
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of the Privateco Offer, this Composite Document and/or the Form of Acceptance and Transfer or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Jay Star Holdings Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance and Transfer to the purchaser(s) or the transferee(s), or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

This Composite Document should be read in conjunction with the accompanying Form of Acceptance and Transfer, the provisions of which form part of the terms of the Privateco Offer contained herein.

Hong Kong Exchanges and Clearing Limited, the Stock Exchange and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the Form of Acceptance and Transfer, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the Form of Acceptance and Transfer.

SMART TOP INVESTMENTS LIMITED
(incorporated in the British Virgin Islands with limited liability)

JAY STAR HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO UNCONDITIONAL VOLUNTARY CASH OFFER BY QUAM SECURITIES COMPANY LIMITED



**ON BEHALF OF
SMART TOP INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES IN
JAY STAR HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY SMART TOP INVESTMENTS LIMITED
AND/OR MR. YANG JAI SUNG
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM)**

**Joint financial advisers to
Smart Top Investments Limited**



Independent Financial Adviser to the Independent Privateco Shareholders of Jay Star Holdings Limited



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

A letter from the Privateco Board is set out on pages 5 to 9 of this Composite Document.

A letter from Quam Securities containing, among other things, details of the terms of the Privateco Offer is set out on pages 10 to 16 of this Composite Document. A letter from the Independent Financial Adviser containing their advice to the Independent Privateco Shareholders in respect of the Privateco Offer contained herein is set out on pages 17 to 27 of this Composite Document.

The procedures for acceptance and settlement of the Privateco Offer contained herein and other related information are set out on pages I-1 to I-4 in Appendix I to this Composite Document and in the accompanying Form of Acceptance and Transfer. Acceptances of the Privateco Offer contained herein should be received by the Transfer Agent (Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) by no later than 4:00 p.m. on Friday, 4 January 2013 or such later time/or date as Smart Top may determine and announce, with the consent of the Executive, in accordance with the Takeovers Code.

CONTENTS

		<i>PAGE</i>
EXPECTED TIMETABLE	.....	i
DEFINITIONS	.....	1
LETTER FROM THE PRIVATECO BOARD	.....	5
LETTER FROM QUAM SECURITIES	.....	10
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	.....	17
APPENDIX I	— FURTHER TERMS OF THE PRIVATECO OFFER	I-1
APPENDIX II	— FINANCIAL INFORMATION ON THE PRIVATECO GROUP	II-1
APPENDIX III	— VALUATION REPORT OF PROPERTIES OWNED BY THE PRIVATECO GROUP	III-1
APPENDIX IV	— SUMMARY OF THE CONSTITUTION OF THE PRIVATECO AND BERMUDA COMPANY LAW	IV-1
APPENDIX V	— GENERAL INFORMATION	V-1
ACCOMPANYING DOCUMENT — FORM OF ACCEPTANCE AND TRANSFER		

EXPECTED TIMETABLE

Privateco Offer opens for acceptance	Friday, 14 December 2012
Latest time and date for acceptance of the Privateco Offer	4:00 p.m. on Friday, 4 January 2013
Closing Date (<i>Note 1</i>).....	Friday, 4 January 2013
Announcement of the results of the Privateco Offer posted on the Stock Exchange's website under Kwang Sung and the SFC's website (<i>Note 1</i>)	By 7:00 p.m. on Friday, 4 January 2013
Announcement of the results of the Privateco Offer published in the newspapers	Saturday, 5 January 2013
Latest date for posting of remittances for the amounts due in respect of valid acceptances received under the Privateco Offer (<i>Note 2</i>)	Tuesday, 15 January 2013
Despatch date of the Privateco Share certificates for Privateco Shareholders who do not accept the Privateco Offer	no later than Friday, 18 January 2013

Notes:

1. The Privateco Offer, which is unconditional, will close on 4 January 2013 unless Smart Top revises or extends the Privateco Offer in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange's website under Kwang Sung by 7:00 p.m. on 4 January 2013 stating whether or not the Privateco Offer has closed, been revised or extended, and (if and to the extent revised or extended) the next closing date or that the Privateco Offer will remain open until further notice. If Smart Top decides that the Privateco Offer will remain open until further notice, at least 14 days' notice in writing will be given before the Privateco Offer is closed to those Independent Privateco Shareholders who have not accepted the Privateco Offer.
2. Acceptance of the Privateco Offer shall be irrevocable and shall not be capable of being withdrawn, except in the circumstances set out in Rule 19.2 of the Takeovers Code. Remittances in respect of the cash consideration payable for the Privateco Shares tendered under the Privateco Offer will be posted to the accepting Privateco Shareholder(s) at his/her/its own risks as soon as possible but in any event within 7 business days (being a day on which the Stock Exchange is open for the transaction of business) of the date of receipt by the Transfer Agent of the duly completed Form of Acceptance and Transfer.

All time and date references contained in this Composite Document and the Form of Acceptance and Transfer refer to Hong Kong time and date.

DEFINITIONS

Unless the context requires otherwise, the following expressions shall have the following meanings in this Composite Document and the Form of Acceptance and Transfer:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Business Day”	means a day (excluding a Saturday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Circular”	the circular of Kwang Sung dated 19 November 2012 in relation to, inter alia, the Group Reorganisation, the Distribution In Specie and the respective transactions contemplated thereunder
“Closing Date”	4 January 2013, or if the Privateco Offer is extended, the closing date of the Privateco Offer as extended by Smart Top in accordance with the Takeovers Code
“Companies Act”	the Companies Act 1981 of Bermuda
“Composite Document”	this offer and response document relating to the Privateco Offer issued by Smart Top and the Privateco in accordance with the Takeovers Code
“Distributed Businesses”	the Privateco Group’s business of manufacturing and sale of electronic components to customers in Korea and Japan
“Distribution In Specie”	the distribution in specie of the Privateco Shares by Kwang Sung to its Shareholders as described in the “Letter from the Board” of the Circular, which took place on 11 December 2012
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
“Form of Acceptance and Transfer”	the accompanying Form of Acceptance and Transfer of the Privateco Shares
“Group Reorganisation”	the reorganisation of the Kwang Sung Group, details of which are set out in the “Letter from the Board” of the Circular

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser”	Goldin Financial Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO and the financial adviser to the Independent Privateco Shareholders
“Independent Privateco Shareholder(s)”	the Privateco Shareholders other than Smart Top, Mr. Yang and parties acting in concert with any of them
“Independent Third Party(ies)”	party(ies) who are not connected persons (as defined in the Listing Rules) of Kwang Sung and who together with its/their ultimate beneficial owner(s) are independent of Kwang Sung and of connected persons (as defined in the Listing Rules) of the Kwang Sung Group
“KSE”	Kwang Sung Electronics Co. Ltd., a company incorporated in the Republic of Korea with limited liability which is beneficially owned by Mr. Yang and his family members as to 79.5% as at the Latest Practicable Date
“Kwang Sung”	Kwang Sung Electronics H.K. Co. Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“Kwang Sung Group”	Kwang Sung and its subsidiaries (including the Privateco Group) immediately before completion of the Share Sale Agreement and the Distribution In Specie
“Kwang Sung Shareholders”	holder(s) of the ordinary shares of HK\$0.10 each in Kwang Sung
“Latest Practicable Date”	12 December 2012, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information included in this Composite Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Yang”	Mr. Yang Jai Sung, the sole director of the Privateco and the sole director and sole shareholder of Smart Top

DEFINITIONS

“PRC”	the People’s Republic of China, which for the purpose of this Composite Document excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Privateco”	Jay Star Holdings Limited, a company incorporated in Bermuda with limited liability
“Privateco Board”	the board of the Privateco Director(s)
“Privateco Director(s)”	the director(s) of the Privateco
“Privateco Group”	the Privateco and its subsidiaries
“Privateco Offer”	the unconditional voluntary cash offer made by Quam Securities on behalf of Smart Top to acquire all the Privateco Shares (other than those already owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them)
“Privateco Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Privateco
“Privateco Shareholder(s)”	holder(s) of the Privateco Shares
“Quam Securities”	Quam Securities Company Limited, a corporation licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Record Date”	10 December 2012, the record date to determine entitlements to the Distribution In Specie
“Relevant Period”	the period beginning six months prior to 17 October 2012 (being the date of commencement of the offer period for the Privateco Offer) and ending on and including the Latest Practicable Date
“Remaining Businesses”	the Remaining Group’s business of manufacturing and sale of electronics components to worldwide customers (except for those in Korea and Japan) after the Group Reorganisation and the Distribution In Specie
“Remaining Group”	Kwang Sung (including the branch of Kwang Sung established in the Republic of Korea), 石岩光星電子(深圳)有限公司 (Shiyan Kwang Sung Electronics (Shenzhen) Co. Limited*), Kwang Sung Electronics Holdings Co. Limited, Kwang Sung Technology Holdings Co. Limited, 深圳光星電子有限公司 (Shenzhen Kwang Sung Electronics Co. Ltd.*) and 光星電子貿易(深圳)有限公司 (Kwang Sung Electronics Trading (Shenzhen) Co., Ltd.*)

