
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in the Company, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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



XING LIN MEDICAL INFORMATION TECHNOLOGY COMPANY LIMITED
杏林醫療信息科技有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8130)

**(I) CONNECTED TRANSACTION –
PROPOSED PLACING OF NEW SHARES SUBJECT TO
SHAREHOLDERS’ APPROVAL;
(II) CONNECTED TRANSACTION –
PROPOSED ISSUE OF CONVERTIBLE BONDS;
AND
(III) NOTICE OF SPECIAL GENERAL MEETING**

Placing Agent in relation to the Placing



KINGSTON SECURITIES LTD

**Independent financial adviser to the Company
relating to the Placing and the Subscription**



Menlo Capital Limited

Terms used in this cover page have the same meanings as defined in this circular.

A letter from Independent Board Committee containing its advice to Independent Shareholders in relation to the Placing Agreement and the Subscription Agreement is set out on page 24 and page 25 to this circular. A letter from Menlo Capital containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Placing Agreement and the Subscription Agreement and the transactions contemplated thereunder is set out on pages 26 to 55 to this circular.

A notice convening the SGM to be held at Board Room, 1st Floor, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong at 11:00 a.m. on 16 December 2010 is set out on pages 64 to 66 of this circular. If you are unable to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Registrar at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

* For identification purposes only

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 8 October 2010 and supplemented by the supplemental announcement dated 15 October 2010 relating to the Placing and the Subscription Agreement
“associates”	has the same meaning ascribed to it under the GEM Listing Rules
“Board”	board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business throughout their normal business hours
“Capital Reorganisation”	the capital reorganisation of the Company which became effective on 9 August 2010, details of which are set out in the announcement dated 2 July 2010 and the circular dated 14 July 2010 of the Company
“Companies Ordinance”	the Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
“Company”	Xing Lin Medical Information Technology Company Limited (“杏林醫療信息科技有限公司”*), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Conversion Period”	the period commencing from the date of issue of Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the maturity date
“Conversion Price”	initially HK\$0.10 per Conversion Share (subject to adjustments)

* For identification purposes only

DEFINITIONS

“Conversion Share(s)”	new Share(s) to be allotted and issued to the holder(s) of the Convertible Bonds upon exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	convertible bonds in the principal amount of HK\$150 million to be issued by the Company to the PN Holder pursuant to the Subscription Agreement
“Director(s)”	directors of the Company
“Existing Convertible Bonds”	the convertible bonds issued by the Company to the PN Holder in the principal amount of HK\$500 million conferring rights to convert into Shares at the conversion price of HK\$0.889 per Share (subject to adjustment)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a board comprising all the independent non-executive Directors to advise the Independent Shareholders in relation to the Placing and the Subscription
“Independent Shareholders”	Shareholders other than the PN Holder, Ms. Tan, Mr. Sin and their respective associates
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third party(ies) independent of and not connected with any director, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associate

DEFINITIONS

“Latest Practicable Date”	25 November 2010, being the latest practicable date prior to the printing of this circular for inclusion of certain information in this circular
“Menlo Capital”	Menlo Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity for the purposes of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to advise the Independent Board Committee and the Independent Shareholders in respect of the Placing Agreement and the Subscription Agreement
“Mr. Sin”	Mr. Sin Chun Shing, being one of the beneficial owners of the PN Holder
“Ms. Tan”	Ms. Tan Ting Ting, being one of beneficial owners of the PN Holder
“Placee(s)”	any professional, institutional or other investor(s) procured by the Placing Agent to subscribe for any of the Placing Shares pursuant to the Placing Agreement
“Placing”	the private placing of up to 1,600,000,000 Placing Shares by the Placing Agent to the Placees, on a best effort basis, pursuant to the Placing Agreement
“Placing Agent”	Kingston Securities Limited, a licensed corporation to carry on type 1 (dealing in securities) regulated activity for the purposes of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the conditional placing agreement dated 8 October 2010 entered into between the Company and the Placing Agent in respect of the Placing
“Placing Price”	HK\$0.10 per Placing Share
“Placing Shares”	Up to 1,600,000,000 new Shares to be allotted and issued pursuant to the Placing Agreement
“PN Holder”	Growth Harvest Limited, which is beneficially owned as to 72% by Ms. Tan and as to 28% by Mr. Sin, being the substantial shareholder of the Company and the existing holder of the Promissory Note

DEFINITIONS

“Promissory Note”	the promissory note of the Company held by the PN Holder with the outstanding principal sum of HK\$306.5 million as at the Latest Practicable Date due on 6 October 2010
“Registrar”	Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, the branch share registrar of the Company in Hong Kong
“RFID”	Radio Frequency Identification, a data carrier technology that transmits information via signals in the radio frequency portion of the electromagnetic spectrum
“SGM”	the special general meeting of the Company to be convened and held at 11:00 a.m. on 16 December 2010 at Board Room, 1st Floor, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong to consider, if thought fit, and approve the Placing Agreement, the Subscription Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Convertible Bonds by the PN Holder pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 8 October 2010 in relation to the allotment and issue of the Convertible Bonds to the PN Holder
“Subscription Price”	the aggregate price of HK\$150 million for the Subscription
“substantial shareholder(s)”	has the same meaning as ascribed to it under the GEM Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



XING LIN MEDICAL INFORMATION TECHNOLOGY COMPANY LIMITED 杏林醫療信息科技有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8130)

Executive Director:

Lien Wai Hung (*Chairman*)

Independent non-executive Directors:

Leung Wai Man

Kwok Chuen Hung, Dominic

Ho Chun Ki, Frederick

Registered office:

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Bermuda

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Room 2111, 21/F.

Shun Tak Centre

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Hong Kong

30 November 2010

To the Shareholders

Dear Sir or Madam,

**(I) CONNECTED TRANSACTION –
PROPOSED PLACING OF NEW SHARES SUBJECT TO
SHAREHOLDERS' APPROVAL;
(II) CONNECTED TRANSACTION –
PROPOSED ISSUE OF CONVERTIBLE BONDS;
AND
(III) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

On 8 October 2010 (after the trading hours of the Stock Exchange), the Company entered into (i) the Placing Agreement with the Placing Agent, pursuant to which, the Company conditionally agreed to place, through the Placing Agent, up to 1,600,000,000 Placing Shares

* *For identification purposes only*

LETTER FROM THE BOARD

in one or more tranches, on a best efforts basis, to not fewer than six Places at a Placing Price of HK\$0.10 per Placing Share; and (ii) the Subscription Agreement with the PN Holder pursuant to which the PN Holder has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$150 million with the right to convert into 1,500,000,000 Conversion Shares at the initial Conversion Price of HK\$0.10 (subject to adjustment) per Conversion Share. The aggregate Subscription Price shall be satisfied by setting off against part of the outstanding principal amount of the Promissory Note in the sum of HK\$150 million. Principal terms of the Promissory Note is disclosed in this letter below.

The purpose of this circular is to provide the Shareholders with, among other matters, (i) details of the Placing Agreement and the Subscription Agreement; (ii) the recommendations of Menlo Capital to the Independent Board Committee and the Independent Shareholders; (iii) the recommendations of the Independent Board Committee to the Independent Shareholders; and (iv) the notice of SGM.

A letter from Menlo Capital containing its advice to the Independent Board Committee and the Independent Shareholders on the terms of the Placing Agreement and the Subscription Agreement and the transaction contemplated thereunder is set out on pages 26 to 55 of this circular.

PROPOSED PLACING OF NEW SHARES SUBJECT TO SHAREHOLDERS' APPROVAL

Date of the Placing Agreement

8 October 2010 (after the trading hours of the Stock Exchange)

Issuer

The Company

Placing Agent

The Placing Agent has conditionally agreed to place up to 1,600,000,000 Placing Shares by tranches provided that the number of the Placing Shares for each tranche is in integral multiples of 1,000,000, on best effort basis and will receive a placing commission of 1.0% on the gross proceeds of the actual number of the Placing Shares being placed. The Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) is of the view that the placing commission is on normal commercial terms and is fair and reasonable.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons. As at the Latest Practicable Date, the Placing Agent and its associates are not interested in any Shares or securities convertible into Shares.

LETTER FROM THE BOARD

Placees

The Placing Agent has agreed to place the Placing Shares on best effort basis to not fewer than six Placees who and whose ultimate beneficial owners will be third parties independent of and not connected with the Company and its connected persons. It is expected that none of the Placees will become a substantial shareholder of the Company immediately after completion of the Placing.

Placing Shares

The 1,600,000,000 Placing Shares represent (i) approximately 117.05% of the issued share capital of the Company of 1,366,917,767 Shares as at the Latest Practicable Date; and (ii) approximately 53.93% of the issued share capital of the Company of 2,966,917,767 Shares as enlarged by the allotment and issue of the Placing Shares.

The Placing Shares will be allotted and issued under a specific mandate to be obtained at the SGM. Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in the Placing Shares. The Placing Shares will rank, upon issue, *pari passu* in all respect with the Shares in issue on the date of allotment and issue of the Placing Shares.

Placing Price

The Placing Price of HK\$0.10 represents:

- (i) a discount of approximately 51.22% to the closing price of HK\$0.2050 as quoted on the Stock Exchange on the date of the Placing Agreement;
- (ii) a discount of approximately 52.87% to the average closing price of approximately HK\$0.2122 per Share for the last five consecutive trading days prior to the date of the Placing Agreement;
- (iii) a discount of approximately 53.94% to the average closing price of approximately HK\$0.2171 per Share for the last ten consecutive trading days prior to the date of the Placing Agreement; and
- (iv) a discount of approximately 46.52% to the closing price of HK\$0.187 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The basis for the Placing Price is determined based on the following grounds:

- (i) the prevailing market price of the Share;
- (ii) the size of the Placing, i.e. the maximum amount of funds targeted to be raised under the Placing;

LETTER FROM THE BOARD

- (iii) the attractiveness of the Shares to the potential investors;
- (iv) the thin trading volume of the Shares;
- (v) the shareholders' base and the capital base of the Company being enlarged;
- (vi) the Placing is on best effort basis; and
- (vii) the Placing, if subscribed in full, would enable the Group to lighten the liabilities of the Company of HK\$160 million and to eliminate the interest burden of the Group under the Promissory Note.

Although the Placing Price represents a discount of approximately 51.22% to the closing price of HK\$0.2050 as quoted on the Stock Exchange on the date of the Placing Agreement, the Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) considers the Placing Price which determined after arm's length negotiation between the Company and the Placing Agent is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

The Directors have considered other equity financing alternatives, such as debt financing, rights issue and open offer. However, the Directors noted that it would be difficult to secure an underwriter to commit a possible rights issue or open offer given the extremely low acceptance rate of the open offer of the Company conducted in June 2010 by the Shareholders, while the Placing is considered a feasible fund raising means given the Placing is on a best effort basis and would not incur interest burden to the Company as compared to debt financing. The Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) considers that the terms of the Placing are on normal commercial terms and are fair and reasonable based on the current market conditions and are in the interests of the Company and the Shareholders as a whole.

The maximum gross proceeds and the maximum net proceeds from the Placing will be approximately HK\$160 million and HK\$158 million respectively. The maximum net proceeds raised per Placing Share is approximately HK\$0.09875 upon completion of the Placing. The aggregate nominal value of the Placing Shares is HK\$16,000,000.

Conditions precedent of the Placing

Completion of the Placing is conditional upon:

- (a) the GEM Listing Committee granting the listing of, and permission to deal in, the Placing Shares under the relevant tranche of the Placing;
- (b) the passing of resolution(s) by the Shareholders or independent Shareholders (as the case may be) to approve the Placing Agreement and the transactions contemplated thereunder, including the allotment and issue of the Placing Shares at the SGM;

LETTER FROM THE BOARD

- (c) the obligations of the Placing Agent under the Placing Agreement becoming unconditional and not being terminated in accordance with the terms thereof, including provisions regarding force majeure event; and
- (d) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Placing Shares under the relevant tranche of the Placing.

Completion of the Placing

Completion of each tranche of the Placing will take place within four business days after the fulfillment of the above conditions precedent or such later date to be agreed between the Company and the Placing Agent. If any of the above conditions precedent are not fulfilled prior to 10:00 a.m. on the date falling on three months after the date of the SGM or such later time or date as may be agreed between the Placing Agent and the Company, the Placing Agreement shall terminate and subject to terms of the Placing Agreement, neither party shall have any claim against the others (save for any antecedent breaches of the Placing Agreement).

The Company and the Placing Agent have agreed that the Placing will be completed partially by tranches provided that the number of the Placing Shares for each tranche of the Placing is in integral multiples of 1,000,000 and that the listing approval as referred to condition (a) above in respect of the relevant tranche of the Placing Shares has been obtained and that the completion of the Placing shall apply to each such partial completion.

Termination and force majeure

- (i) Unless otherwise agreed between the Company and the Placing Agent, the Placing Agent's appointment shall terminate upon the earlier of (a) the completion of the Placing and (b) termination of the Placing by the Placing Agent in accordance with the terms and conditions of the Placing Agreement, whereby you will be formally notified by the Placing Agent in writing in accordance with the terms of the Placing Agreement.
- (ii) The Placing Agent reserves its right to terminate the arrangements set out in the Placing Agreement by notice in writing prior to 10:00 a.m. on date of completion of each tranche of the Placing, if in the absolute opinion of the Placing Agent, the success of the Placing would be materially and adversely affected by any force majeure events (as defined below).

For this purpose, a "force majeure event" refers to

- (a) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or

LETTER FROM THE BOARD

after the date thereof) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances (inclusive of any pandemics or epidemics) which may, in the absolute opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group or adversely prejudices the success of the placing of the Placing Shares to potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Placing; or

- (c) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction or trading in securities) occurs which affect the success of the Placing (such success being the placing of the Placing Shares to potential investor(s)) or otherwise in the absolute opinion of the Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the Placing.

