'000</i>
Contracted, but not provided for	<u>798</u>

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30 September 2012.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and payables in the ordinary course of business of the Group, the Group did not have any loan capital issued and outstanding, or authorised or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), bank overdrafts, loans or other similar indebtedness, liabilities under acceptances credits, debentures, mortgages, charges, hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities at the close of business on 30 September 2012.

4. WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the Remaining Group's business prospects, internal resources, available credit facilities and the Share Sale Completion and completion of the Group Reorganisation and the Distribution In Specie, the Remaining Group has sufficient working capital for its requirements for at least twelve months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in the interim report 2012 of the Company and the Letter from the Board in this circular, particularly in respect of the loss attributable to the owners of the Company of approximately HK\$23.6 million for the six months ended 30 June 2012 and the decrease in net asset value of the Group to approximately HK\$292 million as at 30 June 2012, 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 2011, being the date to which the latest published audited accounts of the Company have been made up.

The following is the text of a report received from the Company's reporting accountant, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong for the purpose of inclusion in this circular.



SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

19 November 2012

The Directors

Kwang Sung Electronics H.K. Co. Limited

Units 208-209, 2/F., Bio-Informatics Centre

No. 2 Science Park West Avenue

Hong Kong Science Park

Shatin, N.T.

Hong Kong

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Jay Star Holdings Limited (the “Privateco”) and its subsidiaries (hereinafter collectively referred to as the “Privateco Group”) for each of the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 (the “Relevant Periods”), for inclusion in a circular in connection with the proposed group reorganisation and distribution in specie of the ordinary shares of the Privateco (the “Proposed Group Reorganisation and Transaction” issued by Kwang Sung Electronics H.K. Co. Limited (the “Company” or “ultimate holding company”) dated 19 November 2012 (the “Circular”).

The Privateco was incorporated as an exempted company and registered with limited liability in Bermuda on 9 October 2012 under the Companies Act 1981 of Bermuda and is a wholly-owned subsidiary of the Company. Pursuant to a group reorganisation (the “Group Reorganisation”) as detailed in section headed “B. Group Reorganisation” in the Circular, the Privateco will become the holding company of the companies comprising the Privateco Group after the completion of the Proposed Group Reorganisation and Transaction, details of which are set out in note 1 to the Financial Information below. The Privateco is engaged in investment holding.

As at the date of this report, no statutory audited financial statements have been prepared for the Privateco as the Privateco is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

APPENDIX III

ACCOUNTANTS' REPORT OF THE PRIVATECO GROUP

All the companies now comprising the Privateco Group have adopted 31 December as their financial year end date. At the date of this report, the Privateco has the following direct and indirect subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Privateco					Principal activities
			As at 31 December 2009	As at 31 December 2010	As at 31 December 2011	As at 30 June 2012	At the date of report	
Kwang Sung Holdings Co., Ltd. ("KSH") (Formerly known as Kwang Sung Group Investment Co., Ltd. and Grand Sonic Limited) (Note a & b)	British Virgin Islands 3 November 2006	US\$13,535,610	100%	100%	100%	100%	100%	Investment holding
Brocoli Co., Limited ("Brocoli") (Note b)	The Republic of Korea ("Korea") 5 April 2007	KRW794,300,000	69.7%	69.7%	69.5%	69.5%	69.5%	Research and development and production of wiretape cabling technology products
Kwang Sung Electronics Korea Co., Ltd. ("KSEK") (Note b)	Korea 22 March 2010	KRW50,000,000	–	100%	100%	100%	100%	Manufacture and sales of electronic components
Kwang Sung Group Investment Co., Limited ("KSGI") (Note c)	Hong Kong 31 March 2011	HK\$1	–	–	100%	100%	100%	Investment holding
寶應光星電子有限公司 Baoying Kwang Sung Electronics Co., Ltd. * ("KSBY") (Note d)	The People's Republic of China (the "PRC") 18 July 2011	US\$10,000,000	–	–	100%	100%	100%	Manufacture and sales of electronic components

* The English translation of the names is for identification purpose only

Note a: After the Reorganisation, KSH is directly held by the Privateco Company. All other subsidiaries are indirectly held by the Privateco.

Note b: As at the date of this report, no statutory audited financial statements have been prepared for KSH, Brocoli and KSEK as they are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

Note c: As at the date of this report, no statutory audited financial statements have been prepared for KSGI as KSGI is newly incorporated and has not yet reached 18 months from the date of incorporation so that it is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

Note d: The statutory financial statements for the period from 18 July 2011 to 31 December 2011 prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprise established in the PRC were audited by Jiang Su Runyang Hengxin Certified Public Accountants Co., Ltd., a firm of certified public accountant registered in the PRC.

For the purpose of this report, the director of the Privateco has prepared the combined financial statements of the Privateco Group 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 “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Privateco Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 to the Financial Information. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in the Circular.

The director of the Privateco is responsible for the preparation of the Financial Information and Underlying Financial Statements which give a true and fair view and the directors of the Company are responsible for the contents of the Circular in which this report is included. 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Privateco Group as at 31 December 2009, 2010 and 2011 and 30 June 2012 and of the combined results and cash flows of the Privateco Group for the Relevant Periods.

The comparative combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Privateco Group for the six months ended 30 June 2011 together with the notes thereto have been extracted from the Privateco Group’s unaudited combined financial information for the same period (the “30 June 2011 Financial Information”) which was prepared by the director of the Privateco solely for the purpose of this report. We have reviewed the 30 June 2011 Financial Information in accordance with the 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 review of the 30 June 2011 Financial Information consisted of making enquires, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2011 HK\$'000 (Unaudited)	2012 HK\$'000
Turnover	8	–	–	58,563	–	98,108
Cost of sales		–	–	(57,713)	–	(86,647)
Gross profit		–	–	850	–	11,461
Other income	9	32	1,701	10,035	583	7,837
Selling and distribution expenses		–	(33)	(1,377)	–	(4,050)
Administrative expenses		–	(49)	(5,141)	(60)	(8,725)
Research and development expenses		(957)	(1,260)	(5,762)	(600)	(14,096)
Other operating expenses		(354)	(621)	(7,983)	(305)	(4,123)
Finance costs	10	–	(8)	–	(2)	–
Loss before taxation		(1,279)	(270)	(9,378)	(384)	(11,696)
Income tax credit	11	35	48	69	24	231
Loss for the year/period	12	<u>(1,244)</u>	<u>(222)</u>	<u>(9,309)</u>	<u>(360)</u>	<u>(11,465)</u>
Other comprehensive (expense) income:						
Exchange differences arising on translation		(133)	286	(383)	372	(28)
Gain on revaluation of freehold land		–	425	–	–	–
Reclassification adjustment upon impairment		–	–	(425)	–	–
Other comprehensive (expense) income for the year/period		<u>(133)</u>	<u>711</u>	<u>(808)</u>	<u>372</u>	<u>(28)</u>
Total comprehensive (expense) income for the year/period		<u>(1,377)</u>	<u>489</u>	<u>(10,117)</u>	<u>12</u>	<u>(11,493)</u>

Note: Loss per share of the Privateco for the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012 are not presented as such information is not considered meaningful in the context of this report.

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME (Continued)

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
(Loss) profit for the year/period attributable to:					
Owner of the Privateco	(774)	158	(9,260)	(252)	(11,268)
Non-controlling interests	(470)	(380)	(49)	(108)	(197)
	<u>(1,244)</u>	<u>(222)</u>	<u>(9,309)</u>	<u>(360)</u>	<u>(11,465)</u>
Total comprehensive (expense) income for the year/period attributable to:					
Owner of the Privateco	(867)	783	(9,953)	8	(11,288)
Non-controlling interests	(510)	(294)	(164)	4	(205)
	<u>(1,377)</u>	<u>489</u>	<u>(10,117)</u>	<u>12</u>	<u>(11,493)</u>

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF FINANCIAL POSITION

		The Privateco Group				The Privateco
		As at 31 December			As at	As at
		2009	2010	2011	30 June	30 June
Notes		HK\$'000	HK\$'000	HK\$'000	2012	2012
					HK\$'000	HK\$'000
Non-current assets						
Property, plant and equipment	16	363	55,887	128,270	148,572	–
Goodwill	17	5,857	5,857	–	–	–
Intangible assets	18	7,663	7,423	16,327	13,987	–
Deposits paid for acquisition of property, plant and equipment		–	–	–	3,480	–
		13,883	69,167	144,597	166,039	–
Current assets						
Inventories	19	–	–	25,252	27,915	–
Trade and other receivables	20	60	142	31,167	62,978	–
Amounts due from fellow subsidiaries	21	117	121	–	–	–
Restricted bank deposits	22	–	–	472	–	–
Bank balances and cash	22	853	1,540	15,655	11,739	–
		1,030	1,803	72,546	102,632	–
Current liabilities						
Trade and other payables	23	635	1,303	32,621	32,937	–
Amount due to ultimate holding company	21	–	40,921	–	36,400	–
Amounts due to fellow subsidiaries	21	–	–	26,096	52,813	–
Bank borrowings — due within one year	24	111	13,844	60,482	60,303	–
		746	56,068	119,199	182,453	–
Net current assets (liabilities)						
		284	(54,265)	(46,653)	(79,821)	–
		14,167	14,902	97,944	86,218	–

A. FINANCIAL INFORMATION (*Continued*)COMBINED STATEMENTS OF FINANCIAL POSITION (*Continued*)

		As at 31 December			As at	As at
		2009	2010	2011	30 June	30 June
	Notes	HK\$'000	HK\$'000	HK\$'000	2012	2012
					HK\$'000	HK\$'000
Capital and reserves						
Share capital	25	4,679	5,023	105,160	105,160	–
Reserves		6,319	7,102	(9,736)	(21,024)	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Equity attributable to owners of the Privateco		10,998	12,125	95,424	84,136	–
Non-controlling interests		2,214	1,920	1,756	1,551	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total equity		<u>13,212</u>	<u>14,045</u>	<u>97,180</u>	<u>85,687</u>	<u>–</u>
Non-current liabilities						
Bank borrowings — due after one year	24	83	–	–	–	–
Deferred tax liabilities	26	872	857	764	531	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
		955	857	764	531	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
		<u>14,167</u>	<u>14,902</u>	<u>97,944</u>	<u>86,218</u>	<u>–</u>

The Privateco has not yet incorporated up to 30 June 2012.

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Other reserve (Note a)	Capital reserve (Note b)	Properties revaluation reserve (Note c)	Exchange reserve	Accumulated losses	Sub-total	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	—	—	—	—	—	—	—	—	—
Loss for the year	—	—	—	—	—	(774)	(774)	(470)	(1,244)
Other comprehensive expense for the year:									
— Exchange differences arising on translation	—	—	—	—	(93)	—	(93)	(40)	(133)
Total comprehensive expense for the year	—	—	—	—	(93)	(774)	(867)	(510)	(1,377)
Capital contribution arising from acquisition of a subsidiary (Note 29)	3,415	—	6,885	—	—	—	10,300	3,025	13,325
Capital contribution arising from deemed acquisition of additional interest in a subsidiary (Note 29)	1,264	301	—	—	—	—	1,565	(301)	1,264
At 31 December 2009 and 1 January 2010	4,679	301	6,885	—	(93)	(774)	10,998	2,214	13,212
Profit (loss) for the year	—	—	—	—	—	158	158	(380)	(222)
Other comprehensive income for the year:									
— Exchange differences arising on translation	—	—	—	—	200	—	200	86	286
— Gain on revaluation of freehold land	—	—	—	425	—	—	425	—	425
Total comprehensive income (expense) for the year	—	—	—	425	200	158	783	(294)	489
Share issued (Note 25(b))	344	—	—	—	—	—	344	—	344

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Share capital	Other reserve (Note a)	Capital reserve (Note b)	Properties revaluation reserve (Note c)	Exchange reserve	Accumulated losses	Sub-total	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010 and 1 January 2011	5,023	301	6,885	425	107	(616)	12,125	1,920	14,045
Loss for the year	—	—	—	—	—	(9,260)	(9,260)	(49)	(9,309)
Other comprehensive expense for the year									
— Exchange differences arising on translation	—	—	—	—	(268)	—	(268)	(115)	(383)
— Reclassification adjustment upon impairment	—	—	—	(425)	—	—	(425)	—	(425)
Total comprehensive expense for the year	—	—	—	(425)	(268)	(9,260)	(9,953)	(164)	(10,117)
Arising from the Group reorganisation (Note 25(d))	6,885	—	(6,885)	—	—	—	—	—	—
Contribution from the Company (Note 25(e))	93,252	—	—	—	—	—	93,252	—	93,252
At 31 December 2011 and 1 January 2012	105,160	301	—	—	(161)	(9,876)	95,424	1,756	97,180
Loss for the period	—	—	—	—	—	(11,268)	(11,268)	(197)	(11,465)
Other comprehensive expense for the period									
— Exchange differences arising on translation	—	—	—	—	(20)	—	(20)	(8)	(28)
Total comprehensive expense for the period	—	—	—	—	(20)	(11,268)	(11,288)	(205)	(11,493)
At 30 June 2012	105,160	301	—	—	(181)	(21,144)	84,136	1,551	85,687

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Share capital	Other reserve (Note a)	Capital reserve (Note b)	Properties revaluation reserve (Note c)	Exchange reserve	Accumulated losses	Sub-total	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011 (audited)	4,679	301	6,885	425	107	(616)	12,125	1,920	14,045
Loss for the period	—	—	—	—	—	(252)	(252)	(108)	(360)
Other comprehensive income for the period									
— Exchange differences arising on translation	—	—	—	—	260	—	260	112	372
Total comprehensive income (expense) for the period	—	—	—	—	260	(252)	8	4	12
At 30 June 2011 (unaudited)	<u>4,679</u>	<u>301</u>	<u>6,885</u>	<u>425</u>	<u>367</u>	<u>(868)</u>	<u>12,133</u>	<u>1,924</u>	<u>14,057</u>

Notes:

(a) Other reserve

During the year ended 31 December 2009, the Company and its subsidiaries ("the Group") contributed additional share capital of approximately HK\$1,264,000 to Brocoli which represented 10.2% while the non-controlling shareholders did not increase their contribution. Consequently, the equity interest of the Group in Brocoli was increased by 10.2% from 59.5% to 69.7%. When the additional equity interest in Brocoli is acquired, the relevant share of the carrying value of Brocoli's net assets deemed acquired of approximately HK\$301,000 is recorded in other reserve.

(b) Capital reserve

The contribution from the Company relating to acquisition of a subsidiary as explained in note 29.

(c) Properties revaluation reserve

The properties revaluation reserve represents the fair value change arising from the freehold land and is dealt with in accordance with the accounting policies adopted for freehold land in note 3.

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
OPERATING ACTIVITIES					
Loss before taxation	(1,279)	(270)	(9,378)	(384)	(11,696)
Adjustments for:					
Interest income					
from bank deposits	(1)	(5)	(131)	–	(9)
Finance costs	–	8	–	2	–
Depreciation	19	121	627	371	2,483
Amortisation of					
intangible assets	353	476	694	347	576
Impairment loss recognised					
on goodwill	–	–	5,857	–	–
Impairment loss recognised					
on intangible assets	–	–	–	–	1,748
Impairment loss recognised					
on freehold land	–	–	1,095	–	1,799
Allowance for inventories	–	–	2,224	–	794
Operating cash flows before					
movements in					
working capital	(908)	330	988	336	(4,305)
Increase in inventories	–	–	(27,476)	–	(3,457)
Increase in trade and					
other receivables	(20)	(82)	(31,025)	(1,349)	(31,811)
(Decrease) increase in trade					
and other payables	(112)	668	31,318	4,520	316
NET CASH (USED IN)					
FROM OPERATING					
ACTIVITIES	(1,040)	916	(26,195)	3,507	(39,257)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CASH FLOWS (Continued)

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
INVESTING ACTIVITIES					
Net cash inflow from					
acquisition of a subsidiary	866	–	–	–	–
Interest received	1	5	131	–	9
Acquisition of property, plant and equipment	(89)	(52,043)	(72,754)	(32,716)	(23,018)
(Advance to) repayment from fellow subsidiaries	(117)	(4)	–	–	–
Deposits paid for purchase of property, plant and equipment	–	–	–	–	(3,480)
(Placement) withdrawal of restricted bank deposits	–	–	(472)	–	472
NET CASH USED IN INVESTING ACTIVITIES	<u>661</u>	<u>(52,042)</u>	<u>(73,095)</u>	<u>(32,716)</u>	<u>(26,017)</u>
FINANCING ACTIVITIES					
Contributions from a shareholder	1,264	344	–	–	–
Interest paid	–	(8)	(2,412)	(2)	(2,193)
Repayment of bank borrowings	(47)	(194)	(13,844)	–	–
New bank loans raised	–	13,064	63,280	13,669	–
Advance from fellow subsidiaries	–	–	82,453	13,703	26,717
Advance from (repayment to) ultimate holding company	–	38,571	(16,055)	3,021	36,400
NET CASH FROM FINANCING ACTIVITIES	<u>1,217</u>	<u>51,777</u>	<u>113,422</u>	<u>30,391</u>	<u>60,924</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>838</u>	<u>651</u>	<u>14,132</u>	<u>1,182</u>	<u>(4,350)</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>–</u>	<u>853</u>	<u>1,540</u>	<u>1,540</u>	<u>15,655</u>
Effect of foreign exchange rate changes	<u>15</u>	<u>36</u>	<u>(17)</u>	<u>(12)</u>	<u>434</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER/30 JUNE, Represented by bank balances and cash	<u><u>853</u></u>	<u><u>1,540</u></u>	<u><u>15,655</u></u>	<u><u>2,710</u></u>	<u><u>11,739</u></u>

B. NOTES TO THE FINANCIAL INFORMATION**1. GENERAL AND BASIS OF PREPARATION**

The Privateco was incorporated as an exempted company and registered with limited liability in Bermuda on 9 October 2012. The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and principal place of business is at Unit 13, 12th floor, Wing On Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The Privateco is an investment holding company. The principal activities of its subsidiaries are mainly engaged in research and development, manufacture and sales of electronics components.