** For identification purpose only*

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Sale Agreement”	the agreement dated 27 September 2012 (as amended and supplemented by a supplemental agreement dated 16 October 2012) entered into among the Vendors and Ultra Harvest in respect of the acquisition by Ultra Harvest an aggregate of 174,082,000 shares of HK\$0.10 each in Kwang Sung held by the Vendors
“Smart Top”	Smart Top Investments Limited, a company incorporated in the BVI with limited liability which is wholly owned by Mr. Yang
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Transfer Agent”	the transfer agent for the Privateco Shares, being Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Ultra Harvest”	Ultra Harvest Limited, a company incorporated in the BVI with limited liability
“Vendors”	Mr. Yang and KSE
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE PRIVATECO BOARD

JAY STAR HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Sole director:
Yang Jai Sung

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Principal place of business
in Hong Kong:*
Unit 13, 12/F, Wing On Plaza
62 Mody Road
Tsim Sha Tsui East
Kowloon
Hong Kong

14 December 2012

To the Independent Privateco Shareholders:

Dear Sir or Madam,

**UNCONDITIONAL VOLUNTARY CASH OFFER BY
QUAM SECURITIES COMPANY LIMITED
ON BEHALF OF
SMART TOP INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES IN
JAY STAR HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY SMART TOP INVESTMENTS LIMITED AND/OR
MR. YANG JAI SUNG
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM)**

INTRODUCTION

On 17 October 2012, it was jointly announced by Kwang Sung, Smart Top, Ultra Harvest and the Privateco that the Vendors and Ultra Harvest had entered into the Share Sale Agreement pursuant to which the Vendors under the Share Sale Agreement had conditionally agreed to sell their aggregate interests of 174,082,000 shares in Kwang Sung to Ultra Harvest. The Share Sale Agreement was conditional upon, amongst other things, completion of the Group Reorganisation, pursuant to which, the Kwang Sung Group would, amongst other things, reorganise itself to form the Remaining Group (which is principally engaged in the business of manufacturing and sale of electronics components to worldwide customers (except for those in Korea and Japan) (i.e. the Remaining Businesses)) and the Privateco Group (which is principally engaged in all businesses of the Kwang Sung Group, other than the Remaining Businesses, carried on by the Privateco Group (i.e. the Distributed Businesses)).

LETTER FROM THE PRIVATECO BOARD

It was also announced that upon completion of the share transfer under the Share Sale Agreement, Kwang Sung would distribute all of its Privateco Shares in specie to the Kwang Sung Shareholders whose names appeared on the register of members of Kwang Sung on the Record Date on the basis of one Privateco Share for each share in Kwang Sung held. It was also announced that upon completion of the Distribution In Specie, Quam Securities would, on behalf of Smart Top and pursuant to the Takeovers Code, make the Privateco Offer to the Independent Privateco Shareholders. The Distribution In Specie took place on 11 December 2012.

This Composite Document provides you with, amongst other things, information on the Privateco Offer, the Privateco Group and the letter of advice from the Independent Financial Adviser containing its advice to the Independent Privateco Shareholders in respect of the Privateco Offer.

THE PRIVATECO OFFER

In its letter contained in this Composite Document, Quam Securities, on behalf of Smart Top (a company wholly-owned by Mr. Yang) and pursuant to the Takeovers Code, is making the Privateco Offer to the Independent Privateco Shareholders to acquire all the Privateco Shares (other than those already owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them) on the following basis:

for each Privateco Share held HK\$0.38 in cash

As at the Latest Practicable Date, the Privateco had 323,896,933 Privateco Shares in issue. As stated in the letter from Quam Securities in this Composite Document, Smart Top, Mr. Yang and parties acting in concert with any of them were interested in an aggregate of 174,082,000 Privateco Shares, representing approximately 53.75% of the issued share capital of the Privateco as at the Latest Practicable Date. Accordingly, a total of 149,814,933 Privateco Shares are subject to the Privateco Offer. The Privateco Shares to be acquired under the Privateco Offer must be fully paid and free from all liens, charges, claims and encumbrances and any third party rights together with all rights attaching to them as at the date of issue of the Privateco Shares, including all dividends and distributions declared, made or paid on or after the date of issue of the Privateco Shares.

The offer price of HK\$0.38 per Privateco Share under the Privateco Offer represents a premium of approximately 0.80% over the unaudited pro forma net asset value per Privateco Share of approximately HK\$0.377 per Privateco Share, calculated on the basis of the unaudited pro forma net asset value of the Privateco Group of approximately HK\$122,087,000 as at 30 June 2012 as set out in Appendix II to this Composite Document and assuming that the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012 and a total of 323,896,933 Privateco Shares were in issue as at 30 June 2012.

Save for the 323,896,933 Privateco Shares in issue as at the Latest Practicable Date, the Privateco did not have in issue any other Privateco Shares, or outstanding options, derivatives, warrants or securities which are convertible or exchangeable into the Privateco Shares.

The Privateco Offer is unconditional in all respects. Under the terms of the Privateco Offer, acceptance of the Privateco Offer is irrevocable and once given cannot be withdrawn except in the circumstances set out in Rule 19.2 of the Takeovers Code. The Executive may require that the Independent Privateco Shareholders accepting the Privateco Offer be granted a right of withdrawal, on terms acceptable to the Executive, until the requirements under Rule 19 of the Takeovers Code can be met.

LETTER FROM THE PRIVATECO BOARD

Further details of the Privateco Offer including, amongst others, the terms and conditions and the procedures for acceptance and settlement and further terms of the Privateco Offer are set out in the letter from Quam Securities contained in Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

INFORMATION ON THE PRIVATECO

The Privateco Group is principally engaged in the Distributed Businesses, being all businesses of the Kwang Sung Group, other than the Remaining Businesses, carried on by the Privateco Group. The accountants' report of the Privateco Group for the three years ended 31 December 2011 and six months ended 30 June 2012 is set out in Appendix II to this Composite Document. The unaudited pro forma financial information of the Privateco Group for the six months ended 30 June 2012 is set out in Appendix II to this Composite Document.

Based on the unaudited pro forma combined statement of comprehensive income of the Privateco Group as set out in Appendix II to this Composite Document, assuming the Group Reorganisation and the Distribution In Specie had taken place on 1 January 2012, turnover of the Privateco Group for the six months ended 30 June 2012 would have amounted to approximately HK\$98.1 million, and the loss for the six months ended 30 June 2012 would have amounted to approximately HK\$11.5 million.

Based on the unaudited pro forma combined statement of financial position of the Privateco Group as set out in Appendix II to this Composite Document, assuming the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012, the net asset value of the Privateco Group as at 30 June 2012 would have been approximately HK\$122.1 million.

TRANSFER OF THE PRIVATECO SHARES AFTER CLOSE OF THE PRIVATECO OFFER

Withdrawal from CCASS

The Privateco Shares will not be listed on the Stock Exchange (or any other stock exchange). Accordingly, the Privateco Shares will not be accepted as eligible securities by HKSCC for deposit, clearance or settlement in CCASS. The Privateco Shares received by any persons holding their Privateco Shares through CCASS will initially be held in the name of HKSCC Nominees. HKSCC will not however provide any transfer services in respect of any Privateco Shares. Any person holding any Privateco Shares through HKSCC Nominees wishing to transfer any Privateco Shares must first arrange for withdrawal of such Privateco Shares from CCASS and the registration of the Privateco Shares in his own name. A fee of HK\$1.00 will be charged by HKSCC for each withdrawal.

Procedures for transfer of the Privateco Shares

Codan Services Limited will maintain a register of holders of the Privateco Shares in Bermuda. Tricor Standard Limited is appointed as the transfer agent to receive documents in respect of splitting and registration of transfer of the Privateco Shares and to submit the same to Codan Services Limited for registration.