(iii) If, at or prior to 10:00 a.m. on the date of completion of each tranche of the Placing;

- (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed or assumed under the Placing Agreement; or
- (b) any suspension in the trading of the Shares on the GEM for more than ten consecutive trading days save for the purposes of clearing of the announcement relating to the Placing Agreement or circulars relating to the Placing; or
- (c) the Placing Agent shall become aware of the fact that any of the representations or warranties contained in the Placing Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated the Placing Agent shall determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the financial or trading position or prospects of the Group taken as a whole or will otherwise likely to have a material prejudicial effect on the Placing.

The Placing Agent shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Placing Agent from its obligations under the Placing Agreement.

- (iv) Upon giving of notice pursuant to the paragraph above, all obligations of the Placing Agent thereunder shall cease and determine and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Placing Agreement, save for any antecedent breaches.

Reasons for the Placing and use of proceeds

The maximum net proceeds from the Placing will be approximately HK\$158 million, which are intended to be used for repayment of the Promissory Note. The outstanding principal

LETTER FROM THE BOARD

amount of the Promissory Note is HK\$306.5 million as at the Latest Practicable Date. The Promissory Note is repayable on 6 October 2010. Pursuant to the terms of the Promissory Note, the Company shall pay interest on such overdue sum from the maturity date until payment in full (before and after judgment) at the rate of 10% per annum if the Company defaults in repayment on the maturity date of any part of the principal amount.

Taking into account the Placing represents an opportunity to lighten the interest burden and to eliminate the outstanding borrowing of the Company so as to strengthen the financial position of the Company, the Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) considers that the Placing, including the terms of the Placing Agreement, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

PROPOSED ISSUE OF CONVERTIBLE BONDS

On 8 October 2010 (after the trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the PN Holder pursuant to which the PN Holder has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$150 million with the right to convert into 1,500,000,000 Conversion Shares at the initial Conversion Price of HK\$0.10 (subject to adjustment) per Conversion Share. The aggregate Subscription Price shall be satisfied by setting off against part of the outstanding principal amount of the Promissory Note in the sum of HK\$150 million. To the best of the Directors' knowledge, PN Holder is an investment holding company whose principal activity is investment in the Shares.

The Convertible Bonds

The terms of the Convertible Bonds have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer	:	The Company
Principal amount	:	HK\$150 million
Maturity	:	A fixed term of 5 years from the date of issue the Convertible Bonds. Unless previously redeemed, converted or cancelled, the Company shall redeem the outstanding principal amount of the Convertible Bonds on the maturity date.
Interest	:	The Convertible Bonds shall carry no interest.

LETTER FROM THE BOARD

Conversion Price : The initial Conversion Price is HK\$0.10 per Conversion Share (subject to adjustment). The Conversion Price is subject to adjustment for, amongst other matters, subdivision or consolidation which alters the nominal value of the Shares, issue of Shares by way of capitalisation of profit or reserves, capital distribution, issue Shares for cash or issue consideration Shares at a price which is less than 80% of the market price, bonus issues, rights issues and other dilutive events and repurchase of any Shares by the Company.

The initial Conversion Price represents (i) a discount of approximately 51.22% to the closing price of HK\$0.2050 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; (ii) a discount of approximately 52.87% to the average closing price of approximately HK\$0.2122 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of the Subscription Agreement; (iii) a discount of approximately 53.94% to the average closing price of approximately HK\$0.2171 per Share as quoted on the Stock Exchange for the last ten consecutive trading days prior to the date of the Subscription Agreement; and (iv) a discount of approximately 46.52% to the closing price of HK\$0.187 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The initial Conversion Price was determined between the Company and the PN Holder after arm's length negotiation taking into account (i) the prevailing market price of the Shares; (ii) the issue of the Convertible Bonds would extend the time for the repayment in the sum of HK\$150 million and eliminate the interest burden of the Group under the Promissory Note; and (iii) if the Convertible Bonds are converted in whole or in part into Conversion Shares, the repayment liabilities of the Company will be reduced. The Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) considers the Conversion Price is fair and reasonable.

LETTER FROM THE BOARD

Redemption : The Company has the rights to redeem the whole or any part of the outstanding principal amount of the Convertible Bonds at any time prior to the maturity date of the Convertible Bonds.

Any amount of the Convertible Bonds which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

Conversion rights : The bondholder(s) may at any time during the Conversion Period convert the whole or part (in multiples of HK\$1,000,000) of the principal amount of the Convertible Bonds into the Conversion Shares at the Conversion Price.

Provided that any conversion of the Convertible Bonds (a) does not result in the bondholder(s) and parties acting in concert with it shall be interested (whether directly or indirectly) in 29.90% or more of the then issued share capital of the Company; (b) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (c) will not cause the public float of the Company unable to meet the requirement under the GEM Listing Rules, the bondholder(s) shall have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bonds into the Conversion Shares.

Ranking : The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue on the date of the allotment and issue of the Conversion Shares.

Status of the Convertible Bonds : The Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and rank pari passu without any preference (with the exception as may be provided by applicable legislation) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Voting rights : The Convertible Bonds do not confer any voting rights at any meetings of the Company.

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Application for listing : No application will be made by the Company for listing of the Convertible Bonds.

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

Transferability : The holder(s) of the Convertible Bonds may, subject to the consent of the Company, assign or transfer the Convertible Bonds to any person who is an Independent Third Party.

The Convertible Bonds shall not be transferred or assigned to the connected person of the Company unless the prior consent of the Stock Exchange has been obtained (if required).

The basis for the Conversion Price is determined based on the following grounds:

- (i) the prevailing market price of the Share;
- (ii) the size of the Subscription;
- (iii) the attractiveness of the Shares to the PN Holder to enter into the Subscription Agreement;
- (iv) the Convertible Bonds carry no interest;
- (v) the Subscription Agreement, if completed, would enable the Group to extend the payment of HK\$150 million or to reduced the repayment liabilities of the Company if the Convertible Bonds are converted in whole or in part into Conversion Shares and to eliminate the interest burden of the Group under the Promissory Note; and
- (vi) the Director (excluding the independent non-executive Directors) believes that the PN Holder would seek for a reduction in principal amount of the Convertible Bonds or decline the Subscription Agreement if the higher conversion price of the Convertible Bonds is adopted.

Although the Conversion Price represents a discount of approximately 51.22% to the closing price of HK\$0.2050 as quoted on the Stock Exchange on the date of the Subscription Agreement, the Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) considers the Conversion Price which determined after arm's length negotiation between the Company and the PN Holder is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

Assuming full conversion of the Convertible Bonds at the initial Conversion Price of HK\$0.10 per Conversion Share, a total of 1,500,000,000 Conversion Shares will be allotted and issued. The 1,500,000,000 Conversion Shares represents (a) approximately 109.74% of the

LETTER FROM THE BOARD

Company's issued share capital of 1,366,917,767 Shares as at the date of the Subscription Agreement; and (b) approximately 52.32% of the Company's issued share capital of 2,866,917,767 Shares as enlarged by the allotment and issue of the Conversion Shares assuming the conversion rights attaching to the Convertible Bonds are exercised in full. The Conversion Shares shall be issued pursuant to a specific mandate to be sought at the SGM.

Conditions precedent of the Subscription

The Subscription Agreement is conditional upon and subject to the following conditions:

- (a) the passing by the Shareholders or the independent Shareholders (as the case may be) of resolution(s) at the SGM approving the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Conversion Shares);
- (b) the GEM Listing Committee granting the listing of, and permission to deal in, the Conversion Shares; and
- (c) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Conversion Shares.

All the conditions of the Subscription Agreement are not capable of being waived by the parties to the Subscription Agreement. If the above conditions are not fulfilled on or before 31 December 2010 (or such other date as the Company and the PN Holder may agree), the Subscription Agreement shall lapse, whereupon all rights and obligations of the parties to the Subscription Agreement shall cease to have effect and neither party shall have any claim against the other party.

Completion of the Subscription Agreement will take place on the third Business Day following the day on which all the conditions of the Subscription Agreement are satisfied in full, or such other date as the Company and the PN Holder may agree.

Reasons for the issue of the Convertible Bonds

Given the Promissory Note is repayable on 6 October 2010 and according to the terms of the Promissory Note, the Company is required to pay interest on such overdue sum from the maturity date until payment in full (before and after judgment) at the rate of 10% per annum if the Company defaults in repayment on the maturity date of any part of the principal sum, the Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) consider that the issue of the Convertible Bonds would (i) extend the time for the repayment in the sum of HK\$150 million and eliminate the interest burden of the Group under the Promissory Note; and (ii) reduce the repayment liabilities and broaden the capital base of the Company if the Convertible Bonds are converted in whole or in part into Conversion Shares. The Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) considers the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Principal terms of the Promissory Note is disclosed below.

As a result of the Subscription, the outstanding principal amount of the Promissory Note would be decreased to approximately HK\$156.5 million.

LETTER FROM THE BOARD

The terms of the Promissory Note

The Promissory Note was used to settle part of the acquisition cost for a subsidiary of the Company to PN Holder. The principal terms of the Promissory Note are summarised below:

Parties	:	The Company as issuer and the PN Holder as payee
Principal amount	:	up to HK\$750 million
Interest	:	The Promissory Note will not carry any interest.
Maturity	:	A fixed term of twelve months from the date of issue of the Promissory Note.

If the Company defaults in repayment on the maturity date of any part of the principal sum, the Company shall pay interest on such overdue sum from the maturity date until payment in full (before and after judgment) at the rate of 10% per annum.

Early repayment	:	Provided that the Company has given to payee not less than ten Business Day's prior notice in writing of its intention to repay any part of the outstanding principal amount of the Promissory Note, the Company may at any time from the date of the issue of the Promissory Note up to the date immediately prior to the maturity date, repay the entire Promissory Note up or part of it (in amounts of not less than HK\$1 million) by payment to payee of the outstanding principal amount of the Promissory Note save that if at that time, the outstanding principal amount of the Promissory Note is less than HK\$1 million, the whole (but not part only) of the Promissory Note may be repaid.
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Assignment	:	The Promissory Note may, subject to the ten Business Days' prior written notice to the Company and subject to the written consent of the Company, be transferred or assigned by the Vendor to any person.
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The Company will issue an announcement and inform the Stock Exchange if the Promissory Note is transferred or assigned to the connected persons of the Company.

Extension	:	The Company has the right to extend the maturity date of the Promissory Note by giving not less than 30 days prior written notice to the payee.
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It was intended that the Promissory Note may be extended for not more than five years upon expiry of a fixed term of twelve months from the date of issue.

Details of the acquisition including the issue of the Promissory Note was disclosed in the Company's announcement dated 9 July 2009 and the Company's circular dated 25 August 2010.

LETTER FROM THE BOARD

REASONS FOR THE PROPOSED PLACING AND ISSUE OF THE CONVERTIBLE BONDS AND POTENTIAL DILUTION EFFECT TO THE SHAREHOLDING OF THE COMPANY

As mentioned in the sections headed “Reasons for the Placing and use of proceeds” and “Reasons for the issue of the Convertible Bonds” above, the purposes for the Placing and the issue of the Convertible Bonds are for the repayment of the Promissory Note. According to the management account of the Company, the outstanding balance of the Promissory Note is approximately HK\$306.5 million as at the Latest Practicable Date. Pursuant to the terms of the Promissory Note, the Company is obligated to pay interest on the overdue sum of the Promissory Note at the rate of 10% per annum commencing from 7 October 2010 and such interest will be continued to be accrued until the Promissory Note is settled in full.

Assuming the Subscription is completed, the Company could extend the payment of the Promissory Note of HK\$150 million or lighten the liabilities of HK\$150 million of the Company under the Promissory Note if the Convertible Bonds are converted in full into Conversion Share. Assuming the Placing Shares under the Placing are subscribed in full, the Company could release from the payment obligation of HK\$160 million under the Promissory Note.

As disclosed in the interim report of the Company for the six months ended 30 September 2010, the bank balance and cash of the Company was approximately HK\$142.54 million as at 30 September 2010. The amount of HK\$141.4 million has been reserved for the MIDS rollout of the Company for business development and general working capital of the Group. Besides, the Company recorded an unaudited net cash outflow of approximately HK\$186.47 million for the six months ended 30 September 2010. In view of the cash position of the Company, the Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) considers that additional fund is required for the repayment of the Promissory Note. If the Company chooses to extend the maturity date of the Promissory Note to not more than five years upon expiry of a fixed terms of twelve months from the date of issue, i.e. 6 October 2015, the Company would require to repay the principal sum of approximately HK\$306.5 million and total interest of approximately HK\$187.12 million for the period from 7 October 2010 to 6 October 2015.

The Director decided to settle the outstanding balance of the Promissory Note through the Placing and the Subscription at the existing stage based on the following grounds:

- (i) to avoid the payment of the interest expenses of not less than approximately HK\$2.55 million per month;
- (ii) no cash outlay of the Group for the settlement of the Promissory Note of HK\$306.5 million;
- (iii) the net cash outflow of the Group for the six months ended 30 September 2010;

LETTER FROM THE BOARD

- (iv) cash settlement of the Promissory Note in the later year may impair the business development of the Group in future; and
- (v) to strengthen the capital base and liquidity status of the Group in order to cope with volatility occurs in later year due to financial market instability.

Based on the above reasons, the Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) takes an initial step to settle the Promissory Note through the Placing and the Subscription.