The director of the Privateco considers that the ultimate holding company of the Privateco as at the date of this report is the Company, which was incorporated in Hong Kong.

The Financial Information is presented in Hong Kong dollar ("HK\$") while the functional currency of the Privateco is Korean Won ("KRW") and its subsidiaries are Renminbi ("RMB") and KRW. The presentation currency is different from the functional currency as the director of the Privateco considers this presentation currency is more useful for its potential investor of the Company as it is a company listed in Hong Kong.

Pursuant to the Reorganisation as described in the section headed "B. Group Reorganisation" in the Circular, the Privateco will become the holding company of the companies now comprising the Privateco Group after the completion of the Proposed Group Reorganisation and Transaction. Other than the acquired company as mentioned in note 29, the companies now comprising the Privateco Group have been under the common control of the Company throughout the Relevant Periods or since their respective dates of incorporation or establishment up to 30 June 2012. The Privateco Group comprising the Privateco and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information has been prepared on the basis as if the Privateco has always been the holding company of the companies comprising the Privateco Group throughout the Relevant Periods using the principles of merger accounting as set out in Note 3.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows including the results and cash flows of the companies comprising the Privateco Group have been prepared as if the current group structure had been in existence throughout the Relevant Periods or since their respective dates of incorporation or establishment, up to 30 June 2012. The combined statements of financial position of the Privateco Group as at 31 December 2009, 2010 and 2011 and 30 June 2012 have been prepared to present the assets and liabilities of the companies comprising the Privateco Group as if the current group structure had been in existence as at those dates.

The Financial Information have been prepared on a going concern basis notwithstanding the Privateco Group had net current liabilities as at 31 December 2011 and 30 June 2012 of approximately HK\$46,653,000 and HK\$79,821,000 respectively.

In the opinion of the director, the Privateco Group is able to maintain itself as a going concern in the coming year by taking into consideration that:

- (i) the bank borrowings of approximately HK\$60,303,000 as at 30 June 2012 was renewed on 21 September 2012 by its major banker and the Privateco Group will repay the entire principal on 17 September 2013 according to the renewed bank loan agreement.
- (ii) subsequent to 30 June 2012, the Company has agreed the amount due to the ultimate holding company of approximately HK\$36,400,000 will be settled by issuance of ordinary shares by the Privateco rather than settled by cash.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**1. GENERAL AND BASIS OF PREPARATION** (*Continued*)

- (iii) Before the completion of the Proposed Group Reorganisation and Transaction, the fellow subsidiaries will not demand repayment of the balances of approximately HK\$52,813,000 as at 30 June 2012 from the Privateco Group for the next twelve months from 30 June 2012.
- (iv) Pursuant to the share sale agreement ("Share Sale Agreement") signed on 27 September 2012 as detailed in the section "A. Share Sale Agreement" in the Circular, Mr. Yang Jai Sung ("Mr. Yang") will become the ultimate and controlling shareholder of the Privateco when the Proposed Group Reorganisation and Transaction completed. The balance payable to the fellow subsidiaries of the Company by the Privateco Group will become payable to Mr. Yang upon completion of the Share Sale Agreement.

Should the completion of the Proposed Group Reorganisation and Transactions, Mr. Yang Jai Sung, a director of Privateco who will become the controlling shareholder and creditor of the Privateco, will not demand repayment of the balances of approximately HK\$52,813,000 as at 30 June 2012 from the Privateco Group for the next twelve months from 30 June 2012.

Accordingly, the director is satisfied that it is appropriate to prepare the Financial Information on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Privateco Group has consistently adopted all the relevant Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and the related interpretations ("INTs") issued by the HKICPA which are effective for the Privateco Group's financial year beginning on 1 January 2012.

The Privateco Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle ²
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards — Government loans ²
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities ²
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁴
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangement ²
HKFRS 12	Disclosures of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ¹
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ²
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ³
HK (IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)*****Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets***

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The director of the Privateco anticipates that the application of the amendments to HKFRS 7 will affect the Privateco Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)*****HKFRS 9 Financial Instruments (Continued)***

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The director of the Privateco Group anticipates that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Privateco Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")** (*Continued*)**New and revised standards on consolidation, joint arrangements, associates and disclosures** (*Continued*)

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The director of the Privateco anticipates that these five standards will be adopted in the Privateco Group's Financial Information for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the Financial Information. The application of HKFRS 10 may result in the Privateco Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated. However, the director of the Privateco have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The director of the Privateco Group anticipates that HKFRS 13 will be adopted in the Privateco Group's Financial Information for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the Financial Information and result in more extensive disclosures in the Financial Information.

Amendment to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The director of the Privateco anticipates that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Privateco Group.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of combination

The Financial Information incorporates the financial statements of the Privateco and entities controlled by the Privateco (its subsidiaries). Control is achieved where the Privateco has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the combined statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Privateco Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Non-controlling interests in subsidiaries are presented separately from the Privateco Group's equity therein. Total comprehensive income and expense of a subsidiary is attributed to the owners of the Privateco and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Privateco Group, liabilities incurred by the Privateco Group to the former owners of the acquiree and the equity interests issued by the Privateco Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Business combinations** *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Business combinations under common control

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the combined statements of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Privateco Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount of the units, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the combined statements of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Intangible assets**(i) Intangible assets acquired separately**

Intangible assets acquired separately with finite useful lives that are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

(iii) Research and development cost

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Financial instruments**

Financial assets and financial liabilities are recognised in the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Privateco Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from fellow subsidiaries, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment loss (see the accounting policy on impairment loss on financial assets below).

Impairment on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Financial instruments** *(Continued)***Financial assets** *(Continued)***Impairment on financial assets** *(Continued)*

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Privateco Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Financial instruments** *(Continued)****Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Privateco Group after deducting all of its liabilities. Equity instruments issued by the Privateco are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to ultimate holding company and fellow subsidiaries and bank borrowings are subsequently measured at amortised cost using the effective interest rate method.

Derecognition

The Privateco Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Privateco Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Privateco Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Privateco Group derecognises financial liabilities when, and only when, the Privateco Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Property, plant and equipment**

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purpose (other than construction in progress described as below) are stated in the combined statements of financial position at cost or fair value less subsequent accumulated depreciation and impairment losses, if any.

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Privateco Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is stated at revalued amounts, being fair value at the date of revaluation, less subsequent accumulated impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Any surplus arising on revaluation of freehold land is recognised in other comprehensive income and is accumulated in the properties revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss. To the extent that any decrease has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase dealt with in other comprehensive income. A decrease in net carrying amount of freehold land arising on revaluations or impairment testing is recognised in other comprehensive income to the extent of the revaluation surplus in the properties revaluation reserve relating to the same asset and the remaining decrease is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Privateco Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

At the end of the reporting period, the Privateco Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Privateco Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of impairment loss is recognised as income immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Retirement benefit costs

Payments to the PRC and Korean local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC and Korea are recognised as an expense when employees have rendered service entitling them to the contributions.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Privateco Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Privateco Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Privateco Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

When current tax or deferred tax arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and service provided in the normal course of business, net of discounts and sales related taxes.

(i) Sales of goods

Revenue from sales of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Privateco Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Privateco Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Privateco Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Privateco Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(iii) Service income

Service income including that from provision of research and development services are recognised when the services are provided.

(iv) Patent income

Patent income generated from the leasing of patents is recognised on a straight-line basis over the lease term.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3. SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the functional currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the Financial Information, the assets and liabilities of the Privateco Group's foreign operation are translated into presentation currency of the Privateco Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expense are translated at the average rates for each of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interest as appropriate).

Cash and cash equivalents

Bank balances and cash in the combined statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the combined statements of cash flows, cash and cash equivalents consist of short-term deposits and cash as defined above.

Borrowing costs

Borrowing costs directly attributable to the construction of any qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Privateco Group's accounting policies, which are described in note 3, the director of the Privateco is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY** (*Continued*)Critical judgments in applying the entity's accounting policies

The following are the critical judgment, apart from those involving estimations, that the directors of the Privateco have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in Financial Information.

Going concern basis

The assessment of the going concern assumptions involves making judgement by the director of Privateco, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The management considers that the Privateco Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in note 1.

Key sources of estimation uncertainty

The following are the key assumptions concerning the futures and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment loss recognised on goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Privateco Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the carrying values of goodwill were approximately HK\$5,857,000, HK\$5,857,000, nil and nil (net of accumulated impairment loss of nil, nil, HK\$5,857,000 and HK\$5,857,000 respectively). Details of the impairment testing on goodwill are set out in note 17.

(b) Impairment loss recognised on property, plant and equipment

The Privateco Group reviews the carrying amounts of the assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value-in-use and provide for impairment loss. Any change in the assumption adopted in the cash flow forecasts would increase or decrease in the amount of impairment loss and affect the Privateco Group's net asset value. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the carrying values of property, plant and equipment were approximately HK\$363,000, HK\$55,887,000, HK\$128,270,000 and HK\$148,572,000 (net of accumulated impairment loss of approximately nil, nil, HK\$1,095,000 and HK\$2,894,000 respectively).

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY** *(Continued)*Key sources of estimation uncertainty *(Continued)*

(c) Impairment loss recognised on trade and other receivables

Impairment losses for trade and other receivables are assessed and provided, based on regular review of ageing analysis and evaluation of collectability by the director of the Privateco. A considerable level of judgment is exercised by the director of the Privateco when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment loss would increase or decrease in the amount of impairment loss and affect the Privateco Group's net asset value. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the carrying values of trade and other receivables were approximately HK\$60,000, HK\$142,000, HK\$31,167,000 and HK\$62,978,000 respectively. During the Relevant Periods, no impairment has been recognised.

(d) Impairment on intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the intangible assets. The value in use calculation requires the Privateco Group to estimate the future cash flows expected to arise from the patents and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the carrying values of intangible assets were approximately HK\$7,663,000, HK\$7,423,000, HK\$16,327,000 and HK\$13,987,000 respectively (net of accumulated impairment loss of nil, nil, nil and HK\$1,748,000 respectively).

(e) Allowance for inventories

The Privateco Group performs regular review of the carrying amounts of inventories with reference to ageing analysis, expected future consumption and management judgment. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Significant judgment is required. In making this judgment, the Privateco Group evaluates, amongst other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market condition and past experience in sales of similar products. Due to changes in technology and market conditions, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the carrying amounts of inventories were approximately nil, nil, HK\$25,252,000 and HK\$27,915,000 respectively (net of accumulated allowance for inventories of approximately nil, nil, HK\$2,224,000 and HK\$3,018,000 respectively).

(f) Estimate of fair value of freehold land

As described in note 16, the Privateco Group's freehold land was revalued at the end of each of the reporting period on an open market value basis by an independent professional valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Privateco Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**5. CAPITAL RISK MANAGEMENT**

The Privateco Group manage its capital to ensure that entities in the Privateco Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Privateco Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Privateco Group consists of net debt, which includes bank borrowings, net of cash and cash equivalents and equity attributable to owners of the Privateco, comprising issued share capital and reserves.

The director of the Privateco reviews the capital structure regularly. As a part of this review, the director of the Privateco considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the director, the Privateco Group will balance its overall capital structure through the raise of bank borrowings and issue of new shares.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		As at 30 June	
	2009	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Loans and receivables (including cash and cash equivalents)	<u>970</u>	<u>1,661</u>	<u>46,597</u>	<u>67,360</u>
Financial liabilities				
Liabilities measured at amortised cost	<u>829</u>	<u>56,068</u>	<u>118,989</u>	<u>182,389</u>

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***6. FINANCIAL INSTRUMENTS** *(Continued)***(b) Financial risk management objectives and policies**

The Privateco Group's major financial instruments include trade and other receivables, amounts due from/to fellow subsidiaries and ultimate holding company, bank balances and cash, restricted bank deposits trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk, foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The director of Privateco manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk***Interest rate risk***

The Privateco Group is exposed to cash flow interest rate risk to the extent on variable-rate bank borrowings and bank deposits and balances. The Privateco Group is not exposed to fair value interest rate risk.

The Privateco Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management of this note. The Privateco Group's cash flow interest rate risk is mainly concentrated on the fluctuation of KRW base lending rate arising from the Privateco Group's KRW denominated bank borrowings and KRW and RMB deposit rates arising from the Privateco Group's KRW and RMB denominated bank balances respectively.

Sensitivity analysis

During the Relevant Periods, the Privateco Group's bank borrowings and bank deposits and balances are short-term in nature and the interest raised from the bank borrowings and bank deposits and balances are immaterial. As a result, the exposure of the interest rate risk is minimal and no sensitivity analysis is presented.

Foreign currency risk

The Privateco Group are exposed to currency risk primarily through sales and purchases which give rise to receivables, payables, bank balances and bank borrowings that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to the risk are primarily United States dollars ("USD"). The Privateco Group ensure that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Privateco Group currently does not have a foreign currency hedging policy but the director of the Privateco monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**6. FINANCIAL INSTRUMENTS** (*Continued*)(b) Financial risk management objectives and policies (*Continued*)**Market risk** (*Continued*)**Foreign currency risk** (*Continued*)*Exposure to currency risk*

The following tables detail the Privateco Group's exposure at the end of each of the reporting periods to currency risk arising from monetary assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in HK\$, translated using the spot rate at the end of each of the reporting periods.

USD

	2009		31 December		2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and cash equivalents	–	–	862	–	15,111	–
Trade and other receivables	–	–	–	–	11,736	–
Trade and other payables	–	–	–	–	–	7,262
Amount due to ultimate holding company	–	–	–	40,921	–	–
	<u>–</u>	<u>–</u>	<u>862</u>	<u>40,921</u>	<u>26,847</u>	<u>7,262</u>

	30 June 2012	
	Assets	Liabilities
	HK\$'000	HK\$'000
Cash and cash equivalents	3,574	–
Trade and other receivables	16,328	–
Trade and other payables	–	5,874
Amount due to ultimate holding company	–	36,400
	<u>19,902</u>	<u>42,274</u>

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**6. FINANCIAL INSTRUMENTS** (*Continued*)(b) Financial risk management objectives and policies (*Continued*)**Market risk** (*Continued*)**Foreign currency risk** (*Continued*)*Sensitivity analysis*

The following table details the Privateco Group's sensitivity to a reasonably possible change of 5% in exchange rate of KRW against USD while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. A positive or negative number below indicates an increase or decrease in loss for the respective year/period.

	2009		31 December 2010		2011	
	Increase/ (decrease) in foreign exchange rates	Effect on loss for the year HK\$'000	Increase/ (decrease) in foreign exchange rates	Effect on loss for the year HK\$'000	Increase/ (decrease) in foreign exchange rates	Effect on loss for the year HK\$'000
USD	5%	—	5%	2,003	5%	(980)
	(5%)	—	(5%)	(2,003)	(5%)	980
	30 June 2012					
	Increase/ (decrease) in foreign exchange rates	Effect on loss for the period HK\$'000				
USD	5%	1,119				
	(5%)	(1,119)				

5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rate.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***6. FINANCIAL INSTRUMENTS** *(Continued)***(b) Financial risk management objectives and policies** *(Continued)***Credit risk**

As at 31 December 2009, 2010 and 2011 and 30 June 2012, the Privateco Group's maximum exposure to credit risk which will cause a financial loss to the Privateco Group due to failure to discharge an obligation by the counterparties provided by the Privateco Group is arising from the carrying amount of respective recognised financing assets as stated in the combined statements of financial position. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The credit terms granted by the Privateco Group to its customers generally range from 30 to 120 days. New customers are normally required to trade on a cash basis. Credit is offered to existing customers following an established payment record. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Privateco Group did not obtain collateral from customers during the Relevant Periods.

The Privateco Group's exposure to credit risk is influenced mainly 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. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the Privateco Group has a certain concentration of credit risk as nil, nil, 35% and 32% of the trade receivables was due from the Privateco Group's largest customer respectively and nil, nil, 87% and 84% of the trade receivables was due from the Privateco Group's five largest customers respectively.

In order to minimise the credit risk, the management of the Privateco Group have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Privateco Group review the recoverable amount of each individual trade debt at the end of each of the reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of the Privateco considers that the Privateco Group's credit risk is significantly reduced.

The Privateco Group's concentration of credit risk by geographical locations is mainly in the Korea, which accounted for nil, nil, 98% and 89% of the trade receivables as at 31 December 2009, 2010 and 2011 and 30 June 2012 respectively.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***6. FINANCIAL INSTRUMENTS** *(Continued)*(b) Financial risk management objectives and policies *(Continued)***Liquidity risk**

The Privateco Group is exposed to liquidity risk as at 31 December 2010 and 2011 and 30 June 2012 as its financial assets due within one year was less than its financial liabilities due within one year. The Privateco Group had net current liabilities as at 31 December 2010 and 2011 and 30 June 2012 of approximately HK\$54,265,000, HK\$46,653,000 and HK\$79,821,000 respectively.

The director of the Privateco is of the opinion that the Privateco Group will have sufficient working capital to meet its financial obligations as stated in note 1 and when the liabilities fall due for the next twelve months from 31 December 2011 and 30 June 2012 given that the director of the Privateco will consider different sources of financing being available.

The following table details the Privateco Group's remaining contractual maturities for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Privateco Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated by interest rate curve at the end of each reporting period.