LETTER FROM THE PRIVATECO BOARD

A transfer of the Privateco Shares shall be effected by completing and signing an instrument of transfer by both the transferor and transferee (unless the Privateco Board considers appropriate to dispense with such execution by the transferee) under the hand of their officers duly authorised in writing or otherwise by a duly authorised person. The instrument of transfer can be obtained at the office of Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, and the signed instruments of transfer must be delivered for registration at the aforesaid office of Tricor Standard Limited from 9:00 a.m. to 4:30 p.m. on any Business Day.

The Privateco Board may decline to recognise any instrument of transfer unless:

- (i) a fee of HK\$2.50 per certificate being issued or cancelled is paid to Tricor Standard Limited in respect thereof;
- (ii) the instrument of transfer is accompanied by the certificate of the Privateco Shares to which it relates (to the extent a certificate was issued in respect of such Privateco Shares to be transferred), and such other evidence as the Privateco Board may reasonably require to show the right of the transferor to make the transfer;
- (iii) the instrument of transfer is in respect of only one class of share; and
- (iv) the instrument of transfer is properly stamped (if necessary).

Each new certificate to be issued upon a transfer of the Privateco Shares will be made available for personal collection by the holder entitled thereto during normal business hours (from 9:00 a.m. to 4:30 p.m.) on any Business Day at the aforesaid office of Tricor Standard Limited from the fifteenth Business Day onwards following receipt of the documents specified above by Tricor Standard Limited and upon production of such identification papers as may be reasonably requested by the Privateco or Tricor Standard Limited.

Where some but not all of the Privateco Shares in respect of which a certificate is issued are to be transferred, a new certificate in respect of the balance of the Privateco Shares not so transferred will be made available for personal collection by the holder entitled thereto during normal business hours (from 9:00 a.m. to 4:30 p.m.) on any Business Day at the aforesaid office of Tricor Standard Limited from the fifteenth Business Day onwards following receipt of the documents specified above by Tricor Standard Limited and upon production of such identification papers as may be reasonably requested by the Privateco or Tricor Standard Limited.

INTENTION OF SMART TOP REGARDING THE PRIVATECO GROUP

Your attention is drawn to the letter from Quam Securities in this Composite Document for the intention of Smart Top regarding the Privateco Group. The Privateco Board is of the view that Smart Top's plan in respect of the Privateco Group is in the best interest of the Privateco and the Privateco Shareholders as a whole.

LETTER FROM THE PRIVATECO BOARD

RECOMMENDATION

As the Privateco Board does not have any non-executive directors or any independent non-executive directors, no independent committee of the Privateco Board can be formed to give recommendation to the Independent Privateco Shareholders in connection with the Privateco Offer. In these circumstances, the Independent Financial Adviser has been appointed to advise the Independent Privateco Shareholders as to whether the terms of the Privateco Offer are fair and reasonable so far as the Independent Privateco Shareholders are concerned and whether the Independent Privateco Shareholders should accept the Privateco Offer.

Your attention is drawn to the letter from the Independent Financial Adviser to the Independent Privateco Shareholders set out on pages 17 to 27 of this Composite Document which sets out their recommendation in relation to the Privateco Offer and the principal factors considered by them in arriving at their recommendation.

ADDITIONAL INFORMATION

Your attention is also drawn to the expected timetable on page i of this Composite Document and the additional information contained in the appendices to this Composite Document and the accompanying Form of Acceptance and Transfer.

Yours faithfully,
By order of the board of
Jay Star Holdings Limited
Yang Jai Sung
Sole director

LETTER FROM QUAM SECURITIES



Quam Securities Company Limited

A Member of The Quam Group

14 December 2012

To the Independent Privateco Shareholders

Dear Sir or Madam,

**UNCONDITIONAL VOLUNTARY CASH OFFER BY
QUAM SECURITIES COMPANY LIMITED
ON BEHALF OF
SMART TOP INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES IN
JAY STAR HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY SMART TOP INVESTMENTS LIMITED AND/OR
MR. YANG JAI SUNG
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM)**

INTRODUCTION

On 17 October 2012, it was jointly announced by Kwang Sung, Smart Top, Ultra Harvest and the Privateco that the Vendors and Ultra Harvest had entered into the Share Sale Agreement pursuant to which the Vendors under the Share Sale Agreement had conditionally agreed to sell their aggregate interests of 174,082,000 shares in Kwang Sung to Ultra Harvest. The Share Sale Agreement was conditional upon, amongst other things, completion of the Group Reorganisation, pursuant to which, the Kwang Sung Group would, amongst other things, reorganise itself to form the Remaining Group (which is principally engaged in the business of manufacturing and sale of electronics components to worldwide customers (except for those in Korea and Japan) (i.e. the Remaining Businesses)) and the Privateco Group (which is principally engaged in all businesses of the Kwang Sung Group, other than the Remaining Businesses, carried on by the Privateco Group (i.e. the Distributed Businesses)).

It was also announced that upon completion of the share transfer under the Share Sale Agreement, Kwang Sung would distribute all of its Privateco Shares in specie to the Kwang Sung Shareholders whose names appeared on the register of members of Kwang Sung on the Record Date on the basis of one Privateco Share for each share in Kwang Sung held. It was also announced that upon completion of the Distribution In Specie, Quam Securities would, on behalf of Smart Top and pursuant to the Takeovers Code, make the Privateco Offer to the Independent Privateco Shareholders. The Distribution In Specie took place on 11 December 2012.

This letter sets out, amongst other things, the terms of the Privateco Offer, information on Smart Top and the intentions of Smart Top regarding the Privateco Group. Further details of the terms of the Privateco Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance and Transfer.

LETTER FROM QUAM SECURITIES

THE PRIVATECO OFFER

On behalf of Smart Top (a company wholly-owned by Mr. Yang) and pursuant to the Takeovers Code, Quam Securities is making the Privateco Offer to the Independent Privateco Shareholders to acquire all the Privateco Shares (other than those already owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them) which is unconditional in all respects on the following basis:

for each Privateco Share held HK\$0.38 in cash

As at the Latest Practicable Date, the Privateco had 323,896,933 Privateco Shares in issue. As a result of the Distribution In Specie, Smart Top, Mr. Yang and parties acting in concert with any of them were interested in an aggregate of 174,082,000 Privateco Shares, representing approximately 53.75% of the issued share capital of the Privateco as at the Latest Practicable Date. Accordingly, a total of 149,814,933 Privateco Shares (representing approximately 46.25% of the share capital of the Privateco in issue) are subject to the Privateco Offer. The Privateco Shares to be acquired under the Privateco Offer shall be fully paid and free from all liens, charges, claims and encumbrances and any third party rights together with all rights attached to them as at the date of issue of the Privateco Shares, including all dividends and distributions declared, made or paid on or after the date of issue of the Privateco Shares.

The offer price of HK\$0.38 per Privateco Share under the Privateco Offer represents a premium of approximately 0.80% over the unaudited pro forma net asset value per Privateco Share of approximately HK\$0.377 per Privateco Share, calculated on the basis of the unaudited pro forma net asset value of the Privateco Group of approximately HK\$122,087,000 as at 30 June 2012 as set out in Appendix II to this Composite Document and assuming that the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012 and a total of 323,896,933 Privateco Shares were in issue as at 30 June 2012.

Save for the 323,896,933 Privateco Shares in issue as at the Latest Practicable Date, the Privateco did not have in issue any other Privateco Shares, or outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Privateco Shares.

The Privateco Offer is unconditional in all respects. Under the terms of the Privateco Offer, acceptance of the Privateco Offer is irrevocable and once given cannot be withdrawn except in the circumstances set out in Rule 19.2 of the Takeovers Code. The Executive may require that the Independent Privateco Shareholders accepting the Privateco Offer be granted a right of withdrawal, on terms acceptable to the Executive, until the requirements under Rule 19 of the Takeovers Code can be met.

The procedures for acceptance and further terms of the Privateco Offer are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

VALUE AND FINANCING OF THE PRIVATECO OFFER

On the basis of the offer price of HK\$0.38 per Privateco Share, the entire existing issued share capital of the Privateco of 323,896,933 Privateco Shares is valued at approximately HK\$123,080,834.54. There are 149,814,933 Privateco Shares subject to the Privateco Offer. Accordingly, the Privateco Offer is valued at approximately HK\$56,929,674.54 based on the offer price of HK\$0.38 per Privateco Share.