As at the Latest Practicable Date, the Company has 1,366,917,767 Shares in issue. Assuming the Placing Shares are subscribed in full and the Conversion Shares are converted to the extent of the PN Holder being interested in approximately 29.9% of the issued share capital of the Company, the shareholding interest of the existing public Shareholders will be diluted from approximately 81.59% to approximately 28.79%. Taking into account that the net proceeds from the Placing and the issue of Convertible Bonds will be primarily used for the repayment of the Promissory Note, the Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) is of the view that the overall financial position of the Company would be improved for future business development. Having considered the Placing and the Subscription would reduced the interest burden and the liabilities of the Company so as to strengthen the financial position of the Company for business development, the Director (excluding the independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) considers the Placing and the Subscription are in the interest of the Company and the Independent Shareholders as a whole despite the fact that the exist shareholding interest of the existing public Shareholders to be diluted from approximately 81.59% to approximately 28.79%. Effects on shareholding structure of the Company has been disclosed in the section headed "Shareholding structure of the Company" below.

As at the Latest Practicable Date, the Company is in default in repayment on the outstanding balance of the Promissory Note. The Company will exercise its right to extend the maturity date of the Promissory Note to 6 October 2015 and will continue to pay interest to the PN Holder on the overdue sum of the Promissory Note at the rate of 10% per annum until the Promissory Note is settled in full.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS IMMEDIATELY PRECEDING THE LATEST PRACTICABLE DATE

Date of announcement	Descriptions	Net proceeds	Proposed use of proceeds	Actual use of proceeds
24 September 2010	The placing of up to 227,800,000 new Shares, on a best effort basis, at HK\$0.181 per Share	Approximately HK\$40.6 million	For the repayment of the Promissory Note	HK\$40.6 million has been used for repayment of the Promissory Note. The proceeds have been used as intended.
20 August 2010	The placing of up to 189,850,000 new Shares, on a best effort basis, at HK\$0.205 per Share	Approximately HK\$38.4 million	For the repayment of the Promissory Note	HK\$38.4 million has been used for the repayment of the Promissory Note. The proceeds have been used as intended.
30 April 2010	Open offer of 1,831,167,113 offer shares (before the adjustment from the Capital Reorganisation) on the basis of one offer share or every four existing Shares	Approximately HK\$180.8 million	For the repayment of the Promissory Note	HK\$180.8 million has been used for the repayment of the Promissory Note. The proceeds have been used as intended.
20 October 2009	The placing of up to 5,000,000,000 new Shares (before the adjustment from the Capital Reorganisation) in one or more tranches, on a best efforts basis, at HK\$0.10 per Share	Approximately HK\$484 million	The Company will reserve at least 70% of the proceeds for first year MIDS rollouts. The Company does not intend to apportion any specific portion of the proceeds for general working capital uses. However, the remaining balance after spends on MIDS rollout and business expansion, if any, will be kept for general working capital purposes.	Within the 70% of proceeds reserved for first year MIDS rollout, approximately HK\$168 million has been utilized for the implementation of MIDS at hospitals contracted and to be contracted, approximately HK\$30 million has been utilized as working capital for the rollout of MIDS and approximately HK\$141 million has been deposited in bank accounts of the Group, which is reserved for subsequent implementations of MIDS at hospitals contracted and to be contracted. Currently, the Company is engaging 2 hospitals in various stages of MIDS rollout and the total estimated cost for contracted hospitals is approximately HK\$130 million. The remaining of approximately HK\$145 million proceeds has been utilized for the investment in the healthcare I.T. sector of the PRC as business expansion. The proceeds has been used as intended.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the date of the Latest Practicable Date; (ii) upon completion of the Placing only (assuming the 1,600,000,000 Placing Shares are placed in full); (iii) upon completion of the Placing (assuming the 1,600,000,000 Placing Shares are placed in full) and completion of the Subscription (assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price); (iv) upon completion of the Placing (assuming the 1,600,000,000 Placing Shares are placed in full), completion of the Subscription (assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price), and the conversion of the Existing Convertible Bonds into Shares in full; and (v) upon completion of the Placing (assuming the 1,600,000,000 Placing Shares are placed in full) and completion of the Subscription (assuming conversion of the Convertible Bonds into Conversion Shares to the extent of the PN Holder being interested in approximately 29.9% of the issued share capital of the Company):

	As at the Latest Practicable Date		Upon completion of the Placing only (assuming the 1,600,000,000 Placing Shares are placed in full)		Upon completion of the Placing (assuming the 1,600,000,000 Placing Shares are placed in full) and completion of the Subscription (assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price) <i>(Note 2)</i>		Upon completion of the Placing (assuming the 1,600,000,000 Placing Shares are placed in full), completion of the Subscription (assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price), and the conversion of the Existing Convertible Bonds into Shares in full <i>(Note 2)</i>		Upon completion of the Placing (assuming the 1,600,000,000 Placing Shares are placed in full) and completion of the Subscription (assuming conversion of the Convertible Bonds into Conversion Shares to the extent of the PN Holder being interested in approximately 29.9% of the issued share capital of the Company)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
The PN Holder	251,684,210	18.41	251,684,210	8.48	1,751,684,210	39.21	2,314,113,906	46.01	1,158,138,136	29.90
Public Shareholders										
Places <i>(Note 1)</i>	-	-	1,600,000,000	53.93	1,600,000,000	35.82	1,600,000,000	31.81	1,600,000,000	41.31
Existing Public Shareholders	1,115,233,557	81.59	1,115,233,557	37.59	1,115,233,557	24.97	1,115,233,557	22.18	1,115,233,557	28.79
Total	1,366,917,767	100.00	2,966,917,767	100.00	4,466,917,767	100.00	5,029,347,463	100.00	3,873,371,693	100.00

LETTER FROM THE BOARD

Set out below is the shareholding structure of the Company (i) as at the date of the Latest Practicable Date; (ii) upon completion of the Subscription only (assuming the Placing is not completed and assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price); (iii) upon completion of the Subscription only (assuming the Placing is not completed and assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price) and the conversion of the Existing Convertible Bonds into Shares in full; and (iv) upon completion of the Subscription only (assuming the Placing is not completed and assuming conversion of the Convertible Bonds into Conversion Shares to the extent of the PN Holder being interested in approximately 29.90% of the issued share capital of the Company):

	As at the Latest Practicable Date		Upon completion of the Subscription only (assuming the Placing is not completed and assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price) <i>(Note 2)</i>		Upon completion of the Subscription only (assuming the Placing is not completed and assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price) and the conversion of the Existing Convertible Bonds into Shares in full <i>(Note 2)</i>		Upon completion of the Subscription only (assuming the Placing is not completed and assuming conversion of the Convertible Bonds into Conversion Shares to the extent of the PN Holder being interested in approximately 29.90% of the issued share capital of the Company)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
The PN Holder	251,684,210	18.41	1,751,684,210	61.10	2,314,113,906	67.48	475,684,498	29.90
Public Shareholders								
Existing Public Shareholders	1,115,233,557	81.59	1,115,233,557	38.90	1,115,233,557	32.52	1,115,233,557	70.10
Total	1,366,917,767	100.00	2,866,917,767	100.00	3,429,347,463	100.00	1,590,918,055	100.00

Notes:

- Some Placees may be existing shareholders of the Company (holding less than 5% of the existing issued share capital of the Company as at the Latest Practicable Date). The existing holdings of such Placees, if any, are included under “Existing Public Shareholders”. Pursuant to the Placing Agreement, none of the Placees will become a substantial shareholder of the Company immediately after completion of the Placing.
- For illustrative purpose only. Pursuant to the terms and conditions of the Convertible Bonds, provided that any conversion of the Convertible Bonds (a) does not result in the bondholder(s) and parties acting in concert with it shall be interested (whether directly or indirectly) in 29.90% or more of the then issued share capital of the Company; (b) does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (c) will not cause the public float of the Company unable to meet the requirement under the GEM Listing Rules, the bondholder(s) shall have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bonds into the Conversion Shares.

LETTER FROM THE BOARD

GEM LISTING RULES IMPLICATION

As the PN Holder is the substantial shareholder of the Company, and thus a connected person of the Company, the Subscription constitutes a non-exempt connected transaction on the part of the Company under the GEM Listing Rules and is subject to reporting, announcement and Independent Shareholders' approval requirements. The PN Holder is beneficially owned as to 72% by Ms. Tan and as to 28% by Mr. Sin.

As to the Placing Agreement is deemed to be a connected transaction under Rule 20.11(4)(a) of the GEM Listing Rules, the Placing is subject to Independent Shareholders' approval requirements.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, (i) as at the Latest Practicable Date, the PN Holder, Ms. Tan, Mr. Sin and its associates are interested in 251,684,210 Shares, representing approximately 18.41% of the issued share capital of the Company, and are interested in the Existing Convertible Bonds; and (ii) the Placing Agent and its associates are not interested in any Shares or securities convertible into any Shares as at the Latest Practicable Date. The PN Holder, Ms. Tan, Mr. Sin and their respective associates will abstain from voting at the SGM in respect of the Placing Agreement, the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Placing Shares and the Conversion Shares). Save for the PN Holder, Ms. Tan, Mr. Sin and their respective associates, no Director or other Shareholder has material interest in the Placing and the Subscription. Therefore, save for the PN Holder, Ms. Tan, Mr. Sin and their respective associates, no other Shareholder is required to abstain from voting on the resolution to approve the Placing Agreement, the Subscription Agreement and the transactions contemplated thereunder at the SGM.

The Independent Board Committee has been formed and its letter has been included on page 24 and page 25 to this circular to advise the Independent Shareholders in relation to the Placing and the Subscription. A letter from independent financial adviser has also been included on pages 26 to 55 to this circular to advise the Independent Board Committee and Independent Shareholders in respect of the Placing and the Subscription.

Shareholders and potential investors should note that completion of the Placing and the Subscription are subject to the fulfillment of the conditions precedent as set out in the Placing Agreement and the Subscription Agreement respectively. As the Placing and the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise extreme caution when dealing in the Shares, and if they are in doubt about their position, they should consult their professional advisers.

SGM

A notice convening the SGM to be held at 11:00 a.m. on 16 December 2010 at Board Room, 1st Floor, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the Placing and the Subscription is set out on pages 64 to 66 of this circular.

LETTER FROM THE BOARD

A form of proxy for use by the Shareholders at the SGM is enclosed. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Director (excluding independent non-executive Directors) considers that the terms of the Placing Agreement and the Subscription Agreement are fair and reasonable and the Placing and the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, the Director (excluding independent non-executive Directors whose opinion is set out in the letter from Independent Board Committee to this circular) recommends the Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM.

The recommendation of the Independent Board Committee to Independent Shareholders is set out in the letter from Independent Board Committee to the circular.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 24 and page 25 of the circular which contains its recommendation to the Independent Shareholders in relation to the Placing and the Subscription; (ii) the letter of advice from Menlo Capital set out on pages 26 to 55 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Placing and the Subscription and the principal factors and reasons considered by it in concluding its advice; and (iii) the information set out in the appendix to this circular as required under the GEM Listing Rules.

By Order of the Board
Xing Lin Medical Information Technology Company Limited
Lien Wai Hung
Chairman

LETTER FROM INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee to the Independent Shareholders which has been prepared for the purpose of inclusion in this circular.



XING LIN MEDICAL INFORMATION TECHNOLOGY COMPANY LIMITED

杏林醫療信息科技有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8130)

30 November 2010

To the Independent Shareholders

Dear Sir or Madam,

**(I) CONNECTED TRANSACTION –
PROPOSED PLACING OF NEW SHARES SUBJECT TO
SHAREHOLDERS’ APPROVAL;
AND
(II) CONNECTED TRANSACTION –
PROPOSED ISSUE OF CONVERTIBLE BONDS**

We have been appointed as members of the Independent Board Committee to advise you on the Placing and the Subscription, details of which are set out in the “Letter from the Board” in the circular dated 30 November 2010 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Menlo Capital has been appointed as the independent financial adviser to advise you and us in this regard. Having considered the advice given by Menlo Capital and the principal factors and reasons taken into consideration by them in arriving at its advice, we are of the opinion that (i) the terms of the Placing Agreement are on normal commercial terms but not fair and reasonable so far as the Independent Shareholders are concerned, and the Placing is in the interest of the Company but not in the interest of the Independent Shareholders; and (ii) the terms of the Subscription Agreement is on normal commercial terms but not fair and reasonable so far as the Independent Shareholders are concerned and the Subscription is in the interest of the Company but not in the interest of the Independent Shareholders. Accordingly, we concur with Menlo Capital that the Independent Shareholders should vote against of the ordinary resolutions to be proposed at the SGM to approve the Placing and the Subscription.

* *For identification purposes only*

LETTER FROM INDEPENDENT BOARD COMMITTEE

Nevertheless, for those Independent Shareholders who would opt for the interest of the Company from the reduction of interest burden and the improvement of the financial situation for future business development, they could choose to vote in favour of the resolution to approve the Placing and/or the Subscription.

Yours faithfully

For and on behalf of the

Independent Board Committee

Mr. Leung Wai Man Mr. Kwok Chuen Hung, Dominic Mr. Ho Chun Ki, Frederick
Independent non-executive Directors

LETTER FROM MENLO CAPITAL LIMITED

The following is the letter of advice from Menlo Capital to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed Placing of new Shares and the proposed issue of Convertible Bonds which has been prepared for the purpose of inclusion in this circular:



Menlo Capital Limited

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

30 November 2010

*To the Independent Board Committee and the Independent Shareholders
of the Company*

Dear Sirs,

CONNECTED TRANSACTIONS
(I) PROPOSED PLACING OF NEW SHARES SUBJECT TO
SHAREHOLDERS' APPROVAL;
AND
(II) PROPOSED ISSUE OF CONVERTIBLE BONDS

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether (i) the proposed Placing of new Shares and the proposed Issue of Convertible Bonds by the PN Holders are in the interests of the Company and the Independent Shareholders; and (ii) the terms of the Placing Agreement and the Subscription Agreement are fair and reasonable as far as the Company and the Independent Shareholders are concerned, details of which are set out in the letter from the Board (the "Board Letter") contained in this circular of the Company dated 30 November 2010 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

On 8 October 2010, the Company separately entered into (i) the Placing Agreement with the Placing Agent, pursuant to which, the Company conditionally agreed to place, through the Placing Agent, up to 1,600,000,000 Placing Shares in one or more tranches, on a best efforts basis, to not fewer than six Placees at a Placing Price of HK\$0.10 per Placing Share; and (ii) the Subscription Agreement with the PN Holder pursuant to which the PN Holder has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$150 million with the right to convert into 1,500,000,000 Conversion Shares at the initial Conversion Price of HK\$0.10 (subject to adjustment) per Conversion Share. The aggregate Subscription Price shall be satisfied by setting off against part of the outstanding principal amount of the Promissory Note in the sum of HK\$150 million.