As at 31 December

	Within 1 year or on demand <i>HK\$'000</i>	After 1 year but within 2 years <i>HK\$'000</i>	2009 After 2 years but within 5 years <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
Non-derivative financial liabilities					
Trade and other payables	635	–	–	635	635
Bank borrowings	116	88	–	204	194
	<u>751</u>	<u>88</u>	<u>–</u>	<u>839</u>	<u>829</u>
	Within 1 year or on demand <i>HK\$'000</i>	After 1 year but within 2 years <i>HK\$'000</i>	2010 After 2 years but within 5 years <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
Non-derivative financial liabilities					
Trade and other payables	1,303	–	–	1,303	1,303
Amount due to ultimate holding company	40,921	–	–	40,921	40,921
Bank borrowings	14,495	–	–	14,495	13,844
	<u>56,719</u>	<u>–</u>	<u>–</u>	<u>56,719</u>	<u>56,068</u>

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***6. FINANCIAL INSTRUMENTS** *(Continued)*(b) Financial risk management objectives and policies *(Continued)***Liquidity risk** *(Continued)*

As at 31 December

	Within 1 year or on demand <i>HK\$'000</i>	After 1 year but within 2 years <i>HK\$'000</i>	2011 After 2 years but within 5 years <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
Non-derivative financial liabilities					
Trade and other payables	32,411	–	–	32,411	32,411
Amounts due to fellow subsidiaries	26,096	–	–	26,096	26,096
Bank borrowings	63,348	–	–	63,348	60,482
	<u>121,855</u>	<u>–</u>	<u>–</u>	<u>121,855</u>	<u>118,989</u>

As at 30 June

	Within 1 year or on demand <i>HK\$'000</i>	After 1 year but within 2 years <i>HK\$'000</i>	2012 After 2 years but within 5 years <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
Non-derivative financial liabilities					
Trade and other payables	32,873	–	–	32,873	32,873
Amount due to ultimate holding company	36,400	–	–	36,400	36,400
Amounts due to fellow subsidiaries	52,813	–	–	52,813	52,813
Bank borrowings	63,160	–	–	63,160	60,303
	<u>185,246</u>	<u>–</u>	<u>–</u>	<u>185,246</u>	<u>182,389</u>

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**6. FINANCIAL INSTRUMENTS** (*Continued*)

(c) Fair values

The director of the Privateco considers that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost in the Financial Information approximate their fair values due to their immediate or short-term maturities.

The director of the Privateco also considers that the fair value of the long-term portion of liabilities approximates to their carrying amounts as the impact of discounting is not significant.

7. SEGMENT INFORMATION

The Privateco Group is principally engaged in the manufacture and sale of electronic components. The Privateco Group's operating and reportable segments, based on information reported to the chief operating decision maker, the director of the Privateco, for the purpose of resource allocation and performance assessment are as follows:

- (1) composite components segment – Assembled parts made up from unit electronic components; and
- (2) unit electronic components segment – Single electronic parts.

Segment revenue and results

The following is an analysis of the Privateco Group's turnover and results by reportable and operating segments:

For the year ended 31 December 2009

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
Segment loss	<u><u>(223)</u></u>	<u><u>(149)</u></u>	(372)
Unallocated other income			32
Unallocated operating expenses			<u>(939)</u>
Loss before taxation			<u><u>(1,279)</u></u>

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**7. SEGMENT INFORMATION** (*Continued*)**Segment revenue and results** (*Continued*)

For the year ended 31 December 2010

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>–</u>	<u>–</u>	<u>–</u>
Segment loss	<u>(358)</u>	<u>(239)</u>	(597)
Unallocated other income			1,701
Unallocated operating expenses			(1,366)
Finance costs			<u>(8)</u>
Loss before taxation			<u>(270)</u>

For the year ended 31 December 2011

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>18,367</u>	<u>40,196</u>	<u>58,563</u>
Other income	<u>9,587</u>	<u>–</u>	<u>9,587</u>
Segment revenue	<u>27,954</u>	<u>40,196</u>	<u>68,150</u>
Segment profit (loss)	<u>776</u>	<u>(9,861)</u>	(9,085)
Unallocated other income			448
Unallocated operating expenses			(739)
Finance costs			<u>(2)</u>
Loss before taxation			<u>(9,378)</u>

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**7. SEGMENT INFORMATION** (*Continued*)**Segment revenue and results** (*Continued*)

For the period ended 30 June 2011 (Unaudited)

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>–</u>	<u>–</u>	<u>–</u>
Segment loss	<u>(189)</u>	<u>(287)</u>	(476)
Unallocated other income			341
Unallocated operating expenses			(247)
Finance costs			<u>(2)</u>
Loss before taxation			<u>(384)</u>

For the period ended 30 June 2012

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>39,443</u>	<u>58,665</u>	<u>98,108</u>
Other income	<u>7,724</u>	<u>–</u>	<u>7,724</u>
Segment revenue	<u>47,167</u>	<u>58,665</u>	<u>105,832</u>
Segment loss	<u>(5,687)</u>	<u>(5,381)</u>	(11,068)
Unallocated other income			113
Unallocated operating expenses			<u>(741)</u>
Loss before taxation			<u>(11,696)</u>

The accounting policies of the operating and reportable segments are the same as the Privateco Group's accounting policies described in note 3. Segment loss represents the loss from each segment without allocation of central administrative costs, other income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Note: The segment cost and expenses used jointly by reportable segments are allocated on the basis of the production capacity.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***7. SEGMENT INFORMATION** *(Continued)***Segment assets and liabilities**

The following is an analysis of the Privateco Group's assets and liabilities by operating and reportable segments:

	Year ended 31 December		Six months ended 30 June	
	2009	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets				
Composite components	13,883	69,167	85,596	121,073
Unit electronic components	—	—	114,240	135,545
Total segment assets	13,883	69,167	199,836	256,618
Unallocated corporate assets	1,030	1,803	17,307	12,053
Combined total assets	<u>14,913</u>	<u>70,970</u>	<u>217,143</u>	<u>268,671</u>
Segment liabilities				
Composite components	—	—	4,618	3,417
Unit electronic components	—	—	23,859	29,206
Total segment liabilities	—	—	28,477	32,623
Unallocated corporate liabilities	1,701	56,925	91,486	150,361
Combined total liabilities	<u>1,701</u>	<u>56,925</u>	<u>119,963</u>	<u>182,984</u>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than bank balances and cash, restricted bank deposits, certain other receivables and amount due from fellow subsidiaries not in trade nature. Assets used jointly by reportable segments are allocated on the basis of the production capacity; and
- all liabilities are allocated to operating and reportable segments other than certain other payables, amounts due to fellow subsidiaries and ultimate holding company not in trade nature, bank borrowings and deferred tax liabilities.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2009

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amount included in the measure of segment loss or segment assets:				
Additions to non-current assets	89	–	–	89
Depreciation and amortisation	372	–	–	372
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss or segment assets:				
Income tax credit	–	–	(35)	(35)
Bank interest income	–	–	(1)	(1)

For the year ended 31 December 2010

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amount included in the measure of segment loss or segment assets:				
Additions to non-current assets	52,043	–	–	52,043
Depreciation and amortisation	597	–	–	597
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss or segment assets:				
Income tax credit	–	–	(48)	(48)
Bank interest income	–	–	(5)	(5)
Finance costs	–	–	8	8

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2011

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amount included in the measure of segment loss or segment assets:				
Additions to non-current assets	35,970	50,678	–	86,648
Depreciation and amortisation	966	355	–	1,321
Impairment loss recognised on goodwill	5,857	–	–	5,857
Impairment loss recognised on property, plant and equipment	657	438	–	1,095
Allowance for inventories	1,334	890	–	2,224
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss or segment assets:				
Income tax credit	–	–	(69)	(69)
Bank interest income	–	–	(131)	(131)
Finance costs	–	–	2	2

For the six months ended 30 June 2011 (Unaudited)

	Composite components <i>HK\$'000</i>	Unit electronic components <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amount included in the measure of segment loss or segment assets:				
Additions to non-current assets	13,134	19,582	–	32,716
Depreciation and amortisation	508	210	–	718
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss or segment assets:				
Income tax credit	–	–	(24)	(24)
Finance costs	–	–	2	2

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**7. SEGMENT INFORMATION** (*Continued*)**Other segment information** (*Continued*)

For the six months ended 30 June 2012

	Composite components	Unit electronic components	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount included in the measure of segment loss or segment assets:				
Additions to non-current assets	9,642	13,376	–	23,018
Depreciation and amortisation	1,651	1,408	–	3,059
Impairment loss recognised on intangible assets	1,748	–	–	1,748
Impairment loss recognised on property, plant and equipment	927	872	–	1,799
Allowance for inventories	476	318	–	794
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss or segment assets:				
Income tax credit	–	–	(231)	(231)
Bank interest income	–	–	(9)	(9)

Note: Non-current assets excluded deposits paid for acquisition of property, plant and equipment and goodwill.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***7. SEGMENT INFORMATION** *(Continued)***Geographical information**

The Privateco Group's operation is principally located in Hong Kong, Korea and the PRC.

Information about the Privateco Group's turnover from external customers is presented based on the location of the operations. Information about its non-current assets is presented based on the geographical location of the assets.

For the year ended 31 December 2009

	Turnover <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Korea	—	8,026

For the year ended 31 December 2010

	Turnover <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Korea	—	63,310

For the year ended 31 December 2011

	Turnover <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
PRC (other than Hong Kong)	6,757	10,607
Hong Kong	29,210	—
Korea	21,851	133,990
Others	745	—
	<u>58,563</u>	<u>144,597</u>

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***7. SEGMENT INFORMATION** *(Continued)***Geographical information** *(Continued)*

For the six months ended 30 June 2011 (Unaudited)

	Turnover <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Korea	–	104,294

For the six months ended 30 June 2012

	Turnover <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
PRC (other than Hong Kong)	12,756	9,804
Hong Kong	30,597	–
Korea	53,056	156,235
Others	1,699	–
	<u>98,108</u>	<u>166,039</u>

Note: Non-current assets excluded deposits paid for acquisition of property, plant and equipment and goodwill.

Information about major customers

Turnover from customers of the Relevant Periods contributing over 10% of the total sales of the Privateco Group is as follows:

	Year ended 31 December			Six months ended	
	2009	2010	2011	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Customer A ¹	–	–	37,320	–	30,597
Customer B ¹	–	–	N/A ²	–	23,066
Customer C ¹	–	–	N/A ²	–	11,207

¹Turnover from sales of composite components and unit electronic components

²The corresponding turnover did not contribute over 10% of the total sales of the Privateco Group

8. TURNOVER

Turnover represents sales of composite components and unit electric components and service provided less goods returned and trade discounts and sales related taxes.

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***9. OTHER INCOME**

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Interest income from					
bank deposits	1	5	131	–	9
Foreign exchange gain	–	1,340	–	–	–
Scrap sales	–	–	–	–	57
Procurement, sales and					
research and development					
support fee income	–	356	9,297	340	7,724
Patent income	–	–	290	242	–
Others	31	–	317	1	47
	<u>32</u>	<u>1,701</u>	<u>10,035</u>	<u>583</u>	<u>7,837</u>

10. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Interest on:					
Bank borrowings wholly					
repayable within five years	–	8	2,412	2	2,193
Less: amounts capitalised					
(note 16)	–	–	(2,412)	–	(2,193)
	<u>–</u>	<u>8</u>	<u>–</u>	<u>2</u>	<u>–</u>

Borrowing costs capitalised during the Relevant Periods arose on specific borrowings.

11. INCOME TAX CREDIT

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Deferred tax					
Current year/period					
(note 26)	(35)	(48)	(69)	(24)	(231)

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***11. INCOME TAX CREDIT** *(Continued)*

Pursuant to the rule and regulations of the BVI, the Privateco Group is not subject to any income tax in the BVI.

No provision for Hong Kong Profits Tax has been made as the Privateco Group did not generate any assessable profits in Hong Kong during the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012.

The applicable PRC Enterprise Income Tax rate for KSBY is 25%. KSBY is granted certain tax relief under which it is exempted from PRC Enterprise Income Tax for the first two profit making years and entitled to an income tax reduction to 12.5% for the next three years. No provision for PRC Enterprise Income Tax has been made as KSBY did not have any assessable profits during the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012.

The subsidiaries operated in Korea are subject to Korean Corporate Income Tax. The basic Korean Corporate Tax rates during the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012 are 11% on the first KRW200,000,000 of the tax base and 22% for the excess. In addition to the basic tax rate, there is a resident surcharge of 10% on the income tax liability. No provision for taxation has been made as there is no assessable profit during the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012.

The income tax credit for the year/period can be reconciled to the loss before taxation per the combined statement of comprehensive income as follows:

	Year ended 31 December			Six months ended	
	2009	2010	2011	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
Loss before taxation	<u>(1,279)</u>	<u>(270)</u>	<u>(9,378)</u>	<u>(384)</u>	<u>(11,696)</u>
Notional tax on loss before taxation, calculated at the tax rates of respective tax jurisdictions	(128)	(27)	(1,343)	(37)	(1,422)
Tax effect of income not taxable for tax purpose	–	(112)	(133)	–	–
Tax effect of tax losses not recognised	<u>93</u>	<u>91</u>	<u>1,407</u>	<u>13</u>	<u>1,191</u>
Income tax credit	<u>(35)</u>	<u>(48)</u>	<u>(69)</u>	<u>(24)</u>	<u>(231)</u>

Details of the deferred taxation are set out in Note 26.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)

12. LOSS FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Loss for the year/period has been arrived at after charging:					
Auditors' remuneration	—	—	21	—	67
Minimum lease payments under operating leases in respect of rental premises	—	61	532	154	885
Staff costs (including director's remuneration disclosed in note 13)					
— salaries, wages, allowances and other benefits in kind	294	612	8,223	372	12,887
— retirement benefit scheme contributions	28	43	645	50	1,158
	<u>322</u>	<u>655</u>	<u>8,868</u>	<u>422</u>	<u>14,045</u>
Cost of inventories recognised as an expense	—	—	55,489	—	85,853
Amortisation of intangible assets	353	476	694	347	576
Impairment loss recognised on freehold land (included in other operating expenses)	—	—	1,095	—	1,799
Impairment loss recognised on intangible assets (included in other operating expenses)	—	—	—	—	1,748
Impairment loss recognised on goodwill (included in other operating expenses)	—	—	5,857	—	—
Allowance for inventories (included in cost of sales)	—	—	2,224	—	794
Depreciation	<u>19</u>	<u>121</u>	<u>627</u>	<u>371</u>	<u>2,483</u>

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***13. DIRECTOR'S REMUNERATION**

The Privateco was incorporated on 9 October 2012 and the sole director is Mr. Yang Jai Sung, who did not receive any remuneration from the Privateco Group for the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012.

No emoluments were paid to the director as inducement to join or upon joining the Privateco Group or as compensation for loss of office for the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012.

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The director was not one of the five highest paid individuals. The emoluments of the five highest paid individuals were as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries, allowances and benefits in kind	294	612	739	372	1,303
Retirement benefit scheme contributions	28	43	40	50	48
	<u>322</u>	<u>655</u>	<u>779</u>	<u>422</u>	<u>1,351</u>

The emoluments of each of employees are less than HK\$1,000,000 during the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012.

No emoluments were paid to the five highest paid individuals as an inducement to join or upon joining the Privateco Group or as compensation for loss of office for the years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012.

15. DIVIDENDS

No dividend was paid or proposed during the Relevant Periods, nor has any dividend been proposed since the end of reporting period.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Other property, plant and equipment <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST OR VALUATION					
Acquisition of a subsidiary (<i>note 29</i>)	–	294	–	–	294
Additions	–	–	89	–	89
Exchange adjustments	–	(1)	–	–	(1)
At 31 December 2009 and 1 January 2010	–	293	89	–	382
Additions	49,893	–	65	2,085	52,043
Surplus on revaluation	425	–	–	–	425
Exchange adjustments	3,123	19	10	43	3,195
At 31 December 2010 and 1 January 2011	53,441	312	164	2,128	56,045
Additions	–	11,574	4,315	61,032	76,921
Deficit on revaluation	(425)	–	–	–	(425)
Capitalisation of borrowing costs (<i>note 10</i>)	–	–	–	2,410	2,410
Exchange adjustments	(1,141)	(864)	(65)	(2,832)	(4,902)
At 31 December 2011 and 1 January 2012	51,875	11,022	4,414	62,738	130,049
Additions	–	5,179	1,739	16,100	23,018
Capitalisation of borrowing costs (<i>note 10</i>)	–	–	–	2,193	2,193
Exchange adjustments	(151)	(178)	(46)	(454)	(829)
At 30 June 2012	51,724	16,023	6,107	80,577	154,431

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***16. PROPERTY, PLANT AND EQUIPMENT** *(Continued)*

	Freehold land <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Other property, plant and equipment <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Comprising					
As at 31 December 2009					
At cost	–	293	89	–	382
As at 31 December 2010					
At cost	–	312	164	2,128	2,604
At valuation	53,441	–	–	–	53,441
	<u>53,441</u>	<u>312</u>	<u>164</u>	<u>2,128</u>	<u>56,045</u>
As at 31 December 2011					
At cost	–	11,022	4,414	62,738	78,174
At valuation	51,875	–	–	–	51,875
	<u>51,875</u>	<u>11,022</u>	<u>4,414</u>	<u>62,738</u>	<u>130,049</u>
As at 30 June 2012					
At cost	–	16,023	6,107	80,577	102,707
At valuation	51,724	–	–	–	51,724
	<u>51,724</u>	<u>16,023</u>	<u>6,107</u>	<u>80,577</u>	<u>154,431</u>