LETTER FROM QUAM SECURITIES

As disclosed in the joint announcement dated 17 October 2012 issued by Kwang Sung, Ultra Harvest, the Privateco and Smart Top, the Privateco Offer would be financed by (i) an unsecured loan pursuant to a loan agreement entered into between Mr. Yang and an Independent Third Party of HK\$15,000,000; (ii) a loan facility advanced to Mr. Yang by Quam Securities of HK\$16,930,000; and (iii) the own resources of Mr. Yang as to the balance.

Immediately after completion of the Share Sale Agreement on 11 December 2012, an amount of HK\$42,559,600.83 (being the consideration for the portion of Sale Shares held by Mr. Yang less the initial deposit of HK\$10 million and the intra-group balance (the "Proceeds")) has been received by Mr. Yang. On 11 December 2012, the loan facility advanced by Quam Securities and unsecured loan provided by an Independent Third Party have been settled in full by part of the Proceeds and own resources of Mr. Yang. Thereafter, the Privateco Offer is financed by the own resources of Mr. Yang. Quam Capital Limited and Guotai Junan Capital Limited, the joint financial advisers to Smart Top, are satisfied that sufficient financial resources are available to Smart Top or Mr. Yang to satisfy full acceptance of the Privateco Offer.

EFFECT OF ACCEPTING OR NOT ACCEPTING THE PRIVATECO OFFER

By accepting the Privateco Offer, the Independent Privateco Shareholders will sell their Privateco Shares and all rights attached thereto to Smart Top free from all liens, charges, claims and encumbrances and any third party rights together with all rights attached to them, including the right to receive all dividends and distributions declared, paid or made at or after the date of the issue of those Privateco Shares.

The Privateco Offer provides a cash exit to the Independent Privateco Shareholders (at HK\$0.38 per Privateco Share) to realise all or part of their shareholdings in the Privateco, which have no liquid market as there is no intention to list the Privateco Shares on any stock exchange. Moreover, the Privateco Shares may be subject to the compulsory acquisition provisions of the Companies Act 1981 of Bermuda (as may be amended from time to time) if the number of the Privateco Shares acquired by Smart Top under the Privateco Offer (representing 90% of the Privateco Shares subject to the Privateco Offer and 75% in number of Privateco Shareholders accepting the Privateco Offer) gives rise to a right of compulsory acquisition under such provisions.

The share certificates of the Privateco will be posted by ordinary post at their own risk only to the Privateco Shareholders who do not accept the Privateco Offer in respect of all or part of the Privateco Shares held by them within 10 Business Days after the close of the Privateco Offer.

TRANSFER OF THE PRIVATECO SHARES AFTER CLOSE OF THE PRIVATECO OFFER

Withdrawal from CCASS

The Privateco Shares will not be listed on the Stock Exchange (or any other stock exchange). Accordingly, the Privateco Shares will not be accepted as eligible securities by HKSCC for deposit, clearance or settlement in CCASS. The Privateco Shares received by any persons holding their Privateco Shares through CCASS will initially be held in the name of HKSCC Nominees. HKSCC will not however provide any transfer services in respect of any Privateco Shares. Any person holding any Privateco Shares through HKSCC Nominees wishing to transfer any Privateco Shares must first arrange for withdrawal of such Privateco Shares from CCASS and the registration of the Privateco Shares in his own name. A fee of HK\$1.00 will be charged by HKSCC for each withdrawal.

LETTER FROM QUAM SECURITIES

Procedures for transfer of the Privateco Shares

Codan Services Limited will maintain a register of holders of the Privateco Shares in Bermuda. Tricor Standard Limited is appointed as the transfer agent to receive documents in respect of splitting and registration of transfer of the Privateco Shares and to submit the same to Codan Services Limited for registration.

A transfer of the Privateco Shares shall be effected by completing and signing an instrument of transfer by both the transferor and transferee (unless the Privateco Board considers appropriate to dispense with such execution by the transferee) under the hand of their officers duly authorised in writing or otherwise by a duly authorised person. The instrument of transfer can be obtained at the office of Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, and the signed instruments of transfer must be delivered for registration at the aforesaid office of Tricor Standard Limited from 9:00 a.m. to 4:30 p.m. on any Business Day.

The Privateco Board may decline to recognise any instrument of transfer unless:

- (i) a fee of HK\$2.50 per certificate being issued or cancelled is paid to Tricor Standard Limited in respect thereof;
- (ii) the instrument of transfer is accompanied by the certificate of the Privateco Shares to which it relates (to the extent a certificate was issued in respect of such Privateco Shares to be transferred), and such other evidence as the Privateco Board may reasonably require to show the right of the transferor to make the transfer;
- (iii) the instrument of transfer is in respect of only one class of share; and
- (iv) the instrument of transfer is properly stamped (if necessary).

Each new certificate to be issued upon a transfer of the Privateco Shares will be made available for personal collection by the holder entitled thereto during normal business hours (from 9:00 a.m. to 4:30 p.m.) on any Business Day at the aforesaid office of Tricor Standard Limited from the fifteenth Business Day onwards following receipt of the documents specified above by Tricor Standard Limited and upon production of such identification papers as may be reasonably requested by the Privateco or Tricor Standard Limited.

Where some but not all of the Privateco Shares in respect of which a certificate is issued are to be transferred, a new certificate in respect of the balance of the Privateco Shares not so transferred will be made available for personal collection by the holder entitled thereto during normal business hours (from 9:00 a.m. to 4:30 p.m.) on any Business Day at the aforesaid office of Tricor Standard Limited from the fifteenth Business Day onwards following receipt of the documents specified above by Tricor Standard Limited and upon production of such identification papers as may be reasonably requested by the Privateco or Tricor Standard Limited.

HONG KONG STAMP DUTY

Since the Privateco is a company incorporated in Bermuda and its register of members is located and maintained there, no Hong Kong stamp duty is payable on any transfer of the Privateco Shares in Bermuda.

LETTER FROM QUAM SECURITIES

COMPULSORY ACQUISITION

Subject to sufficient Privateco Shares being acquired, pursuant to sections 102 and 103 of the Companies Act, Smart Top intends to avail itself of the right to compulsorily acquire the remaining Privateco Shares not already acquired under the Privateco Offer. Under section 102 of the Companies Act, if, within four months of commencement of the Privateco Offer, Smart Top receives acceptances from the Independent Privateco Shareholders representing 90% of the Privateco Shares subject to the Privateco Offer (and such acceptances must also represent 75% in number of the Independent Privateco Shareholders accepting the Privateco Offer) Smart Top can compulsorily acquire the Privateco Shares held by the remaining Privateco Shareholders. Under section 103 of the Companies Act, Smart Top can compulsorily acquire the Privateco Shares held by the remaining Privateco Shareholders once it holds 95% of all the issued Privateco Shares. In addition to the aforesaid requirements, Rule 2.11 of the Takeovers Code also requires that the right of compulsory acquisition may only be exercised if acceptances of the Privateco Offer and purchases (in each case of the disinterested Privateco Shares) made by Smart Top and parties acting in concert with it during the period of four months after posting of the Composite Document total 90% of the disinterested Privateco Shares. Further announcements will be made if and when Smart Top decides to exercise such right of compulsory acquisition as and when appropriate.

INFORMATION ON SMART TOP

Smart Top is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Yang. Mr. Yang is the sole director and shareholder of Smart Top. Its principal activity is investment holding.

INTENTION OF SMART TOP REGARDING THE PRIVATECO

Given that the Privateco Shares will not be listed on the Stock Exchange or any other stock exchange, it will be difficult for holders of the Privateco Shares to liquidate their shareholdings in the Privateco. Mr. Yang therefore considers that it is appropriate to provide the Independent Privateco Shareholders with an opportunity to realise their investments in the Privateco by making the Privateco Offer on a voluntary basis pursuant to the Takeovers Code. It is the intention of Smart Top that the Privateco Group will not make changes to its principal businesses nor conduct any business other than the Distributed Businesses. It is also the intention of Smart Top that the Privateco Group will not hold any material assets other than those relating to the Distributed Businesses, nor be injected any major assets, nor dispose of any major assets, after the close of the Privateco Offer unless prior approval by the Privateco Shareholders has been obtained.

Smart Top does not intend to introduce any major changes to the existing operation or to discontinue the employment of any employees of the Privateco Group. There is no plan for Smart Top to redeploy any fixed assets of the Privateco Group other than in its ordinary course of business. Smart Top also expects that there will be no material change to the existing business of the Privateco. While Mr. Yang or Smart Top is of the view that the Privateco Offer provides himself/itself with a good opportunity to strengthen his/its investment in the Distributed Businesses while providing a cash exit for the Privateco Shareholders to realise all or part of their shareholdings in the Privateco, which are unlisted and may be illiquid, there is no intention to apply for listing of the Privateco Shares on the Stock Exchange or any other stock exchange. The interests of the Privateco Shareholders will be safeguarded by the constitutional documents of the Privateco, which contains largely comparable provisions required under the Listing Rules in respect of listed issuers.