LETTER FROM MENLO CAPITAL LIMITED

As the PN Holder is the substantial shareholder of the Company, and thus a connected person of the Company, the Subscription constitutes a non-exempt connected transaction on the part of the Company under the GEM Listing Rules and is subject to reporting, announcement and Independent Shareholders' approval requirements. As to the Placing Agreement is deemed to be a connected transaction under the GEM Listing Rules, the Placing is also subject to Independent Shareholders' approval requirements. To the best of the Directors' knowledge, information and belief, (i) as at the Latest Practicable Date, the PN Holder, Ms. Tan, Mr. Sin and their respective associates are interested approximately 18.41% of the issued share capital of the Company, and are interested in the Existing Convertible Bonds; and (ii) the Placing Agent and its associates are not interested in any Shares or securities convertible into any Shares as at the Latest Practicable Date. The PN Holder, Ms. Tan, Mr. Sin and their respective associates will abstain from voting at the SGM in respect of the Placing Agreement, the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Placing Shares and the Conversion Shares).

We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our view and recommendation. We have taken all reasonable steps pursuant to Rule 17.92 (including notes) of the GEM Listing Rules, which include the following:

- (a) obtaining all the information and documents of the Company relevant to an assessment of the fairness and reasonableness of the terms of the Placing and the Subscription, including but not limited to, the Announcement, the Board Letter, the Placing Agreement, the Subscription Agreement, the circulars of the Company dated 5 July 2010 and dated 6 September 2010 in relation to the grant of general mandates, the announcements dated 30 April 2010 and 14 June 2010 and the circular dated 20 May 2010 in relation to the open offer of the Company completed in June 2010 (the "Open Offer"), the annual reports of the Company for the years ended 31 March 2009 and 31 March 2010 as well as the interim report of the Company for the six months ended 30 September 2010;
- (b) researching the relevant market comparables relevant to placings of new shares and issuing of convertible bonds and the historical Share prices and the historical Shares traded records the Shares relevant to the pricing of the Placing and the Subscription;
- (c) reviewing the fairness, reasonableness and completeness of any assumptions or projections relevant to the Placing and the Subscription, including the performance and financial situation of the Company as well as the reasons and background of the Placing and the Subscription;
- (d) confirming no third party expert opinion or advise is relied on in forming our opinion; and
- (e) reviewing and assessing other alternatives of fund raising and the reasons given by the management for rejecting these alternatives.

LETTER FROM MENLO CAPITAL LIMITED

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Placing and the Subscription, we have considered the following principal factors and reasons:

Background

The Group is principally engaged in the development and provision of medical information digitalization system (the “MIDS”) and properties investment.

The table below summarised the financial results of the Group for the two years ended 31 March 2010 as extracted from the annual report of the Company for the year ended 31 March 2010 (the “Annual Report”).

	For the year ended 31 March		For the three months ended
	2009	2010	30 June
	(audited)	(audited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000
Revenue	1,585	18,963	6,823
Profit (loss) for the year	(20,593)	(74,202)	(125,402)
Earnings (loss) per Share			
– basic	HK(49) cents	HK(3) cents	HK(1.65) cents

As shown in the above table, the revenue increased by approximately 10.96 times in 2010 to approximately HK\$19.0 million. This increase was mainly attributable to the rollout of MIDS. However, the loss of the Group increased from approximately HK\$20.6 million for the year ended 31 March 2009 to approximately HK\$74.2 million for the year ended 31 March 2010. Such increase was mainly attributed to (i) amortisation of intangible assets of approximately HK\$36.6 million (2009: HK\$ Nil), (ii) overseas traveling expenses of approximately HK\$1.1 million (2009: HK\$ Nil), (iii) legal and professional fees of approximately HK\$3.0 million (2009: HK\$1.8 million); and (iv) repair and maintenance of approximately HK\$0.6 million (2009: HK\$0.1 million).

According to the Annual Report, the Group recorded the audited net current assets of approximately HK\$336.7 million and the cash and bank balances of approximately HK\$328.8 million as at 31 March 2010.

The loss for the six months ended 30 September 2010 increased to approximately HK\$172.8 million. The loss was mainly due to a significant increase in other operating expenses, financial costs and the loss on redemption of promissory note.

Based on the above, we consider that the financial performance of the Group was unsatisfactory.

LETTER FROM MENLO CAPITAL LIMITED

Fund raising activities in the past 12 months

Due to the weak performance of the Group and the need of cash for the repayment of the Promissory Note and for the development of MIDS and other projects, the Group has conducted the following fund raising exercises:

Date of announcement	Descriptions	Net proceeds	Proposed use of proceeds	Actual use of proceeds
24 September 2010	The placing of up to 227,800,000 new Shares, on a best effort basis, at HK\$0.181 per Share	Approximately HK\$40.6 million	For the repayment of the Promissory Note	HK\$40.6 million has been used for repayment of the Promissory Note. The proceeds have been used as intended.
20 August 2010	The placing of up to 189,850,000 new Shares, on a best effort basis, at HK\$0.205 per Share	Approximately HK\$38.4 million	For the repayment of the Promissory Note	HK\$38.4 million has been used for the repayment of the Promissory Note. The proceeds have been used as intended.
30 April 2010	Open offer of 1,831,167,113 offer shares (before the adjustment from the Capital Reorganisation) on the basis of one offer share or every four existing Shares	Approximately HK\$180.8 million	For the repayment of the Promissory Note	HK\$180.8 million has been used for the repayment of the Promissory Note. The proceeds have been used as intended.
20 October 2009	The placing of up to 5,000,000,000 new Shares (before the adjustment from the Capital Reorganisation) in one or more tranches, on a best efforts basis, at HK\$0.10 per Share	Approximately HK\$484 million	The Company will reserve at least 70% of the proceeds for first year MIDS rollouts. The Company does not intend to apportion any specific portion of the proceeds for general working capital uses. However, the remaining balance after spends on MIDS rollout and business expansion, if any, will be kept for general working capital purposes.	Within the 70% of proceeds reserved for first year MIDS rollout, approximately HK\$168 million has been utilized for the implementation of MIDS at hospitals contracted and to be contracted, approximately HK\$30 million has been utilized as working capital for the rollout of MIDS and approximately HK\$141 million has been deposited in bank accounts of the Group, which is reserved for subsequent implementations of MIDS at hospitals contracted and to be contracted. Currently, the Company is engaging 2 hospitals in various stages of MIDS rollout and the total estimated cost for contracted hospitals is approximately HK\$130 million. The remaining of approximately HK\$145 million proceeds has been utilized for the investment in the healthcare I.T. sector of the PRC as business expansion. The proceeds has been used as intended.

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From the above fund raising exercises, we note that approximately HK\$259.8 million were utilized for the repayment of the Promissory Notes, approximately HK\$339 million were utilized or intended to be utilized for the development of MIDS and approximately HK\$145 million were utilized for the investment in the healthcare I.T. sector of the PRC.

We consider that it is appropriate to finance long-term investment by equity and, therefore, agree with the Directors in relation to the fund raising exercises previously conducted.

As stated above, the Company proposed to raise approximately HK\$183 million by the Open Offer at the subscription price of HK\$0.10 per offer Share on the basis of one offer Share for every four existing Shares and payable in full on application. Qualifying Shareholders were entitled to apply for excess Offer Shares. The Subscription Price represented (i) a discount of approximately 17.36% to the closing price of HK\$0.121 per Share as quoted on Stock Exchange on the last trading day; and (ii) a discount of approximately 14.38% to the theoretical ex-entitlement price of approximately HK\$0.1168 per Share. On 14 June 2010, the Company announced the result of the Open Offer that the acceptance of and payment for the Offer Shares together application for excess Offer Shares was in aggregate approximately 0.38% of the total number of Offer Shares offered under the Open Offer. The under-subscribed Offer Shares, represented approximately 99.62% of the total Offer Shares. In accordance with the terms of the underwriting agreement of the Open Offer, the underwriter had procure subscription, for the shortfall underwritten Shares by independent third parties.

The terms of the Promissory Note

The proceeds of the Promissory Note was used to settle part of the acquisition cost for a company to PN Holder. The principal terms of the Promissory Note are summarised below:

Parties	:	The Company as issuer and the PN Holder as payee
Principal amount	:	up to HK\$750 million
Interest	:	The Promissory Note will not carry any interest.
Maturity	:	A fixed term of twelve months from the date of issue of the Promissory Note.

If the Company defaults in repayment on the maturity date of any part of the principal sum, the Company shall pay interest on such overdue sum from the maturity date until payment in full (before and after judgment) at the rate of 10% per annum.

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- Early repayment : Provided that the Company has given to payee not less than ten Business Day's prior notice in writing of its intention to repay any part of the outstanding principal amount of the Promissory Note, the Company may at any time from the date of the issue of the Promissory Note up to the date immediately prior to the maturity date, repay the entire Promissory Note up or part of it.
- Assignment : The Promissory Note may, subject to the ten Business Days' prior written notice to the Company and subject to the written consent of the Company, be transferred or assigned by the Vendor to any person.
- Extension : The Company has the right to extend the maturity date of the Promissory Note by giving not less than 30 days prior written notice to the payee. It is intended that the Promissory Note may be extended for not more than five years upon expiry of a fixed term of twelve months from the date of issue.

Based on the above, the PN Holder has demanded the Company to pay the default interest.

PROPOSED PLACING OF NEW SHARES

Reasons for the Placing and use of proceeds

The maximum net proceeds from the Placing will be approximately HK\$158 million, which is intended to be used for repayment of the Promissory Note. The outstanding principal amount of the Promissory Note was approximately HK\$306.5 million as at the date of the Placing Agreement. The Promissory Note should be repayable on 6 October 2010. Pursuant to the terms of the Promissory Note, the Company shall pay interest on such overdue sum from the maturity date until payment in full (before and after judgment) at the rate of 10% per annum commencing from 7 October 2010 if the Company defaults in repayment on the maturity date of any part of the principal amount.

Assuming the Placing Shares under the Placing are subscribed in full, the Company could release from the payment obligation of HK\$158 million under the Promissory Note.

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As set out in the Board Letter, the bank balance and cash of the Company was approximately HK\$142.54 million as at 30 September 2010. The amount of HK\$141.4 million has been reserved for the MIDS rollout of the Company for business development and general working capital of the Group. Besides, the Company recorded an unaudited net cash outflow of approximately HK\$186.47 million for the six months ended 30 September 2010. In view of the cash position of the Company, the Director considers that additional fund is required for the repayment of the Promissory Note. If the Company choose to extend the maturity date of the Promissory Note to not more than five years upon expiry of a fixed terms of twelve months from the date of issue, i.e. 6 October 2015, the Company would require to repay the principal sum of approximately HK\$306.5 million and total interest of approximately HK\$187.12 million for the period from 7 October 2010 to 6 October 2015.

Despite the fact that the Company may choose not to settle the outstanding balance of the Promissory Note but to extend the maturity date of the Promissory Note at the later year, the Director decided to settle the outstanding balance of the Promissory Note through the Placing at the existing stage based on the following grounds:

- (i) to avoid the payment of the interest expenses of not less than approximately HK\$2.55 million per month;
- (ii) no cash outlay of the Group for the settlement of the Promissory Note of HK\$306.5 million;
- (iii) the net cash outflow of the Group for the six months ended 30 September 2010;
- (iv) cash settlement of the Promissory Note in the later year may impair the business development of the Group in future; and
- (v) to strengthen the capital base and liquidity status of the Group in order to cope with volatility occurs in later year due to financial market instability.

Based on the above reasons, the Director takes an initial step to settle the Promissory Note through the Placing.

From the fund raising exercises announced by the Company during the period from April 2010 to September 2010, we note that net proceeds of approximately HK\$259.8 million has been utilized for the repayment of the Promissory Notes. We are of the view that it is reasonable of the Director at any time, including under the above fund raising exercises and at the present moment, to consider various fund-raising alternatives, including but not limited to the Placing, for the settlement of the Promissory Note to lighten foreseeable financial obligation of the Company in future.

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Other financial alternatives

Other than the proposed Placing the Directors have also considered other financial alternatives, including both the debt financings, such as bank borrowing and promissory notes issuing, and the equity financings, such as open offer and rights issue to repay the Promissory Note, which is repayable on 6 October 2010.

For the debt financing exercise, such as bank borrowing or promissory note issuance, total liabilities of the Group will not be decreased and interest expenses will also be incurred. Furthermore, it is unlikely for a commercial entity, like the Company with an unsatisfactory financial performance to solicit an unsecured term loan from the banks or to solicit a subscription of promissory notes from independent third parties.

For equity financings, such as open offer or rights issue, which may enable all the Shareholders (i) to maintain their proportionate interests; and (ii) to entitle same subscription price as well as discount to prevailing market price, if any; we are of the view that fund raising by way of open offer or rights issue is fair and reasonable as far as the interests of the Independent Shareholders are concerned.