B. NOTES TO THE FINANCIAL INFORMATION *(Continued)***16. PROPERTY, PLANT AND EQUIPMENT** *(Continued)*

	Freehold land <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Other property, plant and equipment <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
DEPRECIATION AND IMPAIRMENT					
Provided for the year	–	15	4	–	19
At 31 December 2009 and 1 January 2010	–	15	4	–	19
Provided for the year	–	56	65	–	121
Exchange adjustments	–	13	5	–	18
At 31 December 2010 and 1 January 2011	–	84	74	–	158
Provided for the year	–	522	105	–	627
Impairment losses recognised in profit or loss	1,095	–	–	–	1,095
Exchange adjustments	(61)	(34)	(6)	–	(101)
At 31 December 2011 and 1 January 2012	1,034	572	173	–	1,779
Provided for the year	–	1,796	687	–	2,483
Impairment losses recognised in profit or loss	1,799	–	–	–	1,799
Exchange adjustments	(121)	(73)	(8)	–	(202)
At 30 June 2012	<u>2,712</u>	<u>2,295</u>	<u>852</u>	<u>–</u>	<u>5,859</u>
CARRYING VALUES					
At 31 December 2009	<u>–</u>	<u>278</u>	<u>85</u>	<u>–</u>	<u>363</u>
At 31 December 2010	<u>53,441</u>	<u>228</u>	<u>90</u>	<u>2,128</u>	<u>55,887</u>
At 31 December 2011	<u>50,841</u>	<u>10,450</u>	<u>4,241</u>	<u>62,738</u>	<u>128,270</u>
At 30 June 2012	<u>49,012</u>	<u>13,728</u>	<u>5,255</u>	<u>80,577</u>	<u>148,572</u>

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**16. PROPERTY, PLANT AND EQUIPMENT** (*Continued*)

The above items of property, plant and equipment, except for freehold land and construction in progress are depreciated on a straight-line basis at the following rates per annum:

- Plant and machinery 4 – 10 years
- Other property, plant and equipment 3 – 5 years

Notes:

- (a) The Privateco Group's freehold land held for own use was revalued on 31 December 2010, 2011 and 30 June 2012 at their open market value. The valuations were carried out by Vigers Appraisal & Consulting Limited as at 31 December 2010 and 2011 and Roma Appraisals Limited as at 30 June 2012, independent firms of professional surveyors not connected with the Privateco Group who has among staff members of the Hong Kong Institute of Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

If the above freehold land had not been revalued, they would have been included in Financial Information at historical cost less accumulated impairment loss, and the amounts are as follows:

	2009	As at 31 December 2010	2011	As at 30 June 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Freehold land outside Hong Kong	–	53,016	50,841	49,012

- (b) For the year ended 31 December 2011, the fair value of freehold land had decreased by approximately HK\$1,520,000 of which, approximately HK\$425,000 had been debited against the properties revaluation reserve of HK\$425,000 and recognised in other comprehensive income and the remaining balance of approximately HK\$1,095,000 had been charged directly to profit or loss.
- (c) For the six months ended 30 June 2012, the fair value of freehold land had decreased by approximately HK\$1,799,000 and charged directly to profit or loss.
- (d) As 31 December 2010 and 2011 and 30 June 2012, the Privateco Group's freehold land held for own use of approximately nil, HK\$50,841,000 and HK\$49,012,000 were pledged to secure banking facilities granted to the Privateco Group respectively.
- (e) In 2011, additions of certain plant and machinery and other property, plant and equipment were purchased from a fellow subsidiary for a consideration of approximately RMB3,381,000 (equivalent to approximately HK\$4,167,000). At the time of purchase, the net book value of such plant and machinery and other property, plant and equipment amounted to approximately HK\$1,733,000. The aforesaid transaction was determined on a mutually agreed basis.
- (f) In 2011, additions of certain plant and machinery and other property, plant and equipment were purchased from ultimate holding company for a consideration of approximately HK\$3,837,000 which is equal to their carrying amount at the time of purchase.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**17. GOODWILL**

HK\$'000

COST

Arising on acquisition of a subsidiary and at 31 December 2009,
31 December 2010, 31 December 2011 and 30 June 2012

5,857

IMPAIRMENT

At 31 December 2009, 31 December 2010 and 1 January 2011
Impairment loss recognised

–

5,857

At 31 December 2011 and 30 June 2012

5,857

CARRYING VALUES

At 31 December 2009

5,857

At 31 December 2010

5,857

At 31 December 2011

–

At 30 June 2012

–

The carrying amount of goodwill as at the end of reporting periods are attributable to the Privateco Group's cash generating unit ("CGU") representing sale of products using WireTape™ cabling technology included in the segment of composite components.

The recoverable amount of the CGU is determined by reference to value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period, and at a pre-tax discount rate of approximately 9.44%, 13.4% and 14.3% as at 31 December 2009, 2010 and 2011 respectively. The cash flows beyond the ten-year period were assumed constant with zero growth rate. This average growth rate of the turnover per annum used in the cash flow projections is based on the relevant industry growth rate. Since CGU benefits from the possession of 17-year patents on its primary product registered in 2009, management of the Privateco Group believes that the average growth rate of the turnover per annum is reasonable. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows including budgeted sales and gross margin, such estimation is based on the management's expectations for the market development and the director considered appropriate.

Due to continuing loss since acquisition and the expected future performance is expected to be less optimistic, the impairment loss of approximately HK\$5,857,000 had been recognised during the year ended 31 December 2011.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**18. INTANGIBLE ASSETS**

	Patents			As at 30 June
	2009	As at 31 December	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost				
At 1 January	–	8,016	8,273	17,834
Acquisition of a subsidiary (note 29)	8,043	–	–	–
Exchange adjustments	(27)	257	(166)	(24)
Acquisition	–	–	9,727	–
At 31 December/30 June	8,016	8,273	17,834	17,810
Amortisation and impairment				
At 1 January	–	353	850	1,507
Impairment losses	–	–	–	1,748
Exchange adjustments	–	21	(37)	(8)
Charge for the year	353	476	694	576
At 31 December/30 June	353	850	1,507	3,823
Carrying values				
At 31 December/30 June	7,663	7,423	16,327	13,987

The patents entitle the Privateco Group to manufacture products using WireTape™ cabling technology over 17 years from the date of acquisition. The carrying values will therefore be amortised over the useful lives of 17 years.

The recoverable amount of the CGU is determined by reference to value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period, and at a pre-tax discount rate of approximately 9.44%, 13.4% and 14.3% as at 31 December 2009, 2010 and 2011 respectively. The cash flows beyond the ten-year period were assumed constant with zero growth rate. This average growth rate of the turnover per annum used in the cash flow projections is based on the relevant industry growth rate. Since CGU benefits from the possession of 17-year patents on its primary product registered in 2009, management of the Privateco Group believes that the average growth rate of the turnover per annum is reasonable. Other key assumptions for the value-in-use calculations relate to the estimation of each inflows/outflows including budgeted sales and gross margin, such estimation is based on the management's expectations for the market development and the director considered appropriate.

During the six months ended 30 June 2012, the director conducted a review of the Privateco's patents and determined that the aforesaid patents were impaired, due to continuing loss since acquisition and the expected future performance is expected to be less optimistic. Accordingly, the impairment loss of approximately HK\$1,748,000 has been recognised during the six months ended 30 June 2012.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)

19. INVENTORIES

	As at 31 December		As at 30 June
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	—	—	7,284
Work in progress	—	—	12,321
Finished goods	—	—	7,871
	<u>—</u>	<u>—</u>	<u>27,476</u>
Less: impairment	—	—	(2,224)
	<u>—</u>	<u>—</u>	<u>25,252</u>
	<u>—</u>	<u>—</u>	<u>27,915</u>

20. TRADE AND OTHER RECEIVABLES

	As at 31 December		As at 30 June
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	—	—	24,935
Deposits, prepayments and other receivables	60	142	6,232
	<u>60</u>	<u>142</u>	<u>31,167</u>
	<u>60</u>	<u>142</u>	<u>62,978</u>

As at 31 December 2009, 2010 and 2011 and 30 June 2012, an amount of approximately nil, nil, HK\$8,735,000 and HK\$13,493,000 due from a fellow subsidiary is included in trade receivables respectively.

The Privateco Group allows the credit period of 30 — 120 days to its trade customers.

The following is the aged analysis of trade receivables presented based on the invoice date at the end of each reporting periods:

	As at 31 December		As at 30 June
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 90 days	—	—	24,935
90 — 120 days	—	—	—
	<u>—</u>	<u>—</u>	<u>24,935</u>
	<u>—</u>	<u>—</u>	<u>53,343</u>

All trade receivables are neither past due nor impaired and have the best credit scoring attributable under the external credit scoring system used by the Privateco Group.

The Privateco Group does not hold any collateral or other credit enhancements over its trade receivables.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**21. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES/ULTIMATE HOLDING COMPANY**

The amounts are unsecured, interest-free, non-trade nature and repayable on demand.

22. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

As at 31 December 2011, bank deposits amounted to approximately HK\$472,000 were pledged for certain banking facilities. The restricted bank deposits carried variable interest rate of 1% per annum and were released upon termination of the banking facilities during the six months ended 30 June 2012.

Bank balances carry interest at market rates which range from 0.001% to 0.23% per annum, 0.001% to 0.36% per annum, 0.001% to 0.5% per annum, 0.001% to 0.5% per annum and 0.001% to 0.5% per annum for years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012.

23. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	–	–	23,171	22,165
Accrued expenses and other payables	635	1,303	9,450	10,772
	<u>635</u>	<u>1,303</u>	<u>32,621</u>	<u>32,937</u>

As at 31 December 2009, 2010 and 2011 and 30 June 2012, an amount of approximately nil, nil, HK\$4,144,000 and nil due to ultimate holding company is included in trade payables respectively.

As at 31 December 2009, 2010 and 2011 and 30 June 2012, an amount of approximately nil, nil, nil and HK\$155,000 due to a fellow subsidiary is included in accrued expenses and other payables respectively.

The following is the ageing analysis of the trade payables presented based on the invoice date at the end of each reporting-periods:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 90 days	–	–	23,171	17,070
91 — 180 days	–	–	–	4,153
181 — 365 days	–	–	–	942
	<u>–</u>	<u>–</u>	<u>23,171</u>	<u>22,165</u>

The credit period on purchases of goods is 0 — 90 days. The Privateco Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**24. BANK BORROWINGS**

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured	—	—	33,700	33,600
Unsecured	194	13,844	26,782	26,703
	<u>194</u>	<u>13,844</u>	<u>60,482</u>	<u>60,303</u>
Carrying amount repayable				
Within one year or on demand	111	13,844	60,482	60,303
More than one year, but not exceeding two years	83	—	—	—
	<u>194</u>	<u>13,844</u>	<u>60,482</u>	<u>60,303</u>
Less: Amounts due within one year shown under current liabilities	<u>(111)</u>	<u>(13,844)</u>	<u>(60,482)</u>	<u>(60,303)</u>
Amounts shown under non-current liability	<u>83</u>	<u>—</u>	<u>—</u>	<u>—</u>

The Privateco Group's borrowings are interest-bearing at variable-rates. The ranges of effective interest rates per annum on the Privateco Group's borrowings are as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
Variable-rate borrowings	4.19%-5.18%	4.19%-5.18%	5.83%-6.98%	5.83%-6.98%	4.00%-6.98%

Secured bank loans of approximately HK\$33,700,000 and HK\$33,600,000 as at 31 December 2011 and 30 June 2012 respectively were secured by the Privateco Group's freehold land. Details are disclosed in Note 16.

During the year ended 31 December 2011, the Privateco Group had made repayments to bank borrowings of approximately KRW2,000,000,000 (equivalent to approximately HK\$13,844,000) to Hana Bank of Korea and further obtained two new bank borrowings of approximately KRW3,973,657,000 (equivalent to approximately HK\$28,021,000) and KRW5,000,000,000 (equivalent to approximately HK\$35,259,000) from Industrial Bank of Korea and secured by a personal guarantee provided by Mr. Kyu Young Lee, a director of a subsidiary under the Privateco Group.

As at 31 December 2009, the bank borrowing was guaranteed by an independent third party, Korea Technology Credit Guarantee Fund.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**25. SHARE CAPITAL**

- (a) Share capital in the combined statements of financial position as at 31 December 2009 represented the aggregate paid-up capital of KSH and Brocoli.
- (b) KSEK incorporated on 22 March 2010 and issued 5,000 ordinary shares at par value of KRW10,000 each totalling approximately KRW50,000,000 (equivalent to approximately HK\$344,000) to the Company.
- (c) Share capital in the combined statements of financial position as at 31 December 2010 represented the aggregate paid-up capital of KSH, Brocoli and KSEK.
- (d) On 31 December 2011, KSH issued 1,532,701 ordinary shares at par value of US\$1 each totalling approximately US\$1,533,000 (equivalent to approximately HK\$11,908,000) as consideration for acquisition of the entire equity interest of the subsidiaries of the Privateco Group held by the Company. As a result of the acquisition, the aggregate paid-up capital of the subsidiaries of the Privateco Group now held under KSH totalling approximately HK\$5,023,000 had been eliminated.
- (e) On 31 December 2011, KSH issued 12,002,908 ordinary shares at par value of US\$1 each totalling approximately US\$12,003,000 (equivalent to approximately HK\$93,252,000) to the Company as consideration for (i) acquisition of patents held by the Company at their carrying values of approximately HK\$9,727,000 and (ii) acquisition of property, plant and equipment of approximately HK\$4,167,000 and (iii) settlement of amount due by the Privateco Group to the Company amounting to approximately HK\$79,358,000.
- (f) Share capital in the combined statements of financial position as at 31 December 2011 and 30 June 2012 represented the paid-up capital of KSH which has become the holding company of the subsidiaries of the Privateco Group during 2011.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**26. DEFERRED TAX LIABILITIES**

The following are the major deferred tax liabilities recognised and movements thereon during the Relevant Periods:

	Valuation gain on patents HK\$'000
Acquisition of a subsidiary	787
Credited to profit or loss (<i>note 11</i>)	(35)
Exchange adjustments	120
At 31 December 2009 and 1 January 2010	872
Credited to profit or loss (<i>note 11</i>)	(48)
Exchange adjustments	33
At 31 December 2010 and 1 January 2011	857
Credited to profit or loss (<i>note 11</i>)	(69)
Exchange adjustments	(24)
At 31 December 2011 and 1 January 2012	764
Credited to profit or loss (<i>note 11</i>)	(231)
Exchange adjustments	(2)
At 30 June 2012	<u><u>531</u></u>

As at 31 December 2009, 2010 and 2011 and 30 June 2012, the Privateco Group has estimated unused tax losses of approximately HK\$929,000, HK\$1,836,000, HK\$11,539,000 and HK\$20,915,000 respectively, which will expire in 2014 to 2017 subject to the approval and confirmation by the relevant tax authorities. No deferred tax asset has been recognised in respect of the above tax losses due to the unpredictability of future profit streams.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**27. EMPLOYEE RETIREMENT BENEFITS**

- (a) Employees in Korea participate in a National Pension Scheme which is a mandatory insurance scheme under the National Pension Act (the "Scheme"). Under the Scheme, the employer and its employees are each required to make contributions to the Scheme at a specified rate of the employees' monthly income, subject to adjustments and a cap of monthly income stipulated in the Scheme.
- (b) Employees in the PRC are members of state-managed retirement benefits schemes operated by the local government. The employer is required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligations of the Privateco Group with respect to the retirement benefits schemes are to make the specified contributions.
- (c) The only obligation of the Privateco Group with respect to the retirement benefit plan is to make the specified contributions. During the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012, the total retirement benefit scheme contributions charged to the combined statement of comprehensive income amounted to approximately HK\$28,000, HK\$43,000, HK\$645,000, HK\$50,000 and HK\$1,158,000 respectively.

28. COMMITMENTS

- (a) Capital commitments at the end of the each of reporting period contracted for but not provided in the Financial Information in respect of the following:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	<u>–</u>	<u>27,475</u>	<u>14,605</u>	<u>1,372</u>

- (b) The Privateco Group as lessee

At the end of the each reporting period, the Privateco Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	<u>–</u>	<u>273</u>	<u>107</u>	<u>25</u>
In the second to fifth years inclusive	<u>–</u>	<u>65</u>	<u>–</u>	<u>–</u>

Operating lease payments represent rentals payables by the Privateco Group for certain of its office and warehouse premises. Property leases are negotiated for an average term of 1 year and rentals are fixed for an average of 1 year.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**29. ACQUISITION OF A SUBSIDIARY**

The following acquiree is not part of the Privateco Group prior to the following acquisition as it was not under the control of the Company. During the year ended 31 December 2009, the Company acquired 59.5% equity interests in Brocoli from independent third parties at a cash consideration of approximately HK\$10,300,000 ("First Acquisition"). Brocoli is a company incorporated in Korea and is a research and development oriented company. On 1 October 2011, the Company transferred 69.5% equity interests in Brocoli to KSH for a consideration of approximately HK\$11,564,000 as part of the Group Reorganisation.

The First Acquisition has been accounted for using the purchase method. The net assets acquired and the goodwill arising, are as follows:

	Acquiree's carrying amount HK\$'000	Fair value adjustments HK\$'000	Acquiree's fair value HK\$'000
Net assets acquired:			
Plant and equipment	294	–	294
Intangible assets — patents	1,536	6,507	8,043
Other receivables	40	–	40
Bank balances and cash	866	–	866
Accrued expenses and other payables	(747)	–	(747)
Bank borrowings	(241)	–	(241)
Deferred tax liabilities	–	(787)	(787)
	<u>1,748</u>	<u>5,720</u>	7,468
Non-controlling interests			(3,025)
Goodwill arising on acquisition			<u>5,857</u>
			<u>10,300</u>
Consideration satisfied by:			
Contribution by the Company recognised in share capital and capital reserve			<u>10,300</u>
Net cash inflow arising on acquisition:			
Cash and cash equivalents acquired			<u>866</u>

Goodwill arose in the acquisition of Brocoli because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, turnover growth, future market development and the assembled workforce of Brocoli. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The acquired subsidiary contributed approximately HK\$1,244,000 to the Privateco Group's loss for the period between the date of acquisition and the end of the reporting period.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**29. ACQUISITION OF A SUBSIDIARY** (*Continued*)

Had the First Acquisition been completed on 1 January 2009, no turnover will be contributed from Brocoli and loss for the period would have been approximately HK\$1,544,000. The pro forma information was for illustrative purposes only and was not necessarily an indication of turnover and results of operations of the Privateco Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor was it intended to be a projection of future results.