LETTER FROM QUAM SECURITIES

A summary of the key provisions of the constitutional documents of the Privateco has been included in Appendix IV to this Composite Document.

Notwithstanding that there is no intention for the Privateco Group to conduct any fund raising activities, the Privateco Group may require further funding from the Privateco Shareholders for the development of its business in the future but no plan in respect of funding has been contemplated as at the Latest Practicable Date.

If the relevant thresholds are not reached for the exercise of the compulsory acquisition rights referred to in the section headed “Compulsory Acquisition” above in this letter, the Independent Privateco Shareholders who do not accept the Privateco Offer will end up holding Privateco Shares which are unlisted shares. It may be difficult for the holders of Privateco Shares to dispose of the Privateco Shares as no on market trading facilities for such Privateco Shares will be available.

THE PRIVATECO BOARD

As at the Latest Practicable Date, the sole director of the Privateco is Mr. Yang. If the Privateco remains a public company upon the close of the Privateco Offer, it will appoint at least three independent non-executive directors and it will still be subject to the provisions of the Takeovers Code. Further announcement will be made in this regard as and when appropriate.

ACCEPTANCE AND SETTLEMENT

Appendix I to this Composite Document and the Form of Acceptance and Transfer contain further details regarding the procedures for acceptance and settlement of the Privateco Offer, and further terms of the Privateco Offer.

TAXATION

You are recommended to consult your own professional advisers if you are in any doubt as to the taxation implications of your acceptance of the Privateco Offer. It is emphasised that none of Smart Top, the Privateco, Quam Securities, any of their respective directors and any persons involved in the Privateco Offer accepts responsibility for any tax effects or liabilities of any person or persons as a result of their acceptance of the Privateco Offer.

OVERSEAS PRIVATECO SHAREHOLDERS

The making of the Privateco Offer in, or to the Independent Privateco Shareholders in, any jurisdiction outside Hong Kong may be affected by the laws of the relevant jurisdictions. Independent Privateco Shareholders who are citizens, residents or nationals of jurisdictions outside Hong Kong should obtain their respective independent professional advice to advise themselves about, and observe, all applicable legal and regulatory requirements of the relevant jurisdictions.

It is the responsibility of any Independent Privateco Shareholder not resident in Hong Kong who wishes to accept the Privateco Offer to satisfy himself as to the full observance of all the applicable laws and regulations of any relevant jurisdiction in connection therewith, including obtaining any government or other consent which may be required, complying with any other necessary formality and paying any issue, transfer or other taxes due in respect of such jurisdiction.

LETTER FROM QUAM SECURITIES

INDEPENDENT ADVICE

Goldin Financial Limited has been appointed as the Independent Financial Adviser to advise the Independent Privateco Shareholders (i) as to whether the terms of the Privateco Offer are, or are not, fair and reasonable; and (ii) as to the acceptance of the Privateco Offer. Your attention is drawn to their letter of advice to the Independent Privateco Shareholders set out on pages 17 to 27 of this Composite Document.

ADDITIONAL INFORMATION

Your attention is drawn to the section headed “Expected Timetable” on page i of this Composite Document, the accompanying Form of Acceptance and Transfer and the additional information set out in the appendices which form part of this Composite Document.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Goldin Financial Limited setting out the advice to the Independent Privateco Shareholders in respect of the Privateco Offer, which has been prepared for the purpose of inclusion in this Composite Document.



高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Goldin Financial Limited
23rd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

14 December 2012

To: *the Independent Privateco Shareholders*

Dear Sirs,

**UNCONDITIONAL VOLUNTARY CASH OFFER BY
QUAM SECURITIES COMPANY LIMITED
ON BEHALF OF
SMART TOP INVESTMENTS LIMITED
FOR ALL THE ISSUED SHARES IN
JAY STAR HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY SMART TOP INVESTMENTS LIMITED
AND/OR MR. YANG JAI SUNG
AND PARTIES ACTING IN CONCERT WITH ANY OF THEM)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Privateco Shareholders in respect of the Privateco Offer. Details of the Privateco Offer, among other things, are set out in the Composite Document dated 14 December 2012, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

As at the Latest Practicable Date, the Privateco had 323,896,933 Privateco Shares in issue. As stated in the letter from Quam Securities in the Composite Document, Smart Top, Mr. Yang and parties acting in concert with any of them were interested in an aggregate of 174,082,000 Privateco Shares, representing approximately 53.75% of the issued share capital of the Privateco as at the Latest Practicable Date.

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

for each Privateco Share held HK\$0.38 in cash (the “Privateco Offer Price”)

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Privateco Offer is unconditional in all respects. Under the terms of the Privateco Offer, acceptance of the Privateco Offer is irrevocable and once given cannot be withdrawn except in the circumstances set out in Rule 19.2 of the Takeovers Code.

Further details of the terms of the Privateco Offer, including the procedures for acceptance and settlement of the Privateco Offer, are set out in the letter from Quam Securities and Appendix I to the Composite Document.

As the Privateco Board does not have any non-executive directors or any independent non-executive directors, no independent committee of the Privateco Board can be formed to give recommendation to the Independent Privateco Shareholders in connection with the Privateco Offer. In these circumstances, we have been appointed to advise the Independent Privateco Shareholders as to whether the terms of the Privateco Offer are fair and reasonable so far as the Independent Privateco Shareholders are concerned and whether the Independent Privateco Shareholders should accept the Privateco Offer.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information and representations contained or referred to in the Composite Document and the information provided and representations made to us by the sole Privateco Director and the management of the Privateco. We have assumed that all the statements, information and representations contained or referred to in the Composite Document and all information provided and representations made by the sole Privateco Director and the management of the Privateco for which they are solely responsible, are true and accurate at the time they were provided and made and as at the Latest Practicable Date. Independent Privateco Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to date throughout the offer period (as defined under the Takeovers Code). We have no reason to doubt the truth, accuracy and completeness of the information provided and representations made to us by the sole Privateco Director and the management of the Privateco. We consider that the information provided and representations made to us are sufficient for us to form a reasonable basis for our opinion. We are not aware of any reason to suspect any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. The sole Privateco Director has further confirmed that, having made all reasonable enquiries, and to the best of his knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Composite Document, including this letter, incorrect or misleading. We have not, however, carried out any independent verification of the information provided and representations made to us by the sole Privateco Director and the management of the Privateco, nor have we conducted an independent investigation into the business and affairs of the Privateco Group.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendations on the Privateco Offer to the Independent Privateco Shareholders, we have taken into account the following principal factors and reasons:

1. Background of the Privateco Offer

On 17 October 2012, it was jointly announced by Kwang Sung, Smart Top, Ultra Harvest and the Privateco that the Vendors and Ultra Harvest had entered into the Share Sale Agreement pursuant to which the Vendors under the Share Sale Agreement had conditionally agreed to sell their aggregate interests of 174,082,000 shares in Kwang Sung to Ultra Harvest. The Share Sale Agreement was conditional upon, amongst other things, completion of the Group Reorganisation, pursuant to which, the Kwang Sung Group would, amongst other things, reorganise itself to form the Remaining Group (which is principally engaged in the business of manufacturing and sale of electronics components to worldwide customers (except for those in Korea and Japan) (i.e. the Remaining Businesses)) and the Privateco Group (which is principally engaged in all businesses of the Kwang Sung Group, other than the Remaining Businesses, carried on by the Privateco Group (i.e. the Distributed Businesses)).

It was also announced that upon completion of the share transfer under the Share Sale Agreement, Kwang Sung would distribute all of its Privateco Shares in specie to the Kwang Sung Shareholders whose names appeared on the register of members of Kwang Sung on the Record Date on the basis of one Privateco Share for each share in Kwang Sung held. It was also announced that upon completion of the Distribution In Specie, Quam Securities would, on behalf of Smart Top and pursuant to the Takeovers Code, make the Privateco Offer to the Independent Privateco Shareholders. The Distribution In Specie took place on 11 December 2012.

As at the Latest Practicable Date, the Privateco had 323,896,933 Privateco Shares in issue. As stated in the letter from Quam Securities in the Composite Document, Smart Top, Mr. Yang and parties acting in concert with any of them were interested in an aggregate of 174,082,000 Privateco Shares, representing approximately 53.75% of the issued share capital of the Privateco as at the Latest Practicable Date.