In September 2010, as the due date of the Promissory Note was approaching, the Company approached the underwriter of the Open Offer, for the possibility of another open offer or a rights issue fund raising exercise for repayment of the Promissory Note. Having considered the low acceptance rate of the Open Offer in June 2010, the underwriter of the Open Offer rejected to commit a possible open offer and rights issue for the Company. Besides, it is likely that none of the potential underwriter is willing to underwrite the Shares of the Company. Alternatively, the Placing is considered a feasible fund raising means given the Placing is on a best effort basis and the underwriter of the Open Offer agreed to act as the Placing Agent. The terms of the Placing Agreement entered between the Company and the Placing Agent was on arms length basis.

Being set out in the Board Letter, the Director is of the view that the basis for the Placing Price is determined based on the following grounds:

- (i) the prevailing market price of the Share;
- (ii) the size of the Placing, i.e. the maximum amount of funds targeted to be raised under the Placing;
- (iii) the attractiveness of the Shares to the potential investors;
- (iv) the thin trading volume of the Shares;
- (v) the shareholders' base and the capital base of the Company being enlarged;
- (vi) the Placing is on best effort basis; and

LETTER FROM MENLO CAPITAL LIMITED

(vii) the Placing, if subscribed in full, would enable the Group to lighten the liabilities of HK\$160 million and to eliminate the interest burden of the Group under the Promissory Note.

The Director considers that the Placing Price which determined after arm's length negotiation between the Company and the Placing Agent is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Despite there is always a chance to improve the terms of agreements, including the terms of other potential financial alternatives, we are of the view that having considered the above stated situation the Director has tried his best to negotiate the best terms of the Placing for the Company.

In view of the benefit in reducing both the outstanding liabilities under the outstanding Promissory Note and the burden of interest expenses under the Promissory Note, we are of the view that it is in the interests of the Company to propose the Placing.

In order to form an opinion on whether the Placing Price, being a discount to the prevailing market price of the Shares, and the dilution to the shareholding of the Independent Shareholders under the Placing are fair and reasonable as far as the interests of the Independent Shareholders are concerned, we have performed certain analyses set out under the subsections headed "Placings comparison", "Historical price and Shares turnover", "Effect on the Independent Shareholders' interest from the Placing" and "Effect on shareholding interests of the Shareholders upon completion of Placing" below.

The major terms of the Placing

Date of the Placing Agreement

8 October 2010 (after the trading hours of the Stock Exchange)

Issuer

The Company

Placing Agent

The Placing Agent has conditionally agreed to place up to 1,600,000,000 Placing Shares by tranches provided that the number of the Placing Shares for each tranche is in integral multiples of 1,000,000, on best effort basis and will receive a placing commission of 1.0% on the gross proceeds of the actual number of the Placing Shares being placed.

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To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are Independent Third Parties. As at the Latest Practicable Date, the Placing Agent and its associates are not interested in any Shares or securities convertible into Shares.

Placees

The Placing Agent has agreed to place the Placing Shares on best effort basis to not fewer than six Placees who and whose ultimate beneficial owners will be third parties independent of and not connected with the Company and its connected persons. It is expected that none of the Placees will become a substantial shareholder of the Company immediately after completion of the Placing.

Placing Shares

The 1,600,000,000 Placing Shares represent (i) approximately 117.05% of the issued share capital of the Company of 1,366,917,767 Shares as at the Latest Practicable Date; and (ii) approximately 53.93% of the issued share capital of the Company of 2,966,917,767 Shares as enlarged by the allotment and issue of the Placing Shares.

The Placing Shares will be allotted and issued under a specific mandate to be obtained at the SGM. Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in the Placing Shares. The Placing Shares will rank, upon issue, pari passu in all respect with the Shares in issue on the date of allotment and issue of the Placing Shares.

Placing Price

The Placing Price of HK\$0.10 represents:

- (i) a discount of approximately 51.22% to the closing price of HK\$0.2050 as quoted on the Stock Exchange on the date of the Placing Agreement;
- (ii) a discount of approximately 52.87% to the average closing price of approximately HK\$0.2122 per Share for the last five consecutive trading days prior to the date of the Placing Agreement;
- (iii) a discount of approximately 53.94% to the average closing price of approximately HK\$0.2171 per Share for the last ten consecutive trading days prior to the date of the Placing Agreement; and
- (iv) a discount of approximately 46.52% to the closing prices of HK\$0.187 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

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As set out above, the Company announced two placings of new Shares of 189,850,000 Shares at the placing price of HK\$0.205 per Share on 20 August 2010 (the “August Placing”) and 227,800,000 Shares at the placing price of HK\$0.181 per placing Share on 24 September 2010 (the “September Placing”) to raise net proceeds of HK\$38.4 million and HK\$40.6 million for the partial repayment of the Promissory Note. The placing price of the August Placing of HK\$0.205 represents (i) a discount of approximately 17.67% to the closing price of HK\$0.249 per Share as quoted on the Stock Exchange on 20 August 2010; and (ii) a discount of approximately 19.92% the average closing price of HK\$0.256 per Share in the last five consecutive trading days immediately prior to 20 August 2010. The placing price of the September Placing of HK\$0.181 represents (i) a discount of approximately 18.47% to the closing price of HK\$0.222 per Share as quoted on the Stock Exchange on 24 September 2010; and (ii) a discount of approximately 19.56% the average closing price of HK\$0.225 per Share in the last five consecutive trading days immediately prior to 24 September 2010. The net proceed raised from the Placing represented approximately 4 times of each of these two placings.

The maximum gross proceeds and the maximum net proceeds from the Placing will be approximately HK\$160 million and HK\$158 million respectively. The maximum net proceeds raised per Placing Share is approximately HK\$0.09875 upon completion of the Placing. The aggregate nominal value of the Placing Shares is HK\$16,000,000.

Placings comparison

We have reviewed, to our best endeavour, all the new shares placings under specific mandate announced during the last three months prior to the date of the Announcement (the “Relevant Period”) by the companies listed on the GEM board or the main board of the Stock Exchange (the “Placing Comparables”). The Independent Shareholders should note that none of companies of the Placing Comparables are identical to the Company in terms of the business, financial standing and business situation. However, the Placing Comparables provide a general reference for market practice. The relevant terms of all the Placing Comparables are summarized as below:

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Company name (Stock Code)	Date of announcement	The placing shares to the existing issued share capital Approximately (%)	Premium over/ (discount to) the closing price per share prior to the respective shares placing agreements/ or announcements Approximately (%)	Premium over/ (discount to) the average closing price per share for last five consecutive trading days prior to the respective shares placing agreement or announcements Approximately (%)
Time Infrastructure Holdings Limited (0686)	2010/7/19	83.9	(17.2)	(2.1)
Hanny Holdings Limited (0275)	2010/7/16	251.8	0.0	2.5
China Eco-Farming Limited (8166)	2010/7/21	5.6	(14.8)	(10.5)
Inno-Tech Holdings Limited (8202)	2010/7/21	28.1	(15.3)	(12.8)
China Asean Resources Limited (8186)	2010/7/29	40.9	(21.4)	(22.8)
Chevalier Pacific Holdings Limited (0508)	2010/8/2	42.7	(7.1)	(9.1)
The Hong Kong Building and Loan Agency Limited (0145)	2010/8/12	39.9	(17.9)	(17.3)
National Arts Holdings Limited (8228)	2010/8/17	20.0	(24.4)	(27.4)
Shanghai Jin Jiang International Hotels (Group) Company Limited (2006)	2010/8/13	38.5	6.3	12.0
Macau Investment Holdings Limited (2362)	2010/8/24	64.7	(63.2)	(62.2)
Semiconductor Manufacturing International Corporation (0981)	2010/8/16	5.9	(5.8)	(7.31)
China Power New Energy Development Company Limited (0735)	2010/8/24	28.14	(14.8)	N/A
Dragonlott Entertainment Group Ltd (8078)	2010/9/10	23.67	(24.2)	(26.5)
Solartech International Holdings Limited (1166)	2010/9/16	28.5	(33.3)	(16.7)
China Primary Resources Holdings Ltd (8117)	2010/9/27	46.4	(36.5)	(31.6)
China Resources Land Limited (1109)	2010/9/20	6.9	(6.7)	(4.0)
Tai Shing International (Holdings) Ltd (8103)	2010/9/28	25.92	(3.5)	(1.10)
Sewco International Holdings Limited (0209)	2010/9/29	31.2	1.0	4.0
China Nonferrous Metals Company Ltd (8306)	2010/10/6	4.5	14.2	10.3
		maximum premium	14.2	12.0
		maximum discount	(63.2)	(62.2)
		mean	(15.0)	(12.4)
		median	(14.8)	(9.8)
		The Company	117.1	(52.9)

Source: The Stock Exchange website, the respective announcements and circulars of the Placing Comparables

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As noted from the above table,

1. the placing prices to the closing prices on the last trading day prior the respectively placing agreements or announcements of the Placing Comparables (the “Placing LTP Range”) ranged from a premium of approximately 14.2% to a discount of approximately 63.2%, with the mean at a discount of approximately 15.0% and the median at a discount of approximately 14.8%. The discount of the Placing Price to the closing price of the date of the Placing Agreement is approximately 51.2%, which falls within the Placing LTP Range but is much deeper than the mean and median and also is deeper than 18 Placing Comparables out of the total of 19 Placing Comparables;
2. the subscription prices to the average closing prices for the last five consecutive trading days prior the respectively placing agreements or announcements of the Placing Comparables (the “Placing ATP Range”) ranged from a premium of approximately 12.0% to a discount of approximately 62.2%, with the mean at discount of approximately 12.4% and median at a discount approximately 9.8%. The discount of the Placing Price to the closing price of the date of the Placing Agreement is approximately 52.9% to the average closing price of the Share for the last five consecutive trading days prior to the date of the Placing Agreement, which falls within the Placing ATP Range but is much deeper than the mean and median and also is deeper than 18 Placing Comparables out of the total of 19 Placing Comparables.

From the above, it is a common practice to offer discount rates for the placings of substantial amount of news shares in order to enhance the attractiveness to the placees. However, Independent Shareholders should note that (i) the discount of the Placing Price is not only much deeper than the mean and median but also is the second deepest among the 19 Placing Comparables in the Placing LTP Range and the Placing LTP Range; and (ii) the Independent Shareholders are not entitled to subscribe the Placing Shares to benefit from the deep discount of the Placing and to maintain their proportionate interests in the Company at the same terms.

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Historical price and Shares turnover

The following table sets out the latest 12 months period highest prices and lowest prices of the Shares traded on the Stock Exchange from 9 October 2009 to 8 October 2010 and the average daily turnover of the Shares to the total issued share capital of the Company on the Latest Practicable Date:

Month/period	Highest price of the Share during the month/period <i>(HK\$)</i>	Lowest price of the Share during the month/period <i>(HK\$)</i>	Average daily turnover of the Shares traded of the month/period <i>(Shares)</i>	Average daily turnover of the Shares as a percentage of the issued share capital of the Company approximate <i>(%)</i>
2009				
October <i>(Note 1)</i>	2.90	1.98	156,387	0.01
November	6.80	2.10	1,523,429	0.11
December	3.35	0.60	31,158,604	2.28
2010				
January	0.96	0.77	22,646,672	1.66
February <i>(Note 1)</i>	0.86	0.77	4,153,111	0.30
March	1.02	0.76	11,864,587	0.87
April	1.56	0.77	110,510,549	8.08
May	1.16	0.68	27,380,580	2.00
June	1.02	0.47	26,778,273	1.96
July	0.50	0.24	22,127,325	1.62
August <i>(Note 2)</i>	0.38	0.17	7,655,277	0.56
September	0.25	0.20	3,976,721	0.29
October <i>(Note 1)</i>	0.225	0.20	3,226,560	0.24

Source: The Stock Exchange website, the closing price and the turnover volume of the Shares

Note:

1. The table shows the Share Prices and trading volume during the period from 9 October 2009 to 8 October 2010.
2. The capital reorganisation became effective on 9 August 2010 that every ten Shares were consolidated into one Shares. The above Share prices and trading volume before 9 August 2010 are adjusted accordingly.

As shown in the above table, the prices of the Shares, both the highest prices and the lowest prices during the respectively months/periods, fluctuated in the range from HK\$0.17 to HK\$6.8, showing a surge in November 2009 and a downward trend afterward.

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The average daily trading volumes of the Shares during the 12 months prior to the Placing Agreement represents approximately 0.01% to approximately 8.08% of the total issued Shares of the Company as at the Latest Practicable Date. The average daily volumes of the Shares traded during the period from May 2010 to the date of the Placing Agreement were not more than 2.0% of the total issued Shares of the Company as at the Latest Practicable Date. The thin trading of the Shares continued since August 2010 with an average daily trading volume of not more than 7.7 million Shares. The 1,500 million Placing Shares represents approximately 195 days turnover of the Shares during the period from August 2010 to the date of Placing Agreement.

Having taken into account of (i) the unsatisfactory financial performance of the Group; (ii) the prevailing market price of the Shares; (iii) the Open Offer conducted by the Group; (iv) it is a common market practice that, in order to enhance the attractiveness of the placing shares in substantial amount to the placees, majority of the placing prices represent discounts to the prevailing market prices of the relevant shares; (v) the general down trend of the Share Prices since November 2009; (vi) the thin trading volume in recent months as compare to the volume of the Placing Shares; (vii) the Placing Price is on the second deepest among the Placing Comparables; and (viii) the Independent Shareholders being not entitled the right to participate in the equity financing with substantial discounts of the Placing Price; in order to form the view of whether it is fair and reasonable to offer the substantial discount under the Placing, we have also considered the effect on the Independent Shareholders' interest under the Placing and the effect on shareholding interests of the Shareholders upon completion of Placing as set out below.

Other terms of Placing Agreement

The other terms of Placing Agreement, being set out under the sub-sections headed "PROPOSED PLACING OF NEW SHARES SUBJECT TO SHAREHOLDERS' APPROVAL" in the Board Letter, include the detailed terms related to:

- the condition precedent of the Placing;
- the completion of the Placing; and
- the termination and force majeure.