In determining the 'pro-forma' turnover and loss of the Privateco Group had Brocoli been acquired at the beginning of the current year, the director of the Privateco has calculated amortisation of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

In addition, during the year ended 31 December 2009, the Company and its subsidiaries ("the Group") contributed additional share capital of approximately HK\$1,264,000 to Brocoli which represented 10.2% while the non-controlling shareholders did not increase their contribution. Consequently, the equity interest of the Group in Brocoli was increased by 10.2% from 59.5% to 69.7%. The additional equity interest being acquired through the increase in the relevant share of the carrying value of Brocoli's net assets of approximately HK\$301,000 recorded in other reserve.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**30. MATERIAL RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the Privateco Group entered into the following material related party transactions.

Transactions with other related parties

- (i) During the Relevant Periods, the Privateco Group entered into the following transactions with related parties:

	Year ended 31 December			Six months ended	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Sales to ultimate holding company	–	–	32,199	–	–
Sales to fellow subsidiaries	–	–	5,151	–	30,597
Procurement, sales and research and development support fee income received from ultimate holding company	–	356	5,874	340	–
Procurement, sales and research and development support fee income received from a fellow subsidiary	–	–	3,423	–	7,724
Patent income received from ultimate holding company	–	–	290	242	–
Purchase from ultimate holding company	–	–	29,337	–	–
Purchase from a fellow subsidiary	–	–	2,255	–	8,713
Purchase of patents from ultimate holding company	–	–	9,727	–	–
Purchase of property, plant and equipment from ultimate holding company	–	–	3,837	–	–
Rental expenses paid to ultimate holding company	–	61	332	42	409

All aforesaid related party transactions were determined on a mutually agreed basis.

B. NOTES TO THE FINANCIAL INFORMATION (*Continued*)**30. MATERIAL RELATED PARTY TRANSACTIONS** (*Continued*)

Transactions with other related parties (*Continued*)

(ii) Compensation of key management personnel

The remuneration of the director and other members of key management of the Privateco Group are disclosed in Notes 13 and 14 respectively.

The remuneration of director and key management of the Privateco Group is determined by the remuneration committee of the company having regard to the performance of individuals and market trends.

31. MAJOR NON CASH TRANSACTION

- (i) During the year ended 31 December 2011, patents at their carrying values of approximately HK\$9,727,000 have been transferred from ultimate holding company to Privateco Group. The consideration was settled by the issue of 1,251,937 ordinary shares by KSH at par value during the year ended 31 December 2011.
- (ii) During the year ended 31 December 2011, property, plant and equipment of approximately HK\$4,167,000 have been transferred from a fellow subsidiary to the Privateco Group. The consideration was settled by the issue of 253,993 ordinary shares by KSH at par value of during the year ended 31 December 2011.
- (iii) During the year ended 31 December 2011, amounts due to fellow subsidiary and ultimate holding company of approximately HK\$54,670,000 and HK\$24,688,000 respectively were settled by the issue of 10,496,978 ordinary shares by KSH at par value.
- (iv) During the year ended 31 December 2011, the entire equity interest of the subsidiaries under the Privateco Group held by ultimate holding company at their investment cost of approximately HK\$11,908,000 have been transferred from ultimate holding company to Privateco Group. The consideration was settled by the issue of 1,532,701 ordinary shares by KSH at par value during the year ended 31 December 2011.

C. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2012, the Company has agreed the amount due to ultimate holding company of approximately HK\$36,400,000 will be settled by issuance of ordinary shares by the Privateco.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Privateco Group, the Privateco or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2012.

Yours faithfully,

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Wing Kit

Practising Certificate Number: P03224

Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS ON THE DISTRIBUTED BUSINESSES

The Distributed Businesses to be operated by the Privateco Group will consist principally of the manufacturing and sale of electronic components to customers in Korea and Japan.

Upon completion of the Group Reorganisation and the Distribution in Specie, Privateco will be the holding company of the Distributed Businesses.

Set out below is the financial information of the Distributed Businesses for each of the three years ended 31 December 2011 and the six months ended 30 June 2012, as set out in Appendix III to this circular:

	For the year ended 31 March			Six months ended
	2009	2010	2011	30 June 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Audited)
Turnover	—	—	58,563	98,108
Loss before income tax	(1,279)	(270)	(9,378)	(11,696)
Loss for the year	(1,244)	(222)	(9,309)	(11,465)

The net assets attributable to owners of the Distributed Businesses as at 30 June 2012 was approximately HK\$85.7 million, as extracted from the accountants' report of the Privateco in Appendix III to this circular.

Business review for the year ended 31 December 2009***Operating Results***

For the year ended 31 December 2009, the Remaining Group was in charge of the existing distributed businesses. Accordingly, the Distributed Businesses did not generate any turnover and recorded net loss of approximately HK\$1,244,000.

Liquidity and Financial Resources

As at 31 December 2009, the Distributed Businesses' net current assets and current ratio were approximately HK\$284,000 and 1.38, respectively. The gearing ratio (defined as total bank borrowings divided by total equity) as at 31 December 2009 was approximately 0.01.

As at 31 December 2009, the Distributed Businesses' bank balances and cash amounted to approximately HK\$853,000.

Charge on Assets

As at 31 December 2009, the Distributed Businesses had no charges on the assets. The bank borrowing was guaranteed by an independent third party, Korea Technology Credit Guarantee Fund. Prior to the Company's acquisition of a subsidiary called Brocoli Co, Ltd. ("Brocoli") on 28 April 2009, Brocoli was qualified by Gyeonggi Credit Guarantee Foundation ("Foundation") on 25 Oct 2007 as a small and medium enterprise. Such qualification entitled Brocoli to request a guarantee from Korea Technology Credit Guarantee Fund based upon decision made by the Foundation when it applied for a bank loan to acquire equipment.

Capital Structure

For the year ended 31 December 2009, the Distributed Businesses primarily finances its liquidity requirements through a combination of cash flow as generated from operations and bank borrowings.

Capital Commitment and Contingent Liabilities

As at 31 December 2009, the Distributed Businesses did not have any capital commitments and operating lease commitments.

As at 31 December 2009, the Distributed Businesses did not have any significant contingent liabilities.

Significant Investment, Material Acquisition and Disposals

The Distributed Businesses did not have significant investments, material acquisition or disposals during the year ended 31 December 2009.

Staff and Remuneration Policy

As at 31 December 2009, the Distributed Businesses had one employee in Korea. Staff cost for the year ended 31 December 2009 was approximately HK\$322,000.

Employee remuneration is determined in accordance with prevailing industry practice and employees' performance and experience. Discretionary bonuses are awarded to employees with outstanding performance with reference to the performance of the Distributed Businesses. Employees are also entitled to other staff benefits including medical insurance and mandatory provident fund.

Foreign Exchange Fluctuation and Hedge

The Distributed Businesses are exposed to foreign currency risk arising from various currency exposures, primarily with respect to the United States Dollars and Korean Won. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations.

During the year ended 31 December 2009, the Distributed Businesses did not enter into any forward foreign currency contracts.

Future Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2009.

Business review for the year ended 31 December 2010***Operating Results***

For the year ended 31 December 2010, the Remaining Group was in charge of the existing distributed businesses. Accordingly, the Distributed Businesses did not generate any turnover and recorded net loss of approximately HK\$222,000.

Liquidity and Financial Resources

As at 31 December 2010, the Distributed Businesses' net current liabilities and current ratio were approximately HK\$54,265,000 and 0.03, respectively (2009: net current assets of HK\$284,000 and 1.38). Decrease in current ratio was mainly due to the increase in amount due to ultimate holding company and increase in bank borrowings. The gearing ratio (defined as total bank borrowings divided by total equity) as at 31 December 2010 was approximately 0.99 (2009: 0.01). The increase in gearing ratio for the year ended 31 December 2010 was mainly attributable to the increase in bank borrowings for the year ended 31 December 2010 in comparison to the previous year.

As at 31 December 2010, the Distributed Businesses' bank balances and cash amounted to approximately HK\$1,540,000 (2009: HK\$853,000).

Charge on Assets

As at 31 December 2010, the bank borrowings were secured by the freehold land of the Distributed Businesses in Korea with carrying amount of approximately HK\$53,441,000 for a maximum credit amount of KRW2,400,000,000 (approximately HK\$16,510,000).

Capital Structure

For the year ended 31 December 2010, the Distributed Businesses primarily finances its liquidity requirements through a combination of cash flow as generated from operations and bank borrowings.

Capital Commitment and Contingent Liabilities

As at 31 December 2010, the Distributed Businesses had approximately HK\$27,475,000 (2009: Nil) of capital commitments and did not have any operating lease commitments (2009: Nil).

As at 31 December 2010, the Distributed Businesses did not have any significant contingent liabilities (2009: Nil).

Significant Investment, Material Acquisition and Disposals

The Distributed Businesses did not have significant investments, material acquisition or disposals during the year ended 31 December 2010.

Staff and Remuneration Policy

As at 31 December 2010, the Distributed Businesses had two employees in Korea. Staff cost for the year ended 31 December 2010 was approximately HK\$655,000, representing an increase of approximately HK\$333,000 as compared to the financial year of 2009 of approximately HK\$322,000.

Employee remuneration is determined in accordance with prevailing industry practice and employees' performance and experience. Discretionary bonuses are awarded to employees with outstanding performance with reference to the performance of the Distributed Businesses. Employees are also entitled to other staff benefits including medical insurance and mandatory provident fund.

Foreign Exchange Fluctuation and Hedge

The Distributed Businesses are exposed to foreign currency risk arising from various currency exposures, primarily with respect to the United States Dollars and Korean Won. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations.

During the year ended 31 December 2010, the Distributed Businesses did not enter into any forward foreign currency contracts (2009: Nil).

Foreign Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2010.

Business review for the year ended 31 December 2011***Operating Results***

Prior to 1 August 2011, the Remaining Group was in charge of the existing distributed businesses. Starting from 1 August 2011, the Remaining Group gradually transferred such businesses to the Privateco Group. Accordingly, the Distributed Businesses recorded turnover of approximately HK\$58,563,000 with gross profit amount of approximately HK\$850,000 and gross profit margin at approximately 1.5% for the year ended 31 December 2011. Other income mainly reflected procurement, sales and research and development fee income of approximately HK\$9,297,000 received from ultimate holding company and a fellow subsidiary. Total operating expenses, including selling and distribution expense, administrative expenses, research and development expenses and other operating expenses, amounted to approximately HK\$20,261,000 in the year ended 31 December 2011, an increase of approximately HK\$18,298,000 against approximately HK\$1,963,000 recorded in last year. The Distributed Businesses recorded income tax credit of approximately HK\$69,000. As a result, net loss for the year ended 31 December 2011 amounted to approximately HK\$9,309,000.

Liquidity and Financial Resources

As at 31 December 2011, the Distributed Businesses' net current liabilities and current ratio were approximately HK\$46,653,000 and 0.61, respectively (2010: HK\$54,265,000 and 0.03). The increase in current ratio mainly reflected the percentage increase in current assets was higher than percentage increase in current liabilities. The gearing ratio (defined as total bank borrowings divided by total equity) as at 31 December 2011 was approximately 0.62 (2010: 0.99). The decrease in gearing ratio primarily reflected the percentage increase in total equity was higher than the percentage increase in bank borrowings.

As at 31 December 2011, the Distributed Businesses' bank balances and cash amounted to approximately HK\$15,655,000 (2010: HK\$1,540,000).

Charge on Assets

As at 31 December 2011, the bank borrowing was secured by the Company's land and buildings in Korea with carrying amount of approximately HK\$50,841,000 for a maximum credit amount of KRW5,000,000,000 (approximately HK\$33,700,000).

Capital Structure

For the year ended 31 December 2011, the Distributed Businesses primarily finances its liquidity requirements through a combination of cash flow as generated from operations and bank borrowings.

Capital Commitment and Contingent Liabilities

As at 31 December 2011, the Distributed Businesses had approximately HK\$14,605,000 (2010: HK\$27,475,000) of capital commitments and approximately HK\$41,000 as operating lease commitments (2010: Nil).

As at 31 December 2011, the Distributed Businesses did not have any significant contingent liabilities (2010: Nil).

Significant Investment, Material Acquisition and Disposals

The Distributed Businesses did not have significant investments, material acquisition or disposals during the year ended 31 December 2011.

Staff and Remuneration Policy

As at 31 December 2011, the Distributed Businesses had 192 employees, including 104 based in the PRC and 88 based in Korea. Staff cost for the year ended 31 December 2011 was approximately HK\$8,868,000, representing an increase of approximately HK\$8,213,000 as compared to the financial year of 2010 of approximately HK\$655,000.

Employee remuneration is determined in accordance with prevailing industry practice and employees' performance and experience. Discretionary bonuses are awarded to employees with outstanding performance with reference to the performance of the Distributed Businesses. Employees are also entitled to other staff benefits including medical insurance and mandatory provident fund.

Foreign Exchange Fluctuation and Hedge

The Distributed Businesses are exposed to foreign currency risk arising from various currency exposures, primarily with respect to the United States Dollars and Korean Won. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations.

During the year ended 31 December 2011, the Distributed Businesses did not enter into any forward foreign currency contracts (2010: Nil).

Foreign Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2011.

Business review for the six months ended 30 June 2012***Operating Results***

For the six months ended 30 June 2012, the Distributed Businesses recorded turnover of approximately HK\$98,108,000 with gross profit amount of approximately HK\$11,461,000 and gross profit margin at approximately 11.7%. Other income mainly reflected procurement, sales and research and development fee income of approximately HK\$7,724,000 received from a fellow subsidiary. Total operating expenses, including selling and distribution expenses, administrative expenses, research and development expenses and other operating expenses, amounted to approximately HK\$30,994,000 in the six months ended 30 June 2012, an increase of approximately HK\$30,029,000 against approximately HK\$965,000 recorded in same period last year. The Distributed Businesses recorded income tax credit of approximately HK\$231,000. Accordingly, net loss for the six months ended 30 June 2012 amounted to approximately HK\$11,465,000.

Liquidity and Financial Resources

As at 30 June 2012, the Distributed Businesses' net current liabilities and current ratio were approximately HK\$79,821,000 and 0.56, respectively (2011: HK\$46,653,000 and 0.61). The decrease in current ratio mainly reflected the percentage increase in current liabilities was higher than percentage increase in current assets. The gearing ratio (defined as total bank borrowings divided by total equity) as at 30 June 2012 was approximately 0.70 (2011: 0.62). The increase in gearing ratio was mainly attributable to the decrease in total equity for the six months ended 30 June 2012 in comparison to the end of previous year.

As at 30 June 2012, the Distributed Businesses' bank balances and cash amounted to approximately HK\$11,739,000 (2011: HK\$15,655,000).

Charge on Assets

As at 30 June 2012, the bank borrowings was secured by the freehold land of the Distributed Businesses in Korea with carrying amount of approximately HK\$49,012,000 for a maximum credit amount of KRW5,000,000,000 (approximately HK\$33,600,000).

Capital Structure

For the six months ended 30 June 2012, the Distributed Businesses primarily finances its liquidity requirements through a combination of cash flow as generated from operations and bank borrowings.

Capital Commitment and Contingent Liabilities

As at 30 June 2012, the Distributed Businesses had approximately HK\$1,372,000 (2011: HK\$14,605,000) of capital commitments and approximately HK\$13,000 as operating lease commitments (2011: HK\$41,000).

As at 30 June 2011, the Distributed Businesses did not have any significant contingent liabilities (2011: Nil).

Significant Investment, Material Acquisition and Disposals

The Distributed Businesses did not have significant investments, material acquisition or disposals during the six months ended 30 June 2012.

Staff and Remuneration Policy

As at 30 June 2012, the Distributed Businesses had 322 employees, including 218 based in the PRC and 104 based in Korea. Staff cost for the six months ended 30 June 2012 was approximately HK\$14,045,000, representing an increase of approximately HK\$13,623,000 as compared to the corresponding period last year of approximately HK\$422,000.

Employee remuneration is determined in accordance with prevailing industry practice and employees' performance and experience. Discretionary bonuses are awarded to employees with outstanding performance with reference to the performance of the Distributed Businesses. Employees are also entitled to other staff benefits including medical insurance and mandatory provident fund.

Foreign Exchange Fluctuation and Hedge

The Distributed Businesses are exposed to foreign currency risk arising from various currency exposures, primarily with respect to the United States Dollars and Korean Won. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations.

During the six months ended 30 June 2012, the Distributed Businesses did not enter into any forward foreign currency contracts (2011: Nil).

Foreign Plans for Material Investments and Acquisition of Capital Assets

There was no specific plan for material investments and acquisition of material capital assets as at 30 June 2012.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows (the “Unaudited Pro Forma Financial Information”) have been prepared to illustrate the effect of the proposed group reorganisation and distribution in specie of Jay Star Holdings Limited (the “Privateco”) (the “Proposed Group Reorganisation and Transaction”), which might have affected the financial information of Kwang Sung Electronics H.K. Co. Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”). The Group immediately after the completion of the Proposed Group Reorganisation and Transaction is referred to as the “Remaining Group”.

The unaudited pro forma consolidated statement of financial position of the Remaining Group has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2012, which has been extracted from the published interim report of the Company as at 30 June 2012 dated 31 August 2012 and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Proposed Group Reorganisation and Transaction had been completed as at 30 June 2012.

The unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Remaining Group have been prepared based on the unaudited consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the six months ended 30 June 2012 which has been extracted from the published interim report of the Company as at 30 June 2012 dated 31 August 2012 (the “Interim Report”) and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Proposed Group Reorganisation and Transaction had been completed on 1 January 2012.

The Unaudited Pro Forma Financial Information has been prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of its hypothetical nature, it may not give a true picture of the financial position, results of operations or cash flows of the Remaining Group had the Proposed Group Reorganisation and Transaction been completed as at 30 June 2012 or 1 January 2012 where applicable or at any future dates.

The directors of the Company considered that the operations of the Group is not subject to seasonal factor and the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Remaining Group prepared by using the information extracted from the Interim report would not be misleading in this regard.