Quam Securities, on behalf of Smart Top (a company wholly-owned by Mr. Yang) and pursuant to the Takeovers Code, is making the Privateco Offer to the Independent Privateco Shareholders to acquire all the Privateco Shares (other than those already owned or agreed to be acquired by Mr. Yang and/or Smart Top and parties acting in concert with any of them). The Privateco Offer is unconditional in all respects. Under the terms of the Privateco Offer, acceptance of the Privateco Offer is irrevocable and once given cannot be withdrawn except in the circumstances set out in Rule 19.2 of the Takeovers Code. The Executive may require that the Independent Privateco Shareholders accepting the Privateco Offer be granted a right of withdrawal, on terms acceptable to the Executive, until the requirements under Rule 19 of the Takeovers Code can be met.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

2. Information of the Privateco Group

The Privateco Group is principally engaged in the Distributed Businesses, being all businesses of the Kwang Sung Group, other than the Remaining Businesses, carried on by the Privateco Group.

2.1 Operating results of the Privateco Group

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

Set out below is the financial information of the Privateco Group for each of the three financial years ended 31 December 2011 and each of the six months ended 30 June 2011 and 2012, as set out in Appendix II to the Composite Document:

	For the year ended			For the	
	31 December			six months ended	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Revenue	–	–	58,563	–	98,108
Loss for the year/period	(1,244)	(222)	(9,309)	(360)	(11,465)

For the years ended 31 December 2009 and 2010 and prior to 1 August 2011, the Remaining Group was in charge of the existing distributed businesses. Accordingly, the Privateco Group did not generate any turnover and recorded net loss of approximately HK\$1.24 million and approximately HK\$0.22 million for the years ended 31 December 2009 and 2010 respectively. Such loss for the respective year and period was mainly attributable to research and development expenses.

Starting from 1 August 2011, the Remaining Group gradually transferred the Distributed Businesses to the Privateco Group and completed the transfer in October 2011. Accordingly, the Privateco Group recorded revenue of approximately HK\$58.56 million and approximately HK\$98.11 million for the year ended 31 December 2011 and for the six months ended 30 June 2012 respectively. As advised by the management of the Privateco, the majority of the revenue for the year ended 31 December 2011 was derived in the last quarter of the year since the Remaining Group completed the transfer of the Distributed Businesses to the Privateco Group in October 2011, resulting in the lower revenue compared with that of the six months ended 30 June 2012. The Privateco Group recorded a loss of approximately HK\$9.31 million and approximately HK\$11.47 million for the year ended 31 December 2011 and for the six months ended 30 June 2012 respectively. As advised by the management of the Privateco, such loss was mainly due to the low gross profit margin relating to high production cost and expenditure on research and development relating to the Privateco Group's products.

The net assets attributable to owners of the Privateco as at 30 June 2012 was approximately HK\$85.69 million.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

2.2 *Unaudited pro forma financial information of the Privateco Group*

For the purpose of this section only, “Prior Privateco Group” refers to the Privateco Group before completion of the Group Reorganisation and the Distribution In Specie as at 30 June 2012.

According to the unaudited pro forma financial information of the Privateco Group as set out in Appendix II to the Composite Document, assuming the Group Reorganisation and the Distribution In Specie had taken place at 1 January 2012, the revenue and net loss of the Privateco Group for the six months ended 30 June 2012 would be approximately HK\$98.11 million and approximately HK\$11.47 million respectively, which are the same as those of the Prior Privateco Group.

According to the unaudited pro forma financial information of the Privateco Group as set out in Appendix II to the Composite Document, assuming the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012, the pro forma total assets of the Privateco Group would be approximately HK\$268.52 million, which represented a decrease of approximately HK\$0.16 million from the Prior Privateco Group’s total assets as at 30 June 2012. The pro forma total liabilities of the Privateco Group would be approximately HK\$146.43 million, which represented a decrease of approximately HK\$36.56 million from the Prior Privateco Group’s total liabilities as at 30 June 2012. The pro forma net assets of the Privateco Group would be increased from approximately HK\$85.69 million to approximately HK\$122.09 million.

2.3 *Prospect and outlook of the Privateco Group*

Overview of the global economy

With reference to the report “World Economic Outlook” issued by International Monetary Fund (“IMF”) (www.imf.org) in October 2012, indicators of economic activity (including but not limited to industrial production and retail trade) and unemployment show increasing and broad-based economic sluggishness in the first half of 2012 and no significant improvement in the third quarter 2012. The Euro area periphery has seen a marked decline in economic activity, driven by financial difficulties evident in a sharp increase in sovereign rate spreads. Economic activity has disappointed in other major economies too, notably the United States of America and the United Kingdom, both seen slow growth/contraction of industrial production in recent months. Spillovers from advanced economies and homegrown difficulties have held back economic activity in emerging market and developing economies. Accordingly, IMF’s forecasts for 2013 growth have been revised from 2.0% down to 1.5% for advanced economies, and from 6.0% down to 5.6% for emerging market and developing economies. It signals that the recovery of the global economy in the year ahead is still uncertain. Since electronics products are consumer products and the demand of which is sensitive to the economic condition, the uncertain global economy is expected to lead to cautious spending on electronics products and as a result the demand for electronics components as production input.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Economic outlook of Korea and Japan

According to the report “Asia and Pacific Regional Economic Outlook” issued by IMF in October 2012 (the “Regional Economic Outlook Report”), for Asia as a whole, GDP growth fell to its lowest rate since the 2008 global financial crisis during the first half of 2012. The GDP growth rate of Korea and Japan demonstrated a downward trend in 2010 and 2011 and is forecasted to have a sluggish growth in 2012 and 2013 considering, among others, the debt crisis in Euro and sluggish global economy recovery. Korea reported a GDP growth rate of 3.6% in 2011 compared with a growth rate of 6.3% in 2010 and is projected to be 2.7% and 3.6% in 2012 and 2013 respectively. The GDP growth rate of Japan was 4.5% in 2010 against a contraction rate of 0.8% in 2011 and is projected to be 2.2% and 1.2% in 2012 and 2013 respectively. Having considered the above, we are of the view that the slowing economic growth in Korea and Japan could have an adverse effect on sales of electronics components business of the Privateco Group in such countries.

In addition, referring to the statistics released by the Organisation of Economic Co-operation and Development (“OECD”) (www.oecd.org), an international economic organisation of 34 countries founded to help governments tackle the economic, social and governance challenges of a globalised economy, both of Korea and Japan seen slow growth and/or contraction (based on the growth on the same period of the previous year) in the manufacturing and retail trade sectors in the third quarter of 2012. During the period, the growth of retail trade sector of Korea and Japan ranged from -0.6% to 3.1% and from -0.3% to 2.2% respectively and the growth of manufacturing sector of Korea and Japan ranged from -1.8% to 0.8% and from -4.0% to -1.0% respectively. Since Korea and Japan are members of OECD, we consider the statistics released by OECD relevant and reliable. Having considered the slowdown/contraction in the manufacturing and retail trade sectors of Korea and Japan, we are of the view that the outlook of the demand for electronics components as production input and electronics products for consumption in these countries is uncertain.

High production cost

The gross profit margin of the Privateco Group was approximately 1.45% for the year ended 31 December 2011 and approximately 11.68% for the six months 30 June 2012 respectively. As advised by the management of the Privateco, the low gross profit margin for the year ended 31 December 2011 was mainly due to the high production cost (including high labour cost, material cost and set-up cost of the factory of the Privateco Group in the PRC which commenced production in the fourth quarter of 2011) and provision for inventories, and the improvement in the gross profit margin for the six months ended 30 June 2012 was mainly due to reduction in set-up cost and provision for inventories, however, other production cost (including labour cost and material cost) remained high, eroding the gross profit margin of the Privateco Group. As advised by the management of the Privateco, the Privateco Group’s products will be manufactured in the Privateco Group’s factories in Korea and the PRC and purchased from the Remaining Group in the near future since the current production facilities of the Privateco Group will not be sufficient to fulfill its customers’ requirements. As disclosed in the announcement of Kwang Sung dated 17 October 2012 and in the Circular, the Privateco

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Group (as customer) will enter into a framework agreement with the Remaining Group (as supplier) in respect of the supply of electronics products by the Remaining Group to the Privateco Group, pursuant to the Group Reorganisation. Such framework agreement will be effective from the date of the framework agreement and expiring on 31 December 2014 (both dates inclusive).