In addition to reviewing the Placing Price, we have also reviewed the other major terms of the Placing Agreement and the other terms of the Placing Agreement as stated above. We are of the view that the terms of the Placing are on normal commercial basis and no extraordinary terms being noted.

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Effect on the Independent Shareholders' interest under the Placing

Based on the unaudited condensed consolidated accounts of the Company as at 30 September 2010, the net asset value of the Company was approximately HK\$1,265 million.

As at the Latest Practicable Date, there are 1,366,917,767 existing Shares. Assuming no substantial financial items incurred during the period from 1 October 2010 to the Latest Practicable Date, the estimated net asset value per Share is equivalent to approximately HK\$0.925.

We note that the Shares are trading at a deep discount to the net asset value per Share which reflects the facts, including but not limited to, (i) the net losses and no dividend being paid in recent years; (ii) the uncertainty of the future profitability of the existing business; (iii) the financial burden under the Promissory Note; and (iv) the quality of the net asset value of the Group with substantial amount of intangible assets. Further to analyzing the substantial discount to the prevailing market prices as set out under the subsections headed "Placings comparison" and "Historical price and Shares turnover", we also analyze the impact of the Placing on the net asset value per Share which is one of the factors affecting the market prices of the Shares.

The payment of the overdue interest under the Promissory Note will increase the financial burden and drain away the cash of the Group. The Company can save the interest expenses of a maximum amount of approximately HK\$15.8 million per year by repaying the net proceeds of approximately HK\$158 million of the Promissory Note after the placing of 1,600,000,000 Placing Shares to be placed in full.

Taking into account of the net proceeds of the Placing of approximately HK\$158 million, the estimated net asset value of the Company will be approximately HK\$1,423 million. As set out under the subsections headed "Effect on shareholding interests of the Shareholders upon completion of Placing" above, there will be a total 2,966,971,767 Shares upon the Placing in full. The annual saving of interest expenses of approximately HK\$15.8 million per year from the Placing represents an earning of approximately HK\$0.0053 per Share after the Placing. The estimated net asset value per Share will become approximately HK\$0.48 per Share which will be approximately HK\$0.445 per Share lower than the estimated net asset value per Share as at the Latest Practicable Date of approximately HK\$0.925 per Share. To Compare with the saving of interest expenses upon the Placing of approximately HK\$0.0053 per Share, the reduction of net asset value of approximately HK\$0.47 per Share is equivalent to approximately 84 years of the interest expenses under the Promissory Note. In the event that the interest expenses incurs for five years until the due date of the extended Promissory Note and be settled by then, the reduction of net value per Share is equivalent to approximately 17 times the aggregated saving of interest expenses.

Based on the pros and cons as set out in the above analysis, we are of the view that the Placing which is for the repayment of the Promissory Note is in the interests of the Company but not in the interest of the Independent Shareholders.

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Effect on shareholding interests of the Shareholders upon completion of Placing

Set out below is the shareholding structure of the Company (i) as at the date of the Latest Practicable Date; (ii) upon completion of the Placing only (assuming the 1,600,000,000 Placing Shares are placed in full):

Shareholders	As at the Latest Practicable Date		Upon completion of the Placing only	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
The PN Holder	251,684,210	18.41	251,684,210	8.48
Placees (<i>Note 1</i>)	–	–	1,600,000,000	53.93
Existing Public Shareholders	1,115,233,557	81.59	1,115,233,557	37.59
Total	<u>1,366,917,767</u>	<u>100.00</u>	<u>2,966,917,767</u>	<u>100.00</u>

As set out above, immediately after completion of the Placing, the shareholding of the existing public Shareholders may be substantially diluted from 81.59% to 37.59% assuming no change in the shareholding structure of the Company between the Latest Practicable Date and immediately before completion of the Placing. Having considered that the Independent Shareholders are not entitled to subscribe the Placing Shares to maintain their proportionate interests in the Company with the substantial discount to the prevailing market price, we are of the Placing is not fair and reasonable so far as the Independent Shareholders are concern.

PROPOSED ISSUE OF CONVERTIBLE BONDS FOR THE SUBSCRIPTION

On 8 October 2010 (after the trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the PN Holder pursuant to which the PN Holder has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$150 million with the right to convert into 1,500,000,000 Conversion Shares at the initial Conversion Price of HK\$0.10 (subject to adjustment) per Conversion Share. The aggregate Subscription Price shall be satisfied by setting off against part of the outstanding principal amount of the Promissory Note in the sum of HK\$150 million. To the best of the Directors' knowledge, PN Holder is an investment holding company whose principal activity is investment in the Shares.

Reasons for the Subscription of Convertible Bonds by the PN Holders

Given the Promissory Note should be repayable on 6 October 2010 and according to the terms of the Promissory Note, the Company is required to pay interest on such overdue sum from the maturity date until payment in full (before and after judgment) at the rate of 10% per annum if the Company defaults in repayment on the maturity date of any part of the principal

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sum, the Directors consider that the issue of the Convertible Bonds would (i) extend the time for the repayment in the sum of HK\$150 million and eliminate the interest burden of the Group under the Promissory Note; and (ii) reduce the repayment liabilities and broaden the capital base of the Company if the Convertible Bonds are converted in whole or in part into Conversion Shares. The Directors (including the independent non-executive Directors) consider the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Principal terms of the Promissory Note are disclosed in this letter below.

According to the management account of the Company, the outstanding balance of the Promissory Note is approximately HK\$306.5 million as at the Latest Practicable Date. Pursuant to the terms of the Promissory Note, the Company is obligated to pay interest on the overdue sum of the Promissory Note at the rate of 10% per annum commencing from 7 October 2010 and such interest will be continued to be accrued until the Promissory Note is settled in full.

Assuming the Subscription is completed, the Company could extend the payment of the Promissory Note of HK\$150 million or lighten the liabilities of HK\$150 million of the Company under the Promissory Note if the Convertible Bonds are converted in full into Conversion Share.

As set out in the Board Letter, the Director considers that additional fund is required for the repayment of the Promissory Note. If the Company intended to extend the maturity date of the Promissory Note to not more than five years upon expiry of a fixed terms of twelve months from the date of issue, i.e. 6 October 2015, the Company would require to repay the principal sum of approximately HK\$306.5 million and total interest of approximately HK\$187.12 million for the period from 7 October 2010 to 6 October 2015.

Despite the fact that the Company may choose not to settle the outstanding balance of the Promissory Note but to extend the maturity date of the Promissory Note at the later year, the Director decided to settle the outstanding balance of the Promissory Note through the Placing and the Subscription at the existing stage based on the following grounds:

- (i) to avoid the payment of the interest expenses of not less than approximately HK\$2.55 million per month;
- (ii) no cash outlay of the Group for the settlement of the Promissory Note of HK\$306.5 million;
- (iii) the net cash outflow of the Group for the six months ended 30 September 2010;
- (iv) cash settlement of the Promissory Note in the later year may impair the business development of the Group in future; and
- (v) to strengthen the capital base and liquidity status of the Group in order to cope with volatility occurs in later year due to financial market instability.

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Based on the above reasons, the Director takes an initial step to settle the Promissory Note through the Subscription.

From the fund raising exercises announced by the Company during the period from April 2010 to September 2010, we note that net proceeds of approximately HK\$259.8 million has been utilized for the repayment of the Promissory Notes. We are of the view that it is reasonable of the Director at any time, including under the above fund raising exercises and at the present moment, to consider various fund-raising alternatives, including but not limited to the Subscription, for the settlement of the Promissory Note to lighten foreseeable financial obligation of the Company in future.

Other financial alternatives

Being set out in the subsection “Other financial alternatives” under the section headed “PROPOSED PLACING OF NEW SHARES”. Other than the proposed issue of the Convertible Bonds, the Directors has considered financial alternatives, including both the debt financings and the equity financings to repay the Promissory Note.

Being set out in the Board Letter, the Director is of the view that the basis for the Conversion Price is determined based on the following grounds:

- (i) the prevailing market price of the Share;
- (ii) the size of the Subscription;
- (iii) the attractiveness of the Conversion Price to the PN Holder to enter into the Subscription Agreement;
- (iv) the Convertible Bonds carry no interest;
- (v) the Subscription Agreement, if completed, would enable the Group to extend the payment of HK\$150 million or to reduced the repayment liabilities of the Company if the Convertible Bonds are converted in whole or in part into Conversion Shares and to eliminate the interest burden of the Group under the Promissory Note; and
- (vi) the Director believes that the PN Holder would seek for a reduction in principal amount of the Convertible Bonds or decline the Subscription Agreement if the higher conversion price of the Convertible Bonds is adopted.

The Director considers that the Conversion Price which determined after arm’s length negotiation between the Company and the PN Holder is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Despite there is always a chance to improve the terms of agreements, including the terms of other potential financial alternatives, we are of the view that having considered the above stated situation the Director has tried his best to negotiate the best terms of the Subscription for the Company.

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As mentioned in the sub-section headed “Other financial alternatives” under the “Proposed Placing of New Shares”, the Directors accept the fact that another open offer or rights issue fund raising exercise is impractical. The Directors considered the issue of the Convertible Bonds for the Subscription by the PN Holder setting off against part of the outstanding principal amount of the Promissory Note in the sum of HK\$150 million be feasible and in the interest of the Company. The terms of the Placing Agreement entered between the Company and the PN Holder are on arms length basis which include the Conversion Price of the Convertible Bonds being HK\$0.1.

In order to form an opinion on whether the Conversion Price, being a substantial discount to trading price of the Shares, and the massive dilution to the shareholding of the Independent Shareholder under the Placing are fair and reasonable, we have performed certain analyses in the subsections headed “Convertible bonds comparison”, and “Effect on the interest of the Shareholders under the Subscription” as set out below.

Please also refer to our analyses in the subsections headed “Historical price and Shares turnover” and “Effect on the Independent Shareholders’ interest from the Placing” as well as refer to the subsections headed “Convertible bonds comparison” and “Effect on shareholding interests of the Shareholders upon conversion of the Convertible Bonds” as below on whether the Conversion Price, being a discount to trading price of the Shares, and the dilution to the shareholding of the Independent Shareholder under the full conversion of the Conversion Bonds are fair and reasonable to the Independent Shareholders and in the interest of the Independent Shareholders.

The major terms of the Subscription Agreement

The terms of the Subscription Agreement have been negotiated on an arm’s length basis and the principal terms of which are summarised below:

Issuer	:	The Company
Principal amount	:	HK\$150 million
Maturity	:	A fixed term of 5 years from the date of issue the Convertible Bonds. Unless previously redeemed, converted or cancelled, the Company shall redeem the outstanding principal amount of the Convertible Bonds on the maturity date.
Interest	:	The Convertible Bonds shall carry no interest.

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Conversion Price : The initial Conversion Price is HK\$0.10 per Conversion Share (subject to adjustment). The Conversion Price is subject to adjustment for, amongst other matters, sub-division or consolidation which alters the nominal value of the Shares, issue of Shares by way of capitalisation of profit or reserves, capital distribution, issue Shares for cash or issue consideration Shares at a price which is less than 80% of the market price, bonus issues, rights issues and other dilutive events and repurchase of any Shares by the Company.

The initial Conversion Price represents (i) a discount of approximately 51.22% to the closing price of HK\$0.2050 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; (ii) a discount of approximately 52.87% to the average closing price of approximately HK\$0.2122 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of the Subscription Agreement; and (iii) a discount of approximately 53.94% to the average closing price of approximately HK\$0.2171 per Share as quoted on the Stock Exchange for the last ten consecutive trading days prior to the date of the Subscription Agreement.

The initial Conversion Price was determined between the Company and the PN Holder after arm's length negotiation taking into account (i) the prevailing market price of the Shares; (ii) the issue of the Convertible Bonds would extend the time for the repayment in the sum of HK\$150 million and eliminate the interest burden of the Group under the Promissory Note; and (iii) if the Convertible Bonds are converted in whole or in part into Conversion Shares, the repayment liabilities of the Company will be reduced. The Directors (including the independent non-executive Directors) consider the Conversion Price is fair and reasonable.

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Redemption : The Company has the rights to redeem the whole or any part of the outstanding principal amount of the Convertible Bonds at any time prior to the maturity date of the Convertible Bonds.

Any amount of the Convertible Bonds which remains outstanding on the maturity date shall be redeemed at its then outstanding principal amount.

Conversion rights : Provided that any conversion of the Convertible Bonds (a) does not result in the bondholder(s) and parties acting in concert with it shall be interested (whether directly or indirectly) in 29.90% or more of the then issued share capital of the Company; (b) does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the bondholder(s) and their respective concerted parties which exercised the conversion right; and (c) will not cause the public float of the Company unable to meet the requirement under the GEM Listing Rules, the bondholder(s) shall have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bonds into the Conversion Shares.