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP

	Unaudited consolidated statement of financial position of the Group as at										Unaudited pro forma consolidated statement of financial position of the Remaining Group as at
	30 June 2012	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	30 June 2012
		(1)	(2)	(3a)	(3b)	(3c)	(3d)	(3e)	(3f)	(3g)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets											
Property, plant and equipment	192,071		(148,572)							2,434	45,933
Investment in a subsidiary	–	36,400		(36,400)							–
Investment properties	30,697										30,697
Goodwill	–										–
Club memberships	600										600
Intangible assets	13,987		(13,987)								–
Deposits paid for acquisition of property, plant and equipment	3,530		(3,480)								50
	<u>240,885</u>										<u>77,280</u>
Current assets											
Inventories	63,932		(27,915)								36,017
Trade and other receivables	122,353		(62,978)						13,493		72,868
Amounts due from shareholders	8,478					(8,478)					–
Pledged bank deposits	1,961										1,961
Bank balances and cash	54,291		(11,739)		52,813	8,478	(18,144)	155			85,854
	<u>251,015</u>										<u>196,700</u>

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP *(Continued)*

	Unaudited consolidated statement of financial position of the Group as at										Unaudited pro forma consolidated statement of financial position of the Remaining Group as at
	30 June 2012	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	30 June 2012
	HK\$'000	(1)	(2)	(3a)	(3b)	(3c)	(3d)	(3e)	(3f)	(3g)	HK\$'000
Current liabilities											
Trade and other payables	88,211		(32,937)					155	13,493		68,922
Tax payables	12,559										12,559
Amount due to ultimate holding company	–	36,400	(36,400)								–
Amounts due to fellow subsidiaries	–		(52,813)		52,813						–
Bank borrowings – due within one year	78,447		(60,303)				(18,144)				–
Derivative financial liabilities	5,615										5,615
	<u>184,832</u>										<u>87,096</u>
Net current assets	<u>66,183</u>										<u>109,604</u>
Total assets less current liabilities	<u>307,068</u>										<u>186,884</u>
Capital and reserves											
Share capital	32,390										32,390
Reserves	258,480		(84,136)	(36,400)						2,434	140,378
Equity attributable to owners of the Company	290,870										172,768
Non-controlling interests	1,551		(1,551)								–
Total equity	<u>292,421</u>										<u>172,768</u>
Non-current liability											
Deferred tax liabilities	14,647		(531)								14,116
	<u>307,068</u>										<u>186,884</u>

APPENDIX V
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**
**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME OF THE REMAINING GROUP**

	Unaudited consolidated statement of comprehensive income of the Group for the six months ended 30 June 2012	Pro Forma Adjustment (4)	Pro Forma Adjustment (5)	Pro Forma Adjustment (6)	Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group for the six months ended 30 June 2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	232,619	(98,108)	30,597	8,713	173,821
Cost of sales	(214,996)	86,647	(8,713)	(30,597)	(167,659)
Gross profit	17,623				6,162
Other income	4,898	(7,837)	7,724	409	5,194
Selling and distribution expenses	(8,320)	4,050		(1,379)	(5,649)
Administrative expenses	(15,107)	8,725	(409)	(1,341)	(8,132)
Research and development expenses	(15,805)	14,096		(5,004)	(6,713)
Other operating expenses	(5,962)	4,123			(1,839)
Finance costs	—				—
Loss before taxation	(22,673)				(10,977)
Income tax expenses	(1,645)	(231)			(1,876)
Loss for the period	(24,318)				(12,853)
Other comprehensive (expense) income:					
Exchange difference arising on translation of foreign operations	(4,063)	28			(4,035)
Surplus on revaluation of land and buildings held for own use	80				80
Deferred tax relating to revaluation of land and buildings held for own use	(13)				(13)
Other comprehensive (expense) income for the period, net of tax	(3,996)				(3,968)
Total comprehensive expense for the period	(28,314)				(16,821)

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF
THE REMAINING GROUP**

	Unaudited consolidated statement of cash flows of the Group for the six months ended							Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the six months ended
	30 June 2012	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	Pro Forma Adjustment	30 June 2012
	HK\$'000	(7) HK\$'000	(8) HK\$'000	(9) HK\$'000	(10) HK\$'000	(11) HK\$'000	(12) HK\$'000	HK\$'000
Operating activities								
Net cash (used in) from operating activities	(27,035)	39,257			(26,717)	52,813	155	38,473
Net cash (used in) from investing activities	(32,944)	26,017	8,478					1,551
Net cash from (used in) financing activities	4,704	(60,924)		(18,144)	26,717			(47,647)
Net decrease in cash and cash equivalents	(55,275)							(7,623)
Cash and cash equivalents at the 1 January 2012	109,710	(15,655)						94,055
Effect of foreign exchange rate changes	(144)	(434)						(578)
Cash and cash equivalents at the 30 June 2011, represented by bank balances and cash	54,291							85,854

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF
THE REMAINING GROUP** *(Continued)**Notes*

1. As if the Proposed Group Reorganisation and Transaction had been completed on 30 June 2012, the amount due by the Privateco Group to the ultimate holding company of approximately HK\$36,400,000 will be settled by issuance of one ordinary share of the Privateco, credited as fully paid, at the subscription price of HK\$36,400,000 to the Company as per the section headed “B. Group Reorganisation” in the Letter from the Board included in the circular (the “Circular”).
2. The adjustment reflects the exclusion of the assets and liabilities of the Privateco Group, assuming that the Proposed Group Reorganisation and Transaction had been completed on 30 June 2012. The amount of assets and liabilities of the Privateco Group as at 30 June 2012 were extracted from the accountant’s report as set out in Appendix III of this Circular. The Company will distribute approximately HK\$84,136,000 in specie to the ordinary shareholders of the Company upon the completion of the Proposed Group Reorganisation and Transaction.
3. The following conditions will be fulfilled upon the completion of the Proposed Group Reorganisation and Transaction, assuming that the Proposed Group Reorganisation and Transaction had been completed on 30 June 2012:
 - (a) The adjustment represents the distribution of the additional 4,678,000 ordinary shares of Privateco issued to the Company in relation to pro forma adjustment (1) above to the ordinary shareholders of the Company as if the Proposed Group Reorganisation and Transaction had been completed as at 30 June 2012 where the Company shall distribute all of its Privateco share in specie to its ordinary shareholders. There will be no change in control of the Privateco Group before and after completion of the Proposed Group Reorganisation and Transactions;
 - (b) The adjustment represents the cash settlement of the outstanding intra-group balances of approximately HK\$52,813,000 due by the Privateco Group to the Remaining Group which will be settled by Ultra Harvest Limited to the Remaining Group for the Privateco Group as a part of consideration paid to Mr. Yang Jai Sung (the “Vendor” or “Mr. Yang”) according to the Share Sale Agreement;
 - (c) As per the section headed “B. Group Reorganisation” in the Letter from the Board included in the Circular, the amounts due from the shareholders Mr. Yang and Kwang Sung Electronics Co., Ltd., (“KSE”) of approximately HK\$8,478,000 will be settled by Mr. Yang and KSE, the existing shareholders of the Group;
 - (d) As per the section headed “B. Group Reorganisation” in the Letter from the Board included in the Circular, the Remaining Group will settle all outstanding bank borrowings of approximately HK\$18,144,000;
 - (e) As per the section headed “B. Group Reorganisation” in the Letter from the Board included in the Circular, the Privateco Group will settle the other receivable of approximately HK\$155,000 to the Remaining Group;

- (f) The adjustment represents the reversal of trade receivable of the Privateco Group due by the Remaining Group HK\$13,493,000 as described in note 20 of the accountants' report set out in Appendix III of this Circular and the recognition of the balance due by the Remaining Group as accounts payable of the Remaining Group as if the Proposed Group Reorganisation and Transaction had been completed at 30 June 2012; and
 - (g) The adjustment represents the reversal of unrealised gain on disposal of property, plant and equipment from the Remaining Group to the Privateco Group of approximately HK\$2,434,000 (being the difference between the carrying value of property, plant and equipment in the Remaining Group of HK\$1,733,000 and the consideration paid by the Privateco Group of HK\$4,167,000 as described in note 16(e) of the accountants' report set out in Appendix III of this Circular).
- 4. The adjustment represents the exclusion of the revenue and expenses attributable to the Privateco Group, assuming that the Proposed Group Reorganisation and Transaction had completed on 1 January 2012. The combined statement of comprehensive income of the Privateco Group for the six months ended 30 June 2012 were extracted from the accountants' report as set out in Appendix III of this Circular.
 - 5. The adjustment represents the reversal of (i) sales to the Remaining Group of approximately HK\$30,597,000 by the Privateco Group; (ii) purchases from the Remaining Group of approximately HK\$8,713,000 by the Privateco Group; (iii) procurement, sales and research and development support fee income received by the Privateco Group of HK\$7,724,000 from the Remaining Group, and (iv) rental expenses paid to the Remaining Group of HK\$409,000 by the Privateco Group, as described in note 30 of the accountants' report set out in Appendix III of this Circular. The adjustment will not have the continuing income statement effect on the Remaining Group.
 - 6. The adjustment represents the recognition of (i) sales to the Privateco Group of approximately HK\$8,713,000; (ii) purchase from the Privateco Group of approximately HK\$30,597,000; (iii) rent income received from the Privateco Group of HK\$409,000, and (iv) selling and distribution expenses, administrative expenses and research and development expenses paid to the Privateco Group of approximately HK\$1,379,000, HK\$1,341,000 and HK\$5,004,000 respectively, as if the Proposed Group Reorganisation and Transaction had been completed at the commencement of the period being reported (i.e. 1 January 2012). All the aforesaid transactions are between the Remaining Group and the Privateco Group, which were extracted from note 30 of the financial information as included in the accountants' report set out in Appendix III of this Circular. The adjustment will not have the continuing income statement effect on the Remaining Group.
 - 7. The adjustment represents the exclusion of the cash flows attributable to the Privateco Group, assuming the Proposed Group Reorganisation and Transaction had been taken place on 1 January 2012. The combined statement of cash flows of the Privateco Group were extracted from the accountants' report in Appendix III of this Circular.
 - 8. According to 3(c), Mr. Yang will settle the outstanding amounts of approximately HK\$8,478,000 upon the completion of the Proposed Group Reorganisation and Transaction. This adjustment is classified as repayment from shareholders grouped under the net cash (used in) from investing activities and will not have continuing cash flow effect on the Remaining Group.

9. According to 3(d), the Remaining Group will settle the outstanding bank loans of HK\$18,144,000 upon the completion of the Proposed Group Reorganisation and Transaction. This adjustment is classified as bank loans grouped under the net cash from (used in) financing activities and will not have continuing cash flow effect on the Remaining Group.
10. In relation to pro forma statement of cash flows, increase in advances to the Privateco Group by the Remaining Group recorded as advances from fellow subsidiaries in the Privateco Group grouped under the net cash from (used in) financing activities of approximately HK\$26,717,000 had been reallocated to trade and other receivables grouped under the net cash (used in) from operating activities as they would become an independent third party upon the completion of the Proposed Group Reorganisation and Transaction. This adjustment will not have continuing cash flow effect on the Privateco Group. This adjustment will not have continuing cash flow effect on the Remaining Group.
11. According to 3(b), the outstanding intra-group balances due by the Privateco Group to the Remaining Group grouped under the net cash (used in) from operating activities of approximately HK\$52,813,000 will be settled by Ultra Harvest Limited in cash to the Remaining Group upon the completion of the Proposed Group Reorganisation and Transaction. This adjustment will not have continuing cash flow effect on the Remaining Group.
12. According to 3(e), the Privateco Group will settle the other receivables grouped under the net cash (used in) from operating activities of approximately HK\$155,000 to the Remaining Group upon the completion of the Proposed Group Reorganisation and Transaction. This adjustment will not have continuing cash flow effect on the Remaining Group.
13. No adjustments have been made to reflect the transaction costs in connection with the Proposed Group Reorganisation and Transaction as such costs are considered to be immaterial.
14. No other adjustment has been made to reflect any trading results and other transactions of the Group entered into subsequent to 30 June 2012.

The following is the text of a report received from the Company's reporting accountant, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong for the purpose of inclusion in this circular.

**B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

19 November 2012

The Board of Directors
Kwang Sung Electronics H.K. Co. Limited
Units 208-209, 2/F., Bio-Informatics Centre
No. 2 Science Park West Avenue
Hong Kong Science Park
Shatin, N.T.
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Kwang Sung Electronics H.K. Co. Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") in connection with the proposed group reorganisation and distribution in specie of the ordinary shares of Jay Star Holdings Limited (the "Privateco") and its subsidiaries (hereinafter collectively referred to as the "Privateco Group") (the "Proposed Group Reorganisation and Transaction") (the Group, excluding the Privateco Group hereinafter collectively referred to as the "Remaining Group"), which has been prepared by the directors of the Company (the "Directors"), for illustrative purpose only, to provide information about how the Proposed Group Reorganisation and Transaction might have affected the financial information presented, for inclusion in Appendix V to the circular dated 19 November 2012 in connection with the Proposed Reorganisation and Transaction (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 140 of the Circular.

Respective responsibilities of Directors and reporting accountants

It is the responsibility solely of the Directors 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 work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors. 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 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 judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2012 or at any future date; and
- the results and cash flows of the Group for the six months ended 30 June 2012 or any future periods.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors 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
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma combined statement of financial position, unaudited pro forma combined statement of comprehensive income and unaudited pro forma combined statement of cash flows (the “Unaudited Pro Forma Financial Information”) have been prepared to illustrate the effect of the proposed group reorganisation and distribution in specie of Jay Star Holdings Limited (the “Privateco”) (the “Proposed Group Reorganisation and Transaction”), which might have affected the financial information of the Privateco and its subsidiaries (hereafter collectively referred to as the “Privateco Group”).

The unaudited pro forma combined statement of financial position of the Privateco Group has been prepared based on the audited combined statement of financial accountants’ position of the Privateco Group as at 30 June 2012, which has been extracted from the accountant’s report as set out in Appendix III of this Circular and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Proposed Group Reorganisation and Transaction had been completed as at 30 June 2012.

The unaudited pro forma combined statement of comprehensive income and unaudited pro forma combined statement of cash flows of the Privateco Group have been prepared based on the audited combined statement of comprehensive income and combined statement of cash flows of the Privateco Group for the six months ended 30 June 2012 which has been extracted from the accountants’ report as set out in Appendix III of this Circular and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Proposed Group Reorganisation and Transaction had been completed on 1 January 2012.

The Unaudited Pro Forma Financial Information has been prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of its hypothetical nature, it may not give a true picture of the financial position, results of operations or cash flows of the Privateco Group had the Proposed Group Reorganisation and Transaction been completed as at 30 June 2012 or 1 January 2012 where applicable, or at any future dates.

The directors of the Company considered that the operations of the Group is not subject to seasonal factor and the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Remaining Group prepared by using the information extracted from the Interim report would not be misleading in this regard.

UNAUDITED PRO FORMA COMBINED STATEMENT OF FINANCIAL POSITION
OF THE PRIVATECO GROUP

	Audited combined statement of financial position of the Privateco Group as at 30 June 2012 HK\$'000	Pro Forma Adjustment (1) HK\$'000	Pro Forma Adjustment (2) HK\$'000	Pro Forma Adjustment (3) HK\$'000	Unaudited pro forma combined statement of financial position of the Privateco Group as at 30 June 2012 HK\$'000
Non-current assets					
Property, plant and equipment	148,572				148,572
Goodwill	—				—
Intangible assets	13,987				13,987
Deposits paid for acquisition of property, plant and equipment	3,480				3,480
	<u>166,039</u>				<u>166,039</u>
Current assets					
Inventories	27,915				27,915
Trade and other receivables	62,978				62,978
Amounts due from fellow subsidiaries	—				—
Bank balances and cash	11,739			(155)	11,584
	<u>102,632</u>				<u>102,477</u>

UNAUDITED PRO FORMA COMBINED STATEMENT OF FINANCIAL POSITION
OF THE PRIVATECO GROUP *(Continued)*

	Audited combined statement of financial position of the Privateco Group as at 30 June 2012 HK\$'000	Pro Forma Adjustment (1) HK\$'000	Pro Forma Adjustment (2) HK\$'000	Pro Forma Adjustment (3) HK\$'000	Unaudited pro forma combined statement of financial position of the Privateco Group as at 30 June 2012 HK\$'000
Current liabilities					
Trade and other payables	32,937			(155)	32,782
Amount due to ultimate holding company	36,400	(36,400)			–
Amount due to the Ultimate Controlling Shareholder	–		52,813		52,813
Amounts due to fellow subsidiaries	52,813		(52,813)		–
Bank borrowings — due within one year	60,303				60,303
	<u>182,453</u>				<u>145,898</u>
Net current liabilities	<u>(79,821)</u>				<u>(43,421)</u>
	<u>86,218</u>				<u>122,618</u>
Capital and reserves					
Share capital	105,160				105,160
Reserves	<u>(21,024)</u>	36,400			<u>15,376</u>
Equity attributable to owners of the Privateco	84,136				120,536
Non-controlling interests	<u>1,551</u>				<u>1,551</u>
Total equity	<u>85,687</u>				<u>122,087</u>
Non-current liability					
Deferred tax liabilities	<u>531</u>				<u>531</u>
	<u>86,218</u>				<u>122,618</u>