According to China Statistical Yearbooks published by the National Bureau of Statistics of China, the nationwide average per capita staff cost for manufacturing increased from approximately RMB18,225 in 2006 to approximately RMB36,665 in 2011, representing a compound annual growth rate (“CAGR”) of approximately 15.0%, with the recent annual growth rate for 2009-10 and 2010-11 being approximately 15.3% and approximately 18.6% respectively. Having considered the projected GDP growth of the PRC of 7.8% and 8.2% in 2012 and 2013 respectively according to the Regional Economic Outlook Report, we are of the view that the labour cost in the PRC would continue on an upward trend.

Referring to the statistics released by OECD, the labour compensation per employee in Korea increased significantly from US\$35,055.82 in 2005 to US\$44,741.25 in 2009 (the most updated figure released by OECD), representing a CAGR of approximately 5%. Having considered Korea’s GDP growth rate of 6.3% and 3.6% in 2010 and 2011 respectively and the projection of 2.7% and 3.6% in 2012 and 2013 respectively according to the Regional Economic Outlook Report, we are of the view that the labour cost in Korea would continue to increase.

In addition, with reference to the report “World Economic Outlook” issued by IMF in October 2012, the consumer prices of the PRC increased by 5.4% in 2011 and is projected to be a growth of 3% in 2012 and 2013 respectively and the consumer prices of Korea increased by 4% in 2011 and is projected to be a growth of 2.2% and 2.7% in 2012 and 2013 respectively, indicating the inflation pressure for material cost in these countries.

Having considered the aforesaid, we are of the view that the increasing labour cost and inflation pressure for material cost in the PRC and Korea would have an adverse impact on the production cost of the Privateco Group.

As advised by the management of the Privateco, it is expected that the operating environment for the year ahead will still be severe and challenging considering the sluggish global economy recovery and the projected slowing economic growth in Korea and Japan. Given the ongoing uncertainties, the Privateco Group’s businesses will remain conservative as the market is still vulnerable due to cautious consumer spending and the lingering effect of the financial crisis since 2007. As advised by Mr. Yang, as at the Latest Practicable Date, it is the intention of Smart Top that the Privateco Group will not make changes to its principal businesses nor conduct any business other than the Distributed Businesses and there is no plan for Smart Top to redeploy any fixed assets of the Privateco Group other than in its ordinary course of business nor to introduce any major changes to the existing operation or to discontinue the employment of any employees of the Privateco Group. Notwithstanding that there is no intention for the Privateco Group to conduct any fund raising activities, the Privateco Group might require additional funding for development of its existing business.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Taking into account (i) the unprofitable track record of the Privateco Group; (ii) the unsteady pace of the global economic recovery; (iii) the sluggish growth in Korea and Japan; (iv) the estimated increasing labour cost and inflation pressure for material cost in the PRC and Korea would have an adverse impact on the production cost of the Privateco Group; and (v) no plan for the development or future expansion of the Privateco Group has been contemplated or deployed by the management of the Privateco Group as at the Latest Practicable Date, we consider that there is no guarantee that the prospects of the Privateco Group will have a significant improvement in the near future. In light of the above, we are of the view that the outlook and the future business of the Privateco Group are still subject to a number of challenges and hence it is uncertain in the near future.

3. Background of Smart Top and its intention regarding the Privateco Group

3.1 *Background of Smart Top*

Smart Top is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Yang. Mr. Yang is the sole director and shareholder of Smart Top. Its principal activity is investment holding. As stated in the letter from Quam Securities set out in the Composite Document, Smart Top, Mr. Yang and parties acting in concert with any of them were interested in an aggregate of 174,082,000 Privateco Shares, representing approximately 53.75% of the issued share capital of the Privateco as at the Latest Practicable Date.

3.2 *Intention of Smart Top regarding the Privateco Group*

Given that the Privateco Shares will not be listed on the Stock Exchange or any other stock exchange, it will be difficult for holders of the Privateco Shares to liquidate their shareholdings in the Privateco. Mr. Yang therefore considers that it is appropriate to provide the Independent Privateco Shareholders with an opportunity to realise their investments in the Privateco by making the Privateco Offer on a voluntary basis pursuant to the Takeovers Code. It is the intention of Smart Top that the Privateco Group will not make changes to its principal businesses nor conduct any business other than the Distributed Businesses. It is also the intention of Smart Top that the Privateco Group will not hold any material assets other than those relating to the Distributed Businesses, nor be injected any major assets, nor dispose of any major assets, after the close of the Privateco Offer unless prior approval by the Privateco Shareholders has been obtained.

Smart Top does not intend to introduce any major changes to the existing operation or to discontinue the employment of any employees of the Privateco Group. There is no plan for Smart Top to redeploy any fixed assets of the Privateco Group other than in its ordinary course of business. Smart Top also expects that there will be no material change to the existing business of the Privateco. While Mr. Yang or Smart Top is of the view that the Privateco Offer provides himself/itself with a good opportunity to strengthen his/its investment in the Distributed Businesses while providing a cash exit for the Privateco Shareholders to realise all or part of their shareholdings in the Privateco, which are unlisted and may be illiquid, there is no intention to apply for listing of the Privateco Shares on the Stock Exchange or any other stock exchange. The interests of the Privateco Shareholders will be safeguarded by the constitutional documents of the Privateco, which contains largely comparable provisions required under the Listing Rules in respect of listed issuers.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Notwithstanding that there is no intention for the Privateco Group to conduct any fund raising activities, the Privateco Group may require further funding from the Privateco Shareholders for the development of its business in the future but no plan in respect of funding has been contemplated as at the Latest Practicable Date.

3.3 *Intention of Smart Top regarding the Privateco Offer*

As stated in the paragraph headed “Compulsory Acquisition” in the letter from Quam Securities set out in the Composite Document. Subject to sufficient Privateco Shares being acquired, pursuant to sections 102 and 103 of the Companies Act, Smart Top intends to avail itself of the right to compulsorily acquire the remaining Privateco Shares not already acquired under the Privateco Offer. Under section 102 of the Companies Act, if, within four months of commencement of the Privateco Offer, Smart Top receives acceptances from the Independent Privateco Shareholders representing 90% of the Privateco Shares subject to the Privateco Offer (and such acceptances must also represent 75% in number of the Independent Privateco Shareholders accepting the Privateco Offer) Smart Top can compulsorily acquire the Privateco Shares held by the remaining Privateco Shareholders. Under section 103 of the Companies Act, Smart Top can compulsorily acquire the Privateco Shares held by the remaining Privateco Shareholders once it holds 95% of all the issued Privateco Shares. In addition to the aforesaid requirements, Rule 2.11 of the Takeovers Code also requires that the right of compulsory acquisition may only be exercised if acceptances of the Privateco Offer and purchases (in each case of the disinterested Privateco Shares) made by Smart Top and parties acting in concert with it during the period of four months after posting of the Composite Document total 90% of the disinterested Privateco Shares.

Independent Privateco Shareholders are reminded that, in the event that Smart Top does not obtain 90% or more of the disinterested Privateco Shares under the Privateco Offer during the period of four months after the posting of the Composite Document, the Privateco will remain as an unlisted company. Independent Privateco Shareholders who do not accept the Privateco Offer will end up holding the unlisted Privateco Shares which may be difficult to dispose of due to the lack of an active market for such shares.