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Convertible bonds comparison

We have reviewed, to our best endeavour, all the convertible bonds/notes subscriptions under specific mandate announced during the Relevant Period by the companies listed on the GEM board or the main board of the Stock Exchange (the “CB Comparables”). The Independent Shareholders should note that none of the companies which issued the CB Comparables are identical to the Company in terms of the business. However, the financial standing and the business situation and therefore the CB Comparables provide a general reference for market practice. The relevant terms of all the CB Comparables are summarized as below:

Company name (Stock Code)	Date of announcement	The conversion shares under full conversion to the existing issued share capital Approximately (%)	Maturity (years)	Interest rate (%)	Premium over/ (discount to) the closing price per share for last five consecutive trading days prior to the respective convertible bonds/notes agreements or announcements Approximately (%)	Premium over/ (discount to) the average closing price per share for last five consecutive trading days prior to the respective convertible bonds/notes agreements or announcements Approximately (%)
China Eco-Farming Limited (8166)	2010/7/21	6.2	3	0.0	14.8	20.6
Inno-Tech Holdings limited(8202)	2010/7/21	18.0	2	0.0	(15.3)	(12.8)
Tack Fat Group International Limited (0928)	2010/7/23	452.0	3	0.0	(99.8)	(99.8)
China Agrotech Holdings Limited (1073)	2010/7/27	124.4	5	0.0	22.0	29.2
Computech Holdings Limited (8081)	2010/7/28	1,012.1	2	2.0	(53.5)	(56.9)
China Asean Resources Limited (8186)	2010/7/29	240.4	5	0.0	(21.4)	(22.8)
Chevalier Pacific Holdings Limited (0508)	2010/8/2	57.3	10	0.0	(7.1)	(9.1)
Suncorp Technologies Limited (1063)	2010/8/4	439.1	5	0.0	(30.9)	
Freeman Corporation Limited (0279)	2010/8/9	201.8	2	0.0	(12.7)	(14.1)
China Water Industry Group Limited (1129)	2010/8/13	36.3	2	0.25	14.5	–
Vitar International Holdings Limited (0195)	2010/8/16	19.0	5	0.0	0.0	21.1
Kiu Hung Energy Holdings Limited (0381)	2010/8/20	410.8	3	0.0	(11.1)	–
Chinavision Media Group Limited (1060)	2010/8/23	51.6	3	9.0	9.9	12.9

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Company name (Stock Code)	Date of announcement	The conversion shares under full conversion to the existing issued share capital Approximately (%)	Maturity (years)	Interest rate (%)	Premium over/ (discount to) the closing price per share prior to the respective convertible bonds/notes agreements or announcements Approximately (%)	Premium over/ (discount to) the average closing price per share for last five consecutive trading days prior to the respective convertible bonds/notes agreements or announcements Approximately (%)
Haier Electronics Group Co., Limited (1169)	2010/8/28	6.7	2	0.0	12.2	6.0
Info Communication Holdings Limited (8082)	2010/9/5	25.0	1	0.0	(36.6)	(37.8)
Info Communication Holdings Limited (8082)	2010/9/5	20.0	2	3.0	(36.6)	(37.8)
China UpTown Group Company Limited (2330)	2010/9/16	31.8	3	4.0	(29.8)	(29.3)
Sewco International Holdings Limited (0209)	2010/9/29	17.5	3	2.0	29.8	33.7
Chinasoft International Limited (0354)	2010/10/3	42.9	3	4.25	(2.9)	(9.5)
GR Vietnam Holdings Limited (0139)	2010/10/8	56.6	3	0.0	7.8	5.9
Sino-Tech International Holdings Limited (0724)	2010/10/6	64.2	5	0.0	(16.7)	(6.8)
		Maximum/Highest Premium	10	9.0	29.8	33.7
		Minimum/Deepest Discount	1	0.0	(99.8)	(99.8)
		mean	3.4	1.2	(12.5)	(11.5)
		median	3	0.0	(11.1)	(9.3)
		The Company	109.7	5	0.0	(51.2)

Source: The Stock Exchange website, the respective announcements and circulars of the CB Comparables

(i) *Maturity*

The maturities of the CB Comparables range from 1 year to 10 years with the mean being 3.4 years and median maturity being 3 years. Given the maturity of 5 years for the Convertible Bonds is longer than the mean and median of the maturity of the CB Comparables but equals to/shorter than 6 CB Comparables out of the total of 21 CB Comparables, we consider that the maturity of the Convertible Bonds is in line with the market norm.

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(ii) Interest

The CB Comparables carry annual interest rates ranging from nil interest to 9.0% with the mean being 1.2% and median maturity being nil interest. Given the nil interest rate for the Convertible Bonds equals to 14 CB Comparables of the total of 21 CB Comparables, we consider that the interest rate of the Convertible Bonds in line with the market norm and nil interest is in the interests of the Company and the Shareholders as a whole.

The changes of the fair values of convertible bonds are affected by, among other factors, the changes of market interest rates and the fixed rates of the convertible bonds. The fair values of the convertible bonds are of the concern of the bonds holders. The change of the fair value of the Convertible Bonds will not directly affect the interest of the Company or the interest of the Independent Shareholders. We are of the view that it is not necessary to consider the potential fair value change of the Convertible Bonds so far as the interest of the Independent Shareholders is concerned.

Conversion Price

As noted from the above table,

1. the conversion prices to the closing prices on the date of the respective subscription agreements or the last trading days prior to the dates of respective announcements of the CB Comparables (the “CB LTP Range”) ranged from a premium of 29.8% to a discount of 99.8%, with the mean and median at discounts of approximately 12.5% and 11.1% respectively. The discount of the Conversion Price to the closing price of the date of the Subscription Agreement is approximately 51.2%, which falls within the CB LTP Range however it is much deeper than the mean and median and deeper than 19 CB Comparables out of the 21 CB Comparables in the CB LTP Range;
2. the conversion prices to the average closing prices of the shares for the last five consecutive trading days prior to the date of the subscription agreements or announcements in relation to the CB Comparables (the “CB ATP Range”) ranged from a premium of 33.7% to a discount of 99.8%, with the mean and median at discounts of approximately 11.5% and 9.3% respectively. The discount of the Conversion Price of the Subscription to the average closing price of the Shares for the last five consecutive trading days prior to the date of the Subscription Agreement of approximately 52.9%, which falls within the CB ATP Range however it is much deeper than the mean and median and that 19 CB Comparables out of the 21 CB Comparables in the CB ATP Range.

We note that it is a common market practice that, in order to enhance the attractiveness of convertible bonds to the subscribers, 13 CB Comparables, the majority of the 21 CB Comparables, proposed to place the convertible bonds at various discounts to the prevailing market prices of the relevant shares. Hence, we are of the view that the fact that the Conversion Price being a discount to the prevailing market prices of the Shares is in line with general practice but as the substantial discount of the Conversion Price is the second to the deepest among the CB Comparables.

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As set out under the subsection headed “Historical Price and Shares Turnover” in this letter, the prices of the Shares fluctuated between the range from HK\$0.17 to HK\$6.8, showed a surge in November 2009 and a downward trend afterward.

The average daily trading volumes of the shares of the Company represents approximately 0.01% to 8.08% of the total issued Shares of the Company as at the date of the Announcement. The average daily volumes of the Shares traded during the period from May 2010 to the date of the Announcement were not more than 2.0% of the total issued Shares of the Company as at the date of the Announcement. The thin trading of the shares persists since August 2010 with an average daily trading volume of not more than 7.7 million Shares. The 1,600 million Conversion Shares under full conversion represents approximately 208 days turnover of the Shares during the period from August 2010 to the date of the Announcement.

Having taken into account (i) it is a common market practice that, in order to enhance the attractiveness of the convertible bonds, majority of the conversion prices represent discounts to the prevailing market prices of the relevant shares; (ii) the general down trend of the Share Prices since November 2009; (iii) the thin trading volume in recent months; (iv) the discount of the Conversion Price is the second to the deepest among the CB Comparables; and (v) the Independent Shareholders being not entitled the right to participate in the equity financing with substantial discounts of the Conversion Price; in order to form the view of whether it is fair and reasonable to offer the substantial discount under the Subscription, we have also considered the effect on the Independent Shareholders’ interest under the Subscription and the effect on shareholding interests of the Shareholders upon conversion of the Convertible Bonds as set out below.

Other terms of Subscription Agreement

The other terms of Placing Agreement, being set out under the section headed “PROPOSED ISSUE OF CONVERTIBLE BONDS” in the Board Letter, include the detailed terms related to:

- the ranking;
- the status of the Convertible Bonds;
- the voting rights;
- the application for;
- the transferability; and
- the conditions precedent of the Subscription.

In addition to reviewing the Conversion Price, we have also reviewed the other major terms of the Subscription Agreement and the other terms of the Subscription Agreement as stated above. We are of the view that the terms of the Subscription Agreement are on normal commercial basis and no extraordinary terms being noted.

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Effect on the Independent Shareholders' interests under the Subscription

As set out under the subsection "Effect on the Independent Shareholders' Interests under the Placing" above, the estimated net asset value of the Company is approximately HK\$1,265 million as at the Latest Practicable Date. Accordingly the net asset value per Share, is equivalent to approximately HK\$0.925 as at the Latest Practicable Date.

We note that the Shares are trading at a deep discount to the net asset value per Share which reflects the facts, including but not limited to, (i) the net losses and no dividend being paid in recent years; (ii) the uncertainty of the future profitability of the existing business; (iii) the financial burden under the Promissory Note; and (iv) the quality of the net asset value of the Group with substantial amount of intangible assets. Further to analyzing the substantial discount to the prevailing market prices as set out under the subsections headed "Convertible bonds comparison" and "Historical price and Shares turnover", we also analyze the impact of the Conversion of Shares on the net asset value per Share which is one of the factors affecting the market prices of the Shares.

As set out under scenario (1) of the subsections headed "Effect on shareholding interests of the Shareholders upon conversion of the Convertible Bonds" below, there could be a total of 4,466,917,767 issued Shares upon completion of the Placing in full and completion of the Subscription and full conversion of the Conversion Shares by the PN Holder and the transferee(s). Accordingly, the estimated net asset value of the Company will be approximately HK\$1,573 million including the net proceeds from the Placing of approximately HK\$158 million and the conversion to that extent of approximately HK\$150 million. The estimated net asset value per Share will become approximately HK\$0.352 per Share which will be approximately HK\$0.573 per Share lower than the estimated net asset value per Share as at the Latest Practicable Date of approximately HK\$0.925 per Share. To Compare with the saving of interest expenses of approximately HK\$30.8 million per year from the Placing and the issue of the Convertible Bonds approximately HK\$0.0069 per Share, the reduction of net asset value of approximately HK\$0.57 per Share is equivalent to approximately 83 years of the interest expenses under the Placing in full and the conversion of Conversion Shares to the maximum extent. In the event that the interest expenses incurs for five years until the due date of the extended Promissory Note and be settled by then, the reduction of net value per Share is equivalent to approximately 16.6 times the aggregated saving of interest expenses.

Assuming the Placing will not be completed, beings set out under scenario (2) of "Effect on shareholding interests of the Shareholders upon conversion of the Convertible Bonds" below, there could be a total of 2,866,917,767 issued Shares upon completion of the Subscription and full conversion of the Conversion Shares by the PN Holder and the transferee(s). Accordingly, the estimated net asset value of the Company will be approximately HK\$1,415 million and the total issue share capital will be 2,866,917,767 Shares. The estimated net asset value per Share will become approximately HK\$0.493 per Share which will be approximately HK\$0.432 per Share lower than the estimated net asset value per Share as at the Latest Practicable Date of approximately HK\$0.925 per Share. To Compare with the saving of interest expenses upon the issue of the Convertible Bonds approximately HK\$0.00523 per

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Share, the reduction of net asset value of approximately HK\$0.456 per Share is equivalent to approximately 83 years of the interest expenses under the Promissory Note. In the event that the interest expenses incurs for five years until the due date of the extended Promissory Note and be settled by then, the reduction of net value per Share is equivalent to approximately 16.6 times the aggregated saving of interest expenses.

Based on the above analysis, we are of the view that the Subscription which is for the repayment of the Promissory Note is not in the interest of the Independent Shareholders.

Effect on shareholding interests of the Shareholders upon conversion of the Convertible Bonds

Scenario (1)

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon completion of the Placing only (assuming the 1,600,000,000 Placing Shares are placed in full); and (iii) upon completion of the Placing (assuming the 1,600,000,000 Placing Shares are placed in full) and assuming conversion of the Convertible Bonds into Conversion Shares to the extent of the PN Holder being interested in approximately 29.9% of the issued share capital of the Company with the excess to be transferred to the Independent Third Party(ies):

	As at the Latest Practicable Date Approximate		Upon completion of the Placing only Approximate		Upon completion of the Placing and completion of the Subscription, and assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price Approximate	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
The PN Holder	251,684,210	18.41	251,684,210	8.48	1,158,138,136	29.90
Transferee(s) of the Convertible	–	–	–	–	593,546,074	9.31
Public Shareholders						
Placeses (Note 1)	–	–	1,600,000,000	53.93	1,600,000,000	35.82
Existing Public Shareholders	1,115,233,557	81.59	1,115,233,557	37.59	1,115,233,557	24.97
Total	1,366,917,767	100.00	2,966,917,767	100.00	4,466,917,767	100.00

As set out above, immediately after full conversion of the Convertible Bonds, the shareholding of the existing Independent Shareholders may be substantially diluted from 81.59% to 24.97% assuming completion of Placing in full and no change in the shareholding structure of the Company between the Latest Practicable Date and immediately before completion of the Subscription. Having considered that the Independent Shareholders are not entitled to subscribe the Convertible Bonds for conversion into Shares to maintain their proportionate interests in the Company at the same terms, we are of the Subscription is not fair and reasonable so far as the Independent Shareholders are concern.

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Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon completion of the Subscription only (assuming the Placing is not completed) and assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price; and (iii) upon completion of the Subscription only (assuming the Placing is not completed) and assuming conversion of the Convertible Bonds into Conversion Shares to the extent of the PN Holder being interested in approximately 29.90% of the issued share capital of the Company with the excess to be transferred to the Independent Third Party(ies):

Scenario (2)

	As at the Latest Practicable Date		Upon completion of the Placing and completion of the Subscription, and assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price	
	Approximate		Approximate	
	<i>Number of</i>	<i>%</i>	<i>Number of</i>	<i>%</i>
	<i>Shares</i>		<i>Shares</i>	
The PN Holder	251,684,210	18.41	475,684,498	29.90
Transferee(s) of the Convertible	–	–	1,278,999,712	31.2
Public Shareholders				
Existing Public Shareholders	<u>1,115,233,557</u>	<u>81.59</u>	<u>1,115,233,557</u>	<u>38.90</u>
Total	<u><u>1,366,917,767</u></u>	<u><u>100.00</u></u>	<u><u>2,866,917,767</u></u>	<u><u>100.00</u></u>

As set out above, immediately after conversion of the Convertible Bonds into Conversion Shares to the extent of the PN Holder being interested in approximately 29.90% (assuming the Placing is not completed), the shareholding of the existing Independent Shareholders may be diluted from 81.59% to 38.90% without the effect of Placing and no change in the shareholding structure of the Company between the Latest Practicable Date and immediately before completion of the Subscription. Having considered that the Independent Shareholders are not entitled to subscribe the Convertible Bonds for conversion into Shares to maintain their proportionate interests in the Company at the same terms, we are of the Subscription is not fair and reasonable so far as the Independent Shareholders are concern.