APPENDIX VI

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE PRIVATECO GROUP**

**UNAUDITED PRO FORMA COMBINED STATEMENT OF COMPREHENSIVE
INCOME OF THE PRIVATECO GROUP**

	Audited combined statement of comprehensive income of the Privateco Group for the six months ended 30 June 2012 HK\$'000	Pro Forma Adjustment HK\$'000	Unaudited pro forma combined statement of comprehensive income of the Privateco Group for the six months ended 30 June 2012 HK\$'000
Turnover	98,108		98,108
Cost of sales	<u>(86,647)</u>		<u>(86,647)</u>
Gross profit	11,461		11,461
Other income	7,837		7,837
Selling and distribution expenses	(4,050)		(4,050)
Administrative expenses	(8,725)		(8,725)
Research and development expenses	(14,096)		(14,096)
Other operating expenses	<u>(4,123)</u>		<u>(4,123)</u>
Loss before taxation	(11,696)		(11,696)
Income tax credit	<u>231</u>		<u>231</u>
Loss for the period	<u>(11,465)</u>		<u>(11,465)</u>
Other comprehensive expense:			
Exchange differences arising on translation	<u>(28)</u>		<u>(28)</u>
Total comprehensive expense for the period	<u><u>(11,493)</u></u>		<u><u>(11,493)</u></u>

UNAUDITED PRO FORMA COMBINED STATEMENT OF CASH FLOWS OF THE
PRIVATECO GROUP

	Audited combined statement of cash flows of the Privateco Group for the six months ended 30 June 2012 <i>HK\$'000</i>	Pro Forma Adjustment (4) <i>HK\$'000</i>	Pro Forma Adjustment (5) <i>HK\$'000</i>	Unaudited pro forma combined statement of cash flows of the Privateco Group for the six months ended 30 June 2012 <i>HK\$'000</i>
Operating activities				
Loss before taxation	(11,696)			(11,696)
Adjustments for:				
Interest income				
from bank deposits	(9)			(9)
Depreciation	2,483			2,483
Amortisation of				
intangible assets	576			576
Impairment loss recognised				
on freehold land	1,799			1,799
Impairment loss recognised				
on intangible assets	1,748			1,748
Allowance for inventories	794			794
Operating cash flows				
before movements in				
working capital	(4,305)			(4,305)
Increase in inventories	(3,457)			(3,457)
(Decrease) increase in trade				
and other receivables	(31,811)	63,117		31,306
Increase in trade and				
other payables	316		(155)	161
Net cash (used in)				
from operating activities	(39,257)			23,705

APPENDIX VI

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP

UNAUDITED PRO FORMA COMBINED STATEMENT OF CASH FLOWS OF THE PRIVATECO GROUP *(Continued)*

	Audited combined statement of cash flows of the Privateco Group for the six months ended 30 June 2012 <i>HK\$'000</i>	Pro Forma Adjustment (4) <i>HK\$'000</i>	Pro Forma Adjustment (5) <i>HK\$'000</i>	Unaudited pro forma combined statement of cash flows of the Privateco Group for the six months ended 30 June 2012 <i>HK\$'000</i>
Investing activities				
Interest received	9			9
Acquisition of property, plant and equipment	(23,018)			(23,018)
Deposits paid for purchase of property, plant and equipment	(3,480)			(3,480)
Withdrawal of restricted bank deposit	472			472
Net cash used in investing activities	<u>(26,017)</u>			<u>(26,017)</u>
Financing activities				
Advance from fellow subsidiaries	26,717	(26,717)		–
Interest paid	(2,193)			(2,193)
Advance from ultimate holding company	36,400	(36,400)		–
Net cash from (used in) financing activities	<u>60,924</u>			<u>(2,193)</u>
Net decrease in cash and cash equivalents	(4,350)			(4,505)
Cash and cash equivalents at 1 January 2012	15,655			15,655
Effect of foreign exchange rate changes	434			434
Cash and cash equivalents at 30 June 2012, represented by bank balances and cash	<u><u>11,739</u></u>			<u><u>11,584</u></u>

Notes:

1. As if the Proposed Group Reorganisation and Transaction had been completed on 30 June 2012, the amount due by the Privateco Group to the Group of approximately HK\$36,400,000 will be settled by issuance of 1 ordinary shares of the Privateco at the subscription price of HK\$36,400,000 to the Company as per the section headed “B. Group Reorganisation” in the Letter from the Board included in the circular (the “Circular”).
2. The aggregate consideration for the sale shares (the “Shares Sale”) under the Share Sale Agreement is HK\$161,252,157. As part of the condition of the Share Sale Agreement, Ultra Harvest Limited (the “Acquirer”) shall pay to the Remaining Group, a sum equivalent to the amount due by the Privateco Group to the Remaining Group on completion of the Share Sale and deduct such balance from the consideration payable to Mr. Yang Jai Sung (the “Vendor” and “Ultimate Controlling Shareholder”) for the Sale Shares. Accordingly, amounts due by the Privateco Group to its fellow subsidiaries of approximately HK\$52,813,000 as at 30 June 2012 had been reclassified as an amount due to the Vendor as if the Proposed Group Reorganisation and Transaction had been completed as at 30 June 2012.
3. Upon the completion of the Proposed Group Reorganisation and Transaction, the Privateco Group will settle other payables due to its fellow subsidiaries of approximately HK\$155,000 as described in note 23 of the financial information as included in the accountants’ report set out in Appendix III of this Circular, to the Remaining Group.
4. In relation to pro forma combined statement of cash flows, increase in advance from fellow subsidiaries and ultimate holding company of approximately HK\$26,717,000 and HK\$36,400,000 respectively has been reallocated to decrease in trade and other receivables as they would become independent third parties upon the completion of the Proposed Group Reorganisation and Transaction. This adjustment will not have continuing cash flow effect on the Privateco Group.
5. According to pro forma adjustment 3 above, the Privateco Group will settle other payables due to its fellow subsidiaries of approximately HK\$155,000 upon the completion of the Proposed Group Reorganisation and Transaction.
6. No adjustment have been made to reflect the transaction costs in connection with the Proposed Group Reorganisation and Transaction as such costs are considered to be immaterial by the director of the Privateco Group.
7. No other adjustment has been made to reflect any trading results and other transactions of the Privateco Group entered into subsequent to 30 June 2012.

The following is the text of a report received from the Company's reporting accountant, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong for the purpose of inclusion in this circular.

**B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE PRIVATECO GROUP**

19 November 2012

The Board of Directors
Kwang Sung Electronics H.K. Co. Limited
Units 208-209, 2/F., Bio-Informatics Centre
No. 2 Science Park West Avenue
Hong Kong Science Park
Shatin, N.T.
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Jay Star Holdings Limited (the "Privateco") and its subsidiaries (hereinafter collectively referred to as the "Privateco Group"), in connection with the proposed organisation and distribution in specie of the ordinary shares of the Privateco (the "Proposed Group Reorganisation and Transaction"), which has been prepared by the directors of Kwang Sung Electronics H.K. Co. Limited (the "Company") (the "Directors"), for illustrative purpose only, to provide information about how the Proposed Group Reorganisation and Transaction might have affected the financial information presented, for inclusion in Appendix VI to the Circular dated 19 November 2012 in connection with the Proposed Reorganisation and Transaction (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 150 of the Circular.

Respective responsibilities of Directors and reporting accountants

It is the responsibility solely of the Directors 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 work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors. 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 on the basis stated, that such basis is consistent with the accounting policies of the Privateco 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 judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Privateco Group as at 30 June 2012 or at any future date; and
- the results and cash flows of the Privateco Group for the six months ended 30 June 2012 or any future periods.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Privateco 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
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong

The following is the text of a letter and valuation certificate prepared for the purpose of inclusion in this circular, received from Roma Appraisals Limited, an independent valuer, in connection with their valuations as at 30 June 2012 and 30 September 2012 of the property owned by the Privateco Group.



Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel: (852) 2529 6878 Fax: (852) 2529 6806
E-mail: info@roma-international.com
[http:// www.roma-international.com](http://www.roma-international.com)

19 November 2012

Kwang Sung Electronics H.K. Co. Limited

Units 208-209, 2/F.
Bio-Informatics Centre
No. 2 Science Park West Avenue
Hong Kong Science Park
Shatin, New Territories
Hong Kong

Dear Sir/Madam,

Re: An Industrial Development situated at 1026-2, 1026-3 and 1026-5, Sanbon-dong, Gunpo-si, Gyeonggi-do, the Republic of Korea

In accordance with the instructions for us to value the property intended to be disposed of by Kwang Sung Electronics H.K. Co. Limited (the “Company”), its subsidiaries and / or associate companies (hereinafter together referred to as the “Group”) located in the Republic of Korea, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property as at 30 June 2012 and 30 September 2012 (the “Dates of Valuations”) for the purpose of incorporation in the circular of the Company dated 19 November 2012.

1. BASIS OF VALUATION

Our valuations of the property are our opinion of the market values of the concerned property which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

2. VALUATION METHODOLOGY

We have valued the property by reference to sales evidence as available on the market assuming that vacant possession of the property would be readily available upon completion of a sale.

3. TITLE INVESTIGATION

For the property located in the Republic of Korea, we have been provided with extracts of various documents and have been advised by the Group that no further relevant documents have been produced. However, we have not examined the original documents to verify the existing title to the property or any amendment, which may not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers. In the course of our valuations, we have relied upon the advice and information given by the Group regarding the title of the property. All documents have been used for reference only.

In valuing the property, we have relied on the advice given by the Group and its legal advisers that the Group has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent / land use fees and all requisite land premium / purchase consideration payable have been fully settled.

4. VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the property in the market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of such property.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no allowance has been made for the property to be sold in one lot or to a single purchaser.

5. SOURCE OF INFORMATION

In the course of our valuations, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupation, site and floor areas, age of building and all other relevant matters which can affect the values of the property. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

6. VALUATION CONSIDERATION

We have inspected the exterior and, where possible, the interior of certain property. No structural survey has been made in respect of the property. However, in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have not carried out on-site measurement to verify the site and floor areas of the property under consideration but we have assumed that the site and floor areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its values.

Our valuations are prepared in accordance with The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors and in compliance with the requirements of Chapter 5 of the Rules Governing the Listing of Securities published by The Stock Exchange of Hong Kong Limited.

7. REMARKS

In accordance with our standard practice, we must state that this report is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents and neither the whole, nor any part of this report may be included in any published documents or statement nor published in any way without our prior written approval of the form and context in which it may appear.

Unless otherwise stated, all monetary amounts stated in our valuations are in South Korean Won ("KRW").

Our Valuation Certificate is attached.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Alan W K Lee
BCom(Property)MFin
MHKIS RPS(GP) AAPI CPV CPV(Business)
Associate Director

Note: Mr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 8 years' valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, including the Republic of Korea, and European countries.

VALUATION CERTIFICATE

Property held for owner-occupation in the Republic of Korea

Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State										
An Industrial Development situated at 1026-2, 1026-3 and 1026-5, Sanbon-dong, Gunpo-si, Gyeonggi-do, The Republic of Korea	The property comprises a parcel of land with a site area of approximately 2,455.6 sq.m. (or about 26,432 sq.ft.) on which a 7-storey industrial development, including a level of basement, is erected in 2012.	The property is occupied by the Group for industrial and office uses.	as at 30 June 2012 KRW19,282,000,000.										
	As advised by the Group, the total gross floor area of the property is approximately 8,764.51 sq.m. (or about 94,341 sq.ft.) and comprises the following accommodation:		as at 30 September 2012 KRW19,282,000,000.										
	<table><tr><td></td><td>Approximate Gross Floor Area</td></tr><tr><td>Premises</td><td>(sq.m.)</td></tr><tr><td>Ground Floor and Upper Floors</td><td>6,889.27</td></tr><tr><td>Basement</td><td>1,875.24</td></tr><tr><td>Total:</td><td><u>8,764.51</u></td></tr></table>		Approximate Gross Floor Area	Premises	(sq.m.)	Ground Floor and Upper Floors	6,889.27	Basement	1,875.24	Total:	<u>8,764.51</u>		
	Approximate Gross Floor Area												
Premises	(sq.m.)												
Ground Floor and Upper Floors	6,889.27												
Basement	1,875.24												
Total:	<u>8,764.51</u>												
	The property is held under freehold.												

Notes:

- Pursuant to Certified Copies of Real Estate Register (Effective Information) — Land (For Submission), numbered as 1351-1996-012712, 1351-1996-012710 and 1351-1996-012709, issued by Government Official Responsible for Computer Operation Central Management Office of Registration Information Court's Administrative Bureau, Republic of Korea, the property with a total site area of 2,455.6 sq.m. is owned by Kwang Sung Electronics Korea Co., Ltd..
- Pursuant to Temporary Use Approval issued by Gunpo City Hall dated 17 May 2012, total approved area of the property is 8,764.5122 sq.m.. The salient development conditions of the property are summarized as follows:
 - Owner : Kwang Sung Electronics Korea Co., Ltd.
 - Approval Period : 9 May 2014
 - Main Purpose : Factory

3. Pursuant to a sale and purchase contract entered into between Young Co., Ltd. and Kwang Sung Electronics Korea Co., Ltd. dated 14 May 2010, the former agreed to transfer the land of the property with a site area of 2,455.6 sq.m. to the latter at a consideration of KRW7,500,000,000.
4. As advised by the Group, the total construction cost of the development of the property is approximately KRW11,991,000,000.
5. As advised by the Group, Kwang Sung Electronics Korea Co., Ltd. is a wholly-owned subsidiary of the Company.
6. Our inspection was performed by Mr. Alan W K Lee in November 2012.

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and bye laws (the “Bye-laws”) of the Privateco which will be adopted on or before completion of the Distribution In Specie and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Privateco is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Privateco is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Privateco was formed which are unrestricted and that the Privateco has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Privateco will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Privateco to purchase its own shares and pursuant to its Bye laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE LAWS

The Bye laws were adopted on or before completion of the Distribution In Specie. The following is a summary of certain provisions of the Bye laws:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Privateco may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Privateco or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Privateco before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Privateco on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye laws, any direction that may be given by the Privateco in general meeting and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Privateco shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Privateco nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Privateco or any of its subsidiaries*

There are no specific provisions in the Bye laws relating to the disposal of the assets of the Privateco or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Privateco and which are not required by the Bye laws or the Companies Act to be exercised or done by the Privateco in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Privateco in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) *Financial assistance to purchase shares of the Privateco*

Neither the Privateco nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Privateco for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye laws shall not prohibit transactions permitted under the Companies Act.

(vi) *Disclosure of interests in contracts with the Privateco or any of its subsidiaries*

A Director may hold any other office or place of profit with the Privateco (except that of auditor of the Privateco) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Privateco or any other company in which the Privateco may be interested, and shall not be liable to account to the Privateco or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Privateco to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Privateco, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Privateco or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Privateco shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Privateco or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Privateco or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Privateco or any other company which the Privateco may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Privateco by virtue only of his/their interest in shares or debentures or other securities of the Privateco; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Privateco or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Privateco in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Privateco or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Privateco or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Privateco or companies with which it is associated in business) in establishing and making contributions out of the Privateco's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with the Privateco or any of its subsidiaries) and ex employees of the Privateco and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire shall include any Director who wishes to retire and not to offer himself for re-election. Any further Directors to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the board as an addition to the existing board shall hold office only until the next following annual general meeting of the Privateco and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Privateco by way of qualification.

A Director may be removed by an ordinary resolution of the Privateco before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Privateco) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Privateco in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Privateco.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Privateco for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Privateco or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board

thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) *Borrowing powers*

The board may from time to time at its discretion exercise all the powers of the Privateco to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Privateco and, subject to the Companies Act, to issue debentures, bonds and other securities of the Privateco, whether outright or as collateral security for any debt, liability or obligation of the Privateco or of any third party.

Note: These provisions, in common with the Bye laws in general, can be varied with the sanction of a special resolution of the Privateco.

(b) Alterations to constitutional documents

The Bye laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Privateco in general meeting. The Bye laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye laws or to change the name of the Privateco.

(c) Alteration of capital

The Privateco may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;

- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Privateco may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special resolution majority required

A special resolution of the Privateco must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designed Stock Exchange (as defined in the Bye-laws), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and not less than ten (10) clear business days has been given.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Privateco it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Privateco or at any meeting of any class of members of the Privateco provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

Any member that has a material interest (as defined in the Listing Rules) in the transaction or arrangement which is subject to resolution(s) of the Company shall abstain from voting on the resolution(s) approving such transaction or arrangement and shall not be reckoned in any quorum at the general meeting.

(g) Requirements for annual general meetings

An annual general meeting of the Privateco must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Privateco, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Privateco and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Privateco's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Privateco except as conferred by law or authorised by the board or the Privateco in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Privateco under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Privateco at the annual general meeting in accordance with the requirements of the Companies Act (and in any event no more than four months after the end of the financial year to which they related) provided that this provision shall not require a copy of those documents to be sent to any person whose address the Privateco is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, the Privateco may send to such persons summarised financial statements derived from the Privateco's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Privateco, demand that the Privateco sends to him, in addition to summarised financial statements, a complete printed copy of the Privateco's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Privateco and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Privateco shall, during his continuance in office, be eligible to act as an auditor of the Privateco. The remuneration of the auditor shall be fixed by the Privateco in general meeting or in such manner as the members may determine.

The financial statements of the Privateco shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

Unless any share is issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists or any share is transferred to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Privateco has a lien, the board shall not refuse to register a transfer of any share (being a fully paid up share) to any person.

The board may decline to recognise any instrument of transfer unless the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Privateco to purchase its own shares

The Bye laws supplement the Privateco's Memorandum of Association (which gives the Privateco the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit provided that the total number of shares that the Privateco may purchase or otherwise acquire shall not exceed 10 per cent. (10%) of the total issued share capital of the Privateco as at the date of the relevant resolution of the board. Any purchase, acquisition or otherwise by the Privateco of its own shares exceeding 10 per cent. (10%) of the total issued share capital of the Privateco as at the date of the relevant resolution of the board approving such purchases, acquisitions or otherwise shall be subject to approval by the members by an ordinary resolution.

(l) Power for any subsidiary of the Privateco to own shares in the Privateco

There are no provisions in the Bye laws relating to ownership of shares in the Privateco by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Privateco in general meeting may declare dividends in any currency to be paid to the members according to their respective rights and interests in the profits of the Privateco but no dividend shall be declared in excess of the amount recommended by the board. The Privateco in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Privateco unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Privateco on or in respect of any shares all sums of money (if any) presently payable by him to the Privateco on account of calls or otherwise.

Whenever the board or the Privateco in general meeting has resolved that a dividend be paid or declared on the share capital of the Privateco, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Privateco may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Privateco that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Privateco in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Privateco until claimed and the Privateco shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Privateco.

(n) Proxies

Any member of the Privateco entitled to attend and vote at a meeting of the Privateco is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Privateco or at a class meeting. A proxy need not be a member of the Privateco. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Privateco may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Privateco all monies which, at the date of forfeiture, were payable by him to the Privateco in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon during business hours by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Privateco under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Privateco be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Privateco shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Privateco whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Privateco may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Privateco has not during that time received any indication of the existence of the member; and (iii) the Privateco has given notice to, and caused advertisement in newspapers to be made of its intention to sell such shares and a period of three months has elapsed since such advertisement. The net proceeds of any such sale shall belong to the Privateco and upon receipt by the Privateco of such net proceeds, it shall become indebted to the former member of the Privateco for an amount equal to such net proceeds.

(u) Other provisions

The Bye laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Privateco and the Privateco does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye laws also provide that the Privateco is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon during business hours.

(v) Reserved Matters

Notwithstanding any provision to the contrary contained in the Bye-laws, no connected transactions (as defined in the Listing Rules) may be undertaken by the Privateco unless (1) it is a transaction on normal commercial terms in the ordinary and usual course of business (as defined in the Listing Rules) of the Privateco; or (2) it is a transaction (or a series of transactions within a 12-month period or are otherwise related) involving any acquisition(s) or disposal(s) of assets (or securities or an interest in one particular company or group of companies or parts of one assets) with each of the amount of total assets (as calculated in accordance with the Listing Rules) and the total revenue attributable to such asset(s) (i) less than 5% of that as shown in the latest audited accounts of the Privateco and its subsidiaries; or (ii) less than 25% of that as shown in the latest audited accounts of the Privateco and its subsidiaries provided that the total consideration of the relevant transaction(s) is less than HK\$10,000,000; (3) it is made with the approval of disinterested member(s) by way of ordinary resolution in general meeting. Where any such transaction requiring approval of disinterested member(s) is proposed for consideration by the members, the Board shall prepare and send, in accordance with the Bye-laws, a notice convening a special general meeting accompanied by a circular to all members which contain a summary of the terms of the proposed transaction and other relevant information relating to such transaction and the advice of an independent financial adviser as to whether the transaction is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Privateco and the members as a whole.

Notwithstanding any provision contained in the Bye-laws and without prejudice to the above paragraph, no transaction involving the acquisition or disposal of assets in a transaction which is not a connected transaction with (i) an aggregate value of more than twenty-five per cent (25%) of the value of the total assets (as calculated in accordance with the Listing Rules) as shown on the latest audited accounts of the Privateco and its subsidiaries, or (ii) the revenue attributable to the assets which are the subject of the relevant transaction being more than twenty-five per cent (25%) of that as shown on the latest audited accounts of the Privateco and its subsidiaries, or (iii) the profits attributable to the assets which are the subject of the relevant transaction being more than twenty-five per cent (25%) of that as shown on the latest audited accounts of the Privateco and its subsidiaries may be undertaken by the Privateco unless it is made with the approval of

the member(s) by way of ordinary resolution in general meeting. Where any such transaction requiring approval of the members is proposed for consideration by the members, the board shall prepare and send, in accordance with the Bye-laws, a notice convening a special general meeting accompanied by a circular to all members containing a summary of the terms of the proposed transaction and other relevant information relating to such transaction. So long as the proposed transaction is a non-connected transaction, the requirement as to approval by the members shall be satisfied without holding a general meeting if:— (i) no member is required to abstain from voting if the Privateco were to convene a special general meeting for the approval of the non-connected party transaction; and (ii) a member, or group of members, holding more than fifty per cent (50%) of the issued share capital of the Privateco and being entitled to receive notice of and to attend and vote at general meetings of the Privateco, has or have given written consent to the proposed transaction.

Notwithstanding any provision to the contrary contained in the Bye-laws, the Directors shall obtain the approval of the members by way of ordinary resolution in general meeting prior to allotting, issuing or granting shares, securities convertible into shares or options, warrants or similar rights to subscribe for any shares or such convertible securities. However, no such consent shall be required: (a) for the allotment, issue or grant of such shares or securities pursuant to an offer made to the members, excluding for that purpose any member who is resident in a place where such offer is not permitted or where there are, in the opinion of the Directors, unduly onerous restrictions under the law of that place and where appropriate, to holders of other equity securities of the Privateco entitled to be offered them, in proportion (apart from fractional entitlements) to their then holdings; or (b) if, but only to the extent that, the existing members have by ordinary resolution given a general mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to allot or issue such securities or to grant any offers, agreements or options which would or might require securities to be issued, allotted or disposed of, whether during the continuance of such mandate or thereafter, subject to a restriction that the aggregate number of shares or securities allotted or agreed to be allotted must not exceed in aggregate twenty (20) per cent of the issued share capital of the Privateco in issue from time to time.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE LAWS

The Memorandum of Association may be altered by the Privateco in general meeting. The Bye laws may be amended by the Directors subject to the confirmation of the Privateco in general meeting. The Bye laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye laws or to change the name of the Privateco. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three fourths of the votes cast by such members of the Privateco as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' and not less than ten clear business days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Privateco is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”, to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account was paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye laws and nothing therein precludes a variation of such rights, the written consent of the holders of three fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

There is no longer any statutory restriction in Bermuda on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in accordance with their fiduciary duties to the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than its liabilities. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing

standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

Unless the requirement to appoint an auditor is waived by all of the shareholders and all of the directors, either in writing or at the general meeting, any auditor appointed shall hold office until a successor is appointed by the members or if the members fail to do so until the directors appoint a successor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at a general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as “non resident” for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 31st March 2035, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting or in the case of a company that has made an election to dispense with annual general meetings in accordance with the Companies Act, at or before the next following general meeting which shall be convened within 12 months of the authorisation of the making of the loan, if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye laws of a company, minutes of general meetings and the company's audited financial statements. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Privateco's legal advisers on Bermuda law, have sent to the Privateco a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix IX. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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 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.

Information and confirmation relating to Ultra Harvest, Smart Top, the Listco Offer and the Privateco Offer set out in this circular have been duly extracted from the Joint Announcement or provided by the respective parties. The Directors jointly and severally accept responsibility for the correctness and fairness of reproduction or presentation of such information.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised share capital:

1,500,000,000 Shares of HK\$0.1 each	HK\$150,000,000
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Issued and fully paid up share capital:

323,896,933 Shares of HK\$0.1 each	HK\$32,389,693.3
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All issued Shares rank equally in all respect, including in particular as to dividend, voting rights and return on capital.

The Shares are listed and traded on the Main Board of the Stock Exchange. None of the Shares is listed, or dealt in, on other stock exchange, nor is any listing of or permission to deal in Shares being, or proposed to be, sought on any other stock exchange.

3. SHARE OPTIONS

As at the Latest Practicable Date, the Company had no options, warrants and conversion rights convertible into the Shares.

4. DISCLOSURE OF INTEREST

(a) **Directors' and chief executives' interest or short positions in the Shares, underlying shares and debentures of the Company and its associated corporations**

As at the Latest Practicable Date, the interest of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the Stock Exchange, were set out as follows:

Long Positions

Name of Director	Capacity	Number of issued Shares held (including underlying Shares)	Percentage of the issued ordinary share capital of the Company (Note 2)
Mr. Yang Jai Sung	Beneficial owner	114,582,000	35.38%
	Interest in controlled corporation	59,500,000 (Note 1)	18.37%
Mr. Hong Sang Joon	Beneficial owner	100,000	0.03%
Dr. Kim Chung Kweon	Beneficial owner	20,000	0.01%

Notes:

- (1) Mr. Yang and his relatives are approximately interested in 79.5% issued share capital of KSE and therefore Mr. Yang and his relatives are deemed to be interested in the 59,500,000 Shares held by KSE under the SFO.
- (2) The percentage is calculated based on the number of Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, no interest and short position in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) were held by any Director or chief executive of the Company which were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or 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 which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' interests and short positions in the Shares

So far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or held any option in respect of such capital:

(i) Interests in the Shares

Name of Shareholder	Capacity	Number of issued Shares	Percentage of the issued share capital of the Company (Note 7)
Madam Yang Kang Mi Young (Note 1)	Interest of spouse	174,082,000	53.75%
Kwang Sung Electronics Co., Ltd. (Note 2)	Beneficial owner	59,500,000	18.37%
Ultra Harvest Limited (Note 3)	Beneficial owner	174,082,000	53.75%
Mr. Shen Yong (Note 3)	Interest of controlled corporation	174,082,000	53.75%
Mr. Shen Ke (Note 3)	Interest of controlled corporation	174,082,000	53.75%
Ms. Meng Qing (Note 4)	Interest of spouse	174,082,000	53.75%
Ms. Peng Jingyi (Note 5)	Interest of spouse	174,082,000	53.75%
Mr. Kent C. McCarthy (Note 6)	Interest of controlled corporation	32,254,000	9.96%
Jayhawk Private Equity Fund, II LP ("Jayhawk PEF")	Investment manager	32,254,000	9.96%

Notes:

- (1) Madam Yang Kang Mi Young, the wife of Mr. Yang, was deemed to be interested in these Shares in which Mr. Yang was interested or deemed (or taken) to be interested under the SFO.
- (2) Mr. Yang and Mr. Yang Ho Sung are also directors of KSE.
- (3) Pursuant to the Share Sale Agreement, Ultra Harvest Limited agreed to acquire an aggregate of 174,082,000 Shares from the Vendors subject to fulfilment or waiver of certain conditions. As at the Latest Practicable Date, the Share Sale Agreement had not been completed. Ultra Harvest Limited is owned as to 60% by Mr. Shen Yong and 40% by Mr. Shen Ke. Pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, each of Mr. Shen Yong and Mr. Shen Ke is deemed to be interested in all the Shares in which Ultra Harvest Limited is, or is deemed to be, interested. Mr. Shen Yong is the father of Mr. Shen Ke, both of whom are directors of Ultra Harvest Limited.
- (4) Ms. Meng Qing is the spouse of Mr. Shen Yong. Pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, she is deemed to be interested in all the Shares in which Mr. Shen Yong is, or is deemed to be, interested.
- (5) Ms. Peng Jingyi is the spouse of Mr. Shen Ke. Pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, she is deemed to be interested in all the Shares in which Mr. Shen Ke is, or is deemed to be, interested.
- (6) Mr. McCarthy was deemed or taken to be interested in these ordinary shares through his indirect 100% control in Jayhawk PEF. There interests were fully duplicated by those beneficially owned by Jayhawk PEF.
- (7) The percentage is calculated based on the number of Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who 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 other member of the Group or who had any options in respect of such capital.

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had since 31 December 2011 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

6. DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACT

The following contract, not being contract entered into in the ordinary course of business, had been entered into by members of the Group after the date falling two years prior to the issue of this circular and up to the Latest Practicable Date and which are or may be material:

- (a) a construction agreement dated 30 November 2010 entered into between Kwang Sung Electronics Korea Co., Ltd., an indirect wholly-owned subsidiary of the Company, and Yuan Engineering Corporation regarding the construction of a complex building in Korea at the consideration of KRW6,998,283,945.

9. QUALIFICATION AND CONSENTS OF EXPERTS

- (a) The following is the qualification of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Goldin Financial Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Conyers Dill & Pearman	Bermuda legal advisers
SHINEWING (HK) CPA Limited	Certified Public Accountants
Roma Appraisals Limited	Independent Property Valuer

- (b) As at the Latest Practicable Date, each of Goldin Financial Limited, Conyers Dill & Pearman, SHINEWING (HK) CPA Limited and Roma Appraisals Limited had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Each of Goldin Financial Limited, Conyers Dill & Pearman, SHINEWING (HK) CPA Limited and Roma Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear respectively.
- (d) As at the Latest Practicable Date, each of Goldin Financial Limited, Conyers Dill & Pearman, SHINEWING (HK) CPA Limited and Roma Appraisals Limited did not have any interest, direct or indirect, in any assets which have been, since 31 December 2011, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group.

10. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

11. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their respective associates had an interest in a business which competes or may compete either directly or indirectly with the business of the Group.

12. MISCELLANEOUS

- (a) The registered office of the Company is at Units 208-209, 2/F., Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
- (b) The principal place of business of the Company in Hong Kong is at Units 208-209, 2/F., Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
- (c) The share registrar and transfer office of the Company is Tricor Standard Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Mr. Kwok Kim Hung, Eddie, who is an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (e) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text in case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Units 208-209, 2/F., Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, during normal business hours on any weekday other than public holidays, from the date of this circular up to and including the date of the EGM:

- a) the memorandum of association and articles of association of the Company;
- b) the annual reports of the Company for the three financial years ended 31 December 2011 and the interim report of the Company for the six months ended 30 June 2012;
- c) the form of the bye-laws of the Privateco to be adopted on or before completion of the Distribution In Specie;

- d) the letter from the Board, the text of which is set out on pages 7 to 28 of this circular;
- e) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 29 to 30 of this circular;
- f) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 31 to 55 of this circular;
- g) the letter from Conyers Dill & Pearman as referred to in Appendix VIII to this circular summarising certain aspects of Bermuda company law, together with a copy of the Companies Act 1981 of Bermuda;
- h) the written consents of the experts referred to in the section headed “Qualification and consents of experts” in this appendix;
- i) the accountants’ report from SHINEWING (HK) CPA Limited on the Privateco for the three financial years ended 31 December 2011 and the six months ended 30 June 2012, the texts of which are set out in Appendix III to this circular;
- j) the accountants’ report from SHINEWING (HK) CPA Limited on unaudited pro forma financial information of the Remaining Group, the texts of which are set out in Appendix V to this circular;
- k) the accountants’ report from SHINEWING (HK) CPA Limited on unaudited pro forma financial information of the Privateco Group, the texts of which are set out in Appendix VI to this circular;
- l) the property valuation report from Roma Appraisals Limited as set out in Appendix VII to this circular;
- m) the Framework Supply Agreement;
- n) the material contract referred to in the section headed “Material Contract” in this appendix; and
- o) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



KWANG SUNG ELECTRONICS H.K. CO. LIMITED

光 星 電 子 香 港 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2310)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Kwang Sung Electronics H.K. Co. Limited (the “Company”) will be held at 10:00 a.m. on 5 December 2012 at Conference Hall 03, 1/F., Core Building 1, Phase 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company (with or without amendments):

ORDINARY RESOLUTIONS

1. “THAT:

subject to the completion of the agreement dated 27 September 2012 (as amended and supplemented by a supplemental agreement dated 16 October 2012) entered into among Mr. Yang Jai Sung and Kwang Sung Electronics Co., Ltd. (collectively as vendors) and Ultra Harvest Limited (as purchaser) (the “Agreement”, a copy of which having been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification), the distribution in specie in the following manner (the “Distribution In Specie”) be and is hereby approved:

- (i) subject to (ii) below, the ordinary shares of HK\$0.01 each (the “Privateco Shares”) in the capital of Jay Star Holdings Limited (the “Privateco”) held by the Company will be distributed to the shareholders of the Company (the “Shareholders”) whose names appear on the register of members of the Company as at the close of business of a record date (the “Record Date”) as determined by the directors of the Company (the “Directors”), which shall be a date falling before the date of completion of the Agreement, on a one-for-one basis (i.e. one Privateco Share for one share of the Company held by such Shareholders) by a distribution from the distributable reserves of the Company and the amount to be distributed will be equivalent to the net asset value of the Privateco and its subsidiaries taken as a whole; and
- (ii) the Directors be and are hereby authorised to do all such acts and things, to sign and execute (under the common seal of the Company, where necessary) all documents and to take such steps as they consider necessary, desirable or expedient to give effect to or in connection with the Distribution In Specie or any of the transactions contemplated thereunder.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “**THAT:**

- (a) the transactions contemplated under the framework supply agreement to be entered into between Kwang Sung Technology Holdings Co. Limited and Kwang Sung Holdings Co., Ltd. (the “Framework Supply Agreement”, a copy of which having been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification), pursuant to which the Company and its then subsidiaries upon completion of the proposed reorganisation of the Company and its subsidiaries will supply certain electronics components to Jay Star Holdings Limited and its subsidiaries; and
- (b) the directors of the Company be and are hereby authorised to do all such acts and things, to sign and execute (under the common seal of the Company, where necessary) all documents and to take such steps as they consider necessary, desirable or expedient to give effect to or in connection with the Framework Supply Agreement (including but not limited to entering into any supplemental or variation agreement thereto) or any of the transactions contemplated thereunder.”

By Order of the Board
Kwang Sung Electronics H.K. Co. Limited
HONG Sang Joon
Executive Director

Hong Kong, 19 November 2012

Head Office and Principal Place of Business in Hong Kong:
Units 208-209, 2/F.
Bio-Informatics Centre
No. 2 Science Park West Avenue
Hong Kong Science Park
Shatin, New Territories

Notes:

- 1. A member entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one or more proxies (who must be individuals) to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
- 2. Where there are joint registered holders of any share, any one of such persons may vote at the above meeting (or at any adjournment thereof), either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- 3. To be valid, this proxy form, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, shall be deposited at Tricor Standard Limited, the Company’s share registrar and transfer office of 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong not less than 48 hours before the time for holding the above meeting or any adjournment thereof.
- 4. As at the date of this notice, the board of directors of the Company comprises non-executive director Mr. YANG Ho Sung (Chairman); executive directors Mr. YANG Jai Sung, Mr. LEE Kyu Young and Mr. HONG Sang Joon; and independent non-executive directors Dr. KIM Chung Kweon, Dr. HAN Byung Joon and Mr. KIM Chan Su.