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RECOMMENDATION

We have taken into consideration of the above principal factors and reasons:

- the Placing and the Subscription will reduce the interest burden of the Company under the overdue Promissory Note which is in the interest of the Company;
- the Placing and the Conversion of the Convertible Bonds, if any, will improve the financial position of the Company which is in the interest of the Company;
- the Placing and the Subscription are viable alternatives among all the financial alternatives currently considered by the Company;
- the substantial impact on the estimated net asset value per Share under the Placing and the Subscription is not in the interest of the Independent Shareholders;
- the terms the Placing Agreement and the Subscription Agreement are on normal commercial terms; and
- the substantial discounts in the Placing Price and the Subscription together with the massive dilutions of the shareholding of the Independent Shareholders under the Placing and the Subscription are not fair and reasonable to the Independent Shareholders.

We are of the view that (i) the Placing and the Subscription are in the interest of the Company but not in the interest of the Independent Shareholders; (ii) the terms of the Placing Agreement and the Subscription Agreement are on normal commercial terms but not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote against of the ordinary resolutions to be proposed at the SGM to approve the Placing and the Subscription.

Having said that, for those Independent Shareholders who would opt for the interest of the Company from the reduction of interest burden and the improvement of the financial situation under the Placing and the Subscription, they could choose to vote in favour of the resolution to approve the Placing and/or the Subscription.

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

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company was, and immediately following: (a) the Placing; and (b) the allotment and issue of the Conversion Shares, assuming the conversion rights attaching to the Convertible Bonds are exercised in full will be as follows:

HK\$

Authorised

<u>20,000,000,000</u>	Shares as at the Latest Practicable Date	<u>200,000,000</u>
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Issued and credited as fully paid

1,366,917,767	Shares as at the Latest Practicable Date	13,669,177.67
1,600,000,000	Shares to be allotted and issued upon completion of the Placing	16,000,000.00
1,500,000,000	Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds in full	15,000,000.00
<u>4,466,917,767</u>		<u>44,669,177.67</u>

All the issued share capital of the Company shall rank pari passu with each other in all respects including the rights as to dividends, voting and return of capital. The Placing Shares and the Conversion Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue on the date of their allotment.

The issued Share are listed on GEM. There is no arrangement under which future dividends are/will be waived or agreed to be waived.

Save as disclosed in this circular, no share or loan capital of the Company or any members of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 and 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors.

4. SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, the following person (other than the Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under provisions of Division 2 and 3 of Part XV of the SFO, or who, as at the Latest Practicable Date, was directly and 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 the Group:

Name of shareholder	Capacity	Interest in shares	Interest in underlying shares (Note 1)	Total interest in shares (Note 1)	Percentage of the Company's issued share capital
The PN Holder	Beneficial owner (Note)	251,684,210	2,062,429,696	2,314,113,906	169.29%
Treasure Bonus Limited	Interest of controlled corporation (Note)	251,684,210	2,062,429,696	2,314,113,906	169.29%
Easy Channel Limited	Interest of controlled corporation (Note)	251,684,210	2,062,429,696	2,314,113,906	169.29%
Ms. Tan	Interest of controlled corporation (Note)	251,684,210	2,062,429,696	2,314,113,906	169.29%
Mr. Sin	Interest of controlled corporation (Note)	251,684,210	2,062,429,696	2,314,113,906	169.29%

Note:

The PN Holder is deemed to be interested in 2,314,113,906 Shares pursuant to the conditional sale and purchase agreement dated 29 June 2009 entered into between the PN Holder and the Company. Treasure Bonus Limited ("Treasure Bonus") owns 72% and Easy Channel Limited ("Easy Channel") owns 28% of the issued share capital of the PN Holder respectively. Treasure Bonus and Easy Channel are wholly and beneficially owned by Ms. Tan and Mr. Sin respectively. Treasure Bonus, Easy Channel, Ms. Tan and Mr. Sin are deemed to be interested in these 2,314,113,906 Shares.

Save as disclosed herein, there is no person known to the Directors or chief executive of the Company, no other person (other than a Director or chief executive of the Company), who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying shares of the Company 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 normal value of any class of shares carrying the rights to vote in all circumstances at general meetings of the Company or any other members of the Group and none of the Directors or proposed Director is a director of employee of a company which has an interest or 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.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

7. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the businesses of the Group.

None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2010, being the date to which the latest published audited consolidated accounts of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL ADVERSE CHANGE

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 March 2010 (being the date to which the latest published audited accounts of the Group were made up).

10. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Menlo Capital	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Menlo Capital is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Menlo Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which they appear.

Menlo Capital did not have any direct or indirect interest in any assets which have been, since 31 March 2010 (the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the member of the Group within the two years immediately preceding the Latest Practicable Date:

- (a) the subscription agreement dated 26 November 2008 and entered into between the Company and KH Investment Holdings Limited (formerly known as Golife Concepts Holdings Limited), a company listed on GEM (“KH Investment”) in relation to the subscription for the zero coupon convertible bonds in an aggregate principal amount of HK\$100 million to be issued by Golife in five tranches of HK\$20 million each;
- (b) the underwriting agreement dated 27 November 2008 and entered into between the Company and Kingston Securities Limited in relation to the open offer of 1,131,207,381 shares of the Company (before Capital Reorganisation) on the basis of nine Offer Shares for every Share held on 14 January 2009;
- (c) the supplemental agreement dated 4 December 2008 and entered into between the Company and Kingston Securities Limited in relation to certain amendments to the underwriting agreement dated 27 November 2008;

- (d) the conditional placing agreement dated 15 June 2009 and entered into between the Company and Kingston Securities Limited in relation to placing of up to 2,500,000,000 Shares ordinary shares of HK\$0.01 each (before Capital Reorganisation) on a best effort basis at a price of HK\$0.10 each;
- (e) the memorandum of understanding dated 15 June 2009 entered into between the Company and Growth Harvest Limited in relation to the possible acquisition by the Company the entire issued share capital of Sunny Chance Limited at an acquisition price of HK\$1,500 million;
- (f) the conditional sale and purchase agreement dated 29 June 2009 and entered into between the Company and the PN Holder for the acquisition of Sunny Chance Limited at a total consideration of HK\$1,500 million;
- (g) the master services agreement dated 1 June 2009 entered into between Gold Asia Technology Limited, a wholly-owned subsidiary of Sunny Chance Limited and Tianjin Kong Hong Technology Company Limited, an independent third party in respect of the provision of MIDS by Gold Asia Technology Limited to Tianjin Kong Hong Technology Company Limited for the provision of Wi-Fi/RFID services;
- (h) the termination agreement dated 20 July 2009 and entered into between the Company and Kingston Securities Limited in relation to the termination of the placing agreement dated 15 June 2009;
- (i) the sale and purchase agreement dated 8 October 2009 entered into between the Company and Dance Star Group Limited, a company wholly-owned by KH Investment for the disposal of film production and distribution business at a total consideration of HK\$8,200,418;
- (j) the conditional placing agreement dated 20 October 2009 and entered into between the Company and CLSA Limited in relation to placing of up to 5,000,000,000 Shares ordinary shares of HK\$0.01 each (before the capital reorganization of the Company effective on 9 August 2010) on a best effort basis at a placing price of HK\$0.10 each;
- (k) the letter of intent dated 11 December 2009 entered into between the Company and Guo Kang Pharmaceutical & Medical Supplies Limited in relation to promotion of the Group's MIDS product in PRC;
- (l) the sale and purchase agreement dated 21 January 2010 entered into between Innovate International Group Limited, the wholly owned subsidiary of the Company and an independent third party for the acquisition of Redart Digital Technology Co., Ltd. at a total consideration of HK\$145,000,000;
- (m) the sale and purchase agreement dated 1 April 2010 entered into between the Company and an independent third party for the acquisition of Fortune Mark International Limited at a total consideration of HK\$135,000,000;

- (n) the sale and purchase agreement dated 9 April 2010 entered into between Grand Billion Investment Limited, a wholly-owned subsidiary of the Company, as vendor, and an Independent Third Party in relation to the disposal of the investment property of the Company for a total consideration HK\$36 million;
- (o) the underwriting agreement dated 29 April 2010 and entered into between the Company and Kingston Securities Limited in relation to the open offer of 1,831,167,113 shares of the Company (before the capital reorganization of the Company effective on 9 August 2010) on the basis of one Offer Share for every four existing Shares held on 19 May 2010 at the subscription price of HK\$0.10;
- (p) the conditional placing agreement dated 20 August 2010 and entered into between the Company and Kingston Securities Limited in relation to placing of up to 189,850,000 Shares ordinary shares of HK\$0.01 each on a best effort basis at a placing price of HK\$0.205 each;
- (q) the conditional placing agreement dated 24 September 2010 and entered into between the Company and Kingston Securities Limited in relation to placing of up to 227,800,000 Shares ordinary shares of HK\$0.01 each on a best effort basis at a placing price of HK\$0.181 each;
- (r) the sale and purchase agreement dated 24 September 2010 entered into between Gold Asia Technology Limited, the wholly owned subsidiary of the Company and the independent third party for the acquisition of 天津市逸晨電子科技有限公司 (Tianjin Yi Chen Electronic Technology Co. Ltd.***) at a consideration of HK\$45,000,000 subject to adjustment;
- (s) the Placing Agreement;
- (t) the Subscription Agreement; and
- (u) the agreement dated 18 October 2010 entered into by the Company and 廣東景訊高技術發展有限公司 (Guangdong Jingxun Advanced Development Company Limited***) in relation to the formation of the joint venture Company.

12. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Lo Chi Hung who is a partner of Messrs. Patrick Mak & Tse, a firm of solicitors in Hong Kong.
- (b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business in Hong Kong is located at Room 2111, 21/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong. The principal share registrar and transfer office of the Company in Bermuda is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

** denotes a translation of a Chinese name and/or English name only

- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at 26th Floor, Tesbury Center, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Room 2111, 21/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

- (a) the Memorandum and Bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;
- (c) the annual reports of the Group for the three financial years ended 31 March 2008, 2009 and 2010;
- (d) all circulars of the Company issued pursuant to the requirements set out in Chapters 19 and/or 20 of the GEM Listing Rules which have been issued since 31 March 2010 (being the date to which the latest published audited consolidated financial statements of the Company was made up);
- (e) the letter from Menlo Capital, the text of which is set out in this circular; and
- (f) the written consent of the experts referred to in the section headed "Expert and Consent" in this appendix.

NOTICE OF SGM



XING LIN MEDICAL INFORMATION TECHNOLOGY COMPANY LIMITED **杏林醫療信息科技有限公司***

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8130)

NOTICE IS HEREBY GIVEN that a special general meeting of Xing Lin Medical Information Technology Company Limited (the “Company”) will be held at 11:00 a.m. on 16 December 2010 at Board Room, 1st Floor, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTIONS

“THAT:

1. (a) the conditional placing agreement (the “Placing Agreement”) dated 8 October 2010 between the Company and Kingston Security Limited (the “Placing Agent”) pursuant to which, inter alia, the Company agrees to place, through the Placing Agent, on a best efforts basis, up to 1,600,000,000 new shares of the Company at a price of HK\$0.10 per share (the “Placing Shares”) in one or more tranches (a copy of which has been produced to this meeting marked “A” and initialled by the Chairman of the meeting for identification purpose) be and is hereby approved, ratified and confirmed;
- (b) the allotment and issue of the Placing Shares pursuant to and in accordance with the terms and conditions of the Placing Agreement be and is hereby approved; and
- (c) the directors of the Company (the “Directors”) be and is hereby authorised to exercise all the powers of the Company and take such actions or execute such documents to effect the allotment and issue of the Placing Shares and to do such other things and to take all such action the Directors may consider necessary or desirable for the purpose of giving effect to the Placing Agreement.

* *For identification purposes only*

NOTICE OF SGM

2. (a) the conditional subscription agreement dated 8 October 2010 (the “Subscription Agreement”) and entered into between the Company as issuer and Growth Harvest Limited, as subscriber (the “Subscriber”) in relation to the subscription for 1,500,000,000 new shares (the “Subscription Shares”) of HK\$0.01 each in the share capital of the Company at the price of HK\$0.10 per Subscription Share, which the aggregate subscription price shall be satisfied by capitalized the sum of HK\$150 million (the “Capitalised Amount”) under the zero coupon promissory note (the “Promissory Note”) in the principal amount of HK\$306.5 million due on 6 October 2010 issued by the Company to the Subscriber (a copy of which having been produced to the SGM marked “A” and initialled by the chairman of the SGM for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the allotment and issue of the Subscription Shares pursuant to the Subscription Agreement be and is hereby approved;
- (c) any one or more directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient to give effect to the Subscription Agreement and transactions contemplated thereunder.”

By Order of the Board

Xing Lin Medical Information Technology Company Limited

Lien Wai Hung

Chairman

Hong Kong, 30 November 2010

NOTICE OF SGM

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:

Room 2111, 21/F., Shun Tak Centre
West Tower
168-200 Connaught Road Central
Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.
3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.
5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.