4. The Privateco Offer Price

The offer price of HK\$0.38 per Privateco Share under the Privateco Offer represents a premium of approximately 0.80% over the unaudited pro forma net asset value of approximately HK\$0.377 per Privateco Share, calculated on the basis of the unaudited pro forma net asset value of the Privateco Group of approximately HK\$122,087,000 as at 30 June 2012 as set out in Appendix II to the Composite Document and assuming that the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012 and a total of 323,896,933 Privateco Shares were in issue as at 30 June 2012.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The price-to-earning multiple (“P/E Ratio”) is regarded as the most widely used and accepted method to value a company with recurrent income base and we attempted to use P/E Ratio in evaluating the Privateco. Given the Privateco Group is at a loss-making position for the financial year ended 31 December 2011 and six months ended 30 June 2012, we consider the analysis of P/E Ratio not applicable. Alternatively, we have adopted the price-to-book multiple (“P/B Ratio”), one of the trading multiples commonly used for evaluating a company with significant asset base, for comparison. To assess the fairness and reasonableness of the Privateco Offer Price, we have attempted to compare the market prices of the other companies listed on the Stock Exchange with principal businesses and financial positions similar to that of the Privateco Group. We have conducted researches from the public domain based on the following selection criteria of companies which: (i) are listed on the Stock Exchange; (ii) are principally engaged in the manufacture and/or sale of electronics components (accounted for more than 50% of their turnovers for their respective latest financial year); (iii) have more than half of the segment revenue derived from Korea and Japan; and (iv) had a market capitalisation of less than HK\$1,000 million as at the Latest Practicable Date. We have not identified any comparable company that is principally engaged in the same business in the same geographical area as that of the Privateco Group based on the aforesaid criteria. However, taking into account that (i) the Privateco Offer Price represents a premium of approximately 0.80% to the unaudited pro forma net asset value of approximately HK\$0.377 per Privateco Share; (ii) the unprofitable track record of the Privateco Group; (iii) the outlook and the future business of the Privateco Group are still subject to a number of challenges and hence it is uncertain in the near future; and (iv) the Privateco Group is not listed on any stock exchange and there is no active market for the trading of the Privateco Shares which make the Privateco Shares illiquid and the Privateco Offer provides a cash exit to the Independent Privateco Shareholders to realise their investment in the Privateco, we are of the view that the Privateco Offer Price is fair and reasonable.

RECOMMENDATIONS

Based on the abovementioned principal factors and reasons for the Privateco Offer, in particular that:

- (a) the unprofitable track record of the Privateco Group for the year ended 31 December 2011 and for the six months ended 30 June 2012;
- (b) the outlook and the future business of the Privateco Group are still subject to a number of challenges and hence it is uncertain in the near future;
- (c) the Privateco Offer Price represents a premium of approximately 0.80% to the unaudited pro forma net asset value of approximately HK\$0.377 per Privateco Share; and
- (d) the Privateco Group is not listed on any stock exchange and there is no active market for the trading of the Privateco Shares which make the Privateco Shares illiquid and the Privateco Offer provides a cash exit to the Independent Privateco Shareholders to realise their investment in the Privateco,

LETTER FROM INDEPENDENT FINANCIAL ADVISER

we are of the view that the terms of the Privateco Offer are fair and reasonable so far as the Independent Privateco Shareholders are concerned and we recommend the Independent Privateco Shareholders should consider accepting the Privateco Offer.

Independent Privateco Shareholders are recommended to consult their own professional advisers if they are in doubt as to the taxation implications of accepting or rejecting the Privateco Offer.

Yours faithfully,
For and on behalf of
Goldin Financial Limited

Billy Tang
Director

PROCEDURES FOR ACCEPTANCE

Your registered holding of the Privateco Shares is set out in Box B in the accompanying Form of Acceptance and Transfer. To accept the Privateco Offer, you should duly complete the Form of Acceptance and Transfer in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Privateco Offer.

The completed Form of Acceptance and Transfer should then be forwarded by post or by hand to and reach the Transfer Agent (Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong) marked "the Privateco Offer" on the envelope by no later than 4:00 p.m. on Friday, 4 January 2013 (being the Closing Date).

If your Privateco Shares are held through your licensed securities dealer/registered institution in securities/custodian bank through CCASS, you must instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees to accept the Privateco Offer on your behalf on or before the deadline set out by HKSCC Nominees. In order to meet such deadline, you should check with your licensed securities dealer/registered institution in securities/custodian bank on the timing for the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them.

If your Privateco Shares are held through your Investor Participant Account maintained with CCASS, you must authorise your instruction via the CCASS Phone System or the CCASS Internet System on or before the deadline set out by HKSCC Nominees.

No acknowledgement of receipt of any Form of Acceptance and Transfer will be given.

Your attention is also drawn to the further details regarding the procedures for acceptance set out in the Form of Acceptance and Transfer.

SETTLEMENT

Provided that a valid Form of Acceptance and Transfer is complete and in good order and has been received by the Transfer Agent by no later than 4:00 p.m. on the Closing Date, a cheque for the amount representing the consideration due to you in respect of the Privateco Shares tendered by you under the Privateco Offer will be despatched to you by ordinary post at your own risk as soon as possible but in any event within 7 business days (being a day on which the Stock Exchange is open for the transaction of business) of the date on which the duly completed Form of Acceptance and Transfer which renders such acceptance complete and valid is received by the Transfer Agent.

Cheque(s) not presented for payment within six months from the date of issue of the relevant cheques will not be honoured and be of no further effect, and in such circumstances cheque holder(s) should contact Smart Top for payment.

Settlement of the consideration to which any Independent Privateco Shareholder is entitled under the Privateco Offer will be implemented in full in accordance with the terms of the Privateco Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which Smart Top may otherwise be, or claim to be, entitled against such Independent Privateco Shareholder.

NOMINEE REGISTRATION

To ensure equality of treatment of all Independent Privateco Shareholders, those Independent Privateco Shareholders who hold Privateco Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of the Privateco Shares whose investments are registered in nominee names to accept the Privateco Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Privateco Offer.

The completed Form of Acceptance and Transfer and remittances sent by or to the Independent Privateco Shareholders through ordinary post will be sent by or to them at their own risk. The remittances will be sent to them at their addresses as they appear in the register of members of the Privateco (or in the case of joint Independent Privateco Shareholders, to the Independent Privateco Shareholder whose name stands first in the register of members of the Privateco).

All such documents and remittances will be sent at the risk of the persons entitled thereto and none of Smart Top, the Privateco, Quam Securities, any of their respective directors and any other persons involved in the Privateco Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

ACCEPTANCE PERIOD, EXTENSIONS AND REVISIONS

Unless the Privateco Offer has previously been extended or revised, the Privateco Offer will close on Friday, 4 January 2013 (being the Closing Date). The latest time for acceptance of the Privateco Offer will be at 4:00 p.m. on the Closing Date.

If the Privateco Offer is extended or revised, an announcement of such extension or revision will be published by Smart Top on the Stock Exchange's website under Kwang Sung and the SFC's website by 7:00 p.m. on the Closing Date which will state either the next closing date or that the Privateco Offer will remain open until further notice. In the latter case, the Privateco Offer will remain open for acceptance for a period of not less than 14 days from the posting of the written notification of the extension or revision to those Independent Privateco Shareholders who have not accepted the Privateco Offer and, unless previously extended or revised, shall be closed on the subsequent closing date. The latest time for acceptance of the Privateco Offer will be at 4:00 p.m. on the Closing Date. The benefit of any revision of the Privateco Offer will also be available to all Independent Privateco Shareholders who have previously accepted the Privateco Offer. The execution of any Form of Acceptance and Transfer by or on behalf of any Independent Privateco Shareholders who have previously accepted the Privateco Offer shall be deemed to constitute acceptance of any revised Privateco Offer.

If the Closing Date is extended, any reference in this Composite Document and in the Form of Acceptance and Transfer shall, except where the context otherwise requires, be deemed to refer to the closing date of the Privateco Offer so extended.

ANNOUNCEMENTS

By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), Smart Top shall inform the Executive of its intention in relation to the extension or revision of the Privateco Offer. Smart Top shall publish an announcement on the Stock Exchange's website under Kwang Sung by 7:00 p.m. on the Closing Date stating whether the Privateco Offer has been revised or extended. Such announcement shall state the total number of Privateco Shares and rights over Privateco Shares:

- (i) for which acceptances of the Privateco Offer have been received;
- (ii) held, controlled or directed by Smart Top and/or Mr. Yang and parties acting in concert with any of them before 17 October 2012 (being the commencement date of the offer period as defined in the Takeovers Code for the Privateco Offer); and
- (iii) acquired or agreed to be acquired during the offer period (as defined in the Takeovers Code) for the Privateco Offer by Smart Top and/or Mr. Yang and parties acting in concert with any of them.

The announcement must include details of any relevant securities (as defined in the Takeovers Code) in the Privateco which Smart Top or Mr. Yang or parties acting in concert with any of them has borrowed or lent, save for any borrowed Privateco Shares which have been either on-lent or sold.

The announcement must also specify the percentages of the issued share capital of the Privateco, and the percentages of voting rights, represented by the above number of Privateco Shares.

In computing the number of Privateco Shares in accordance with the Takeovers Code represented by acceptances, only valid acceptances that are complete and in good order and which have been received by the Transfer Agent by no later than 4:00 p.m. on the Closing Date shall be included.

As required under the Takeovers Code, all announcements in relation to the Privateco Offer in respect of which the Executive has confirmed that he has no further comments thereon must be published as a paid announcement in at least one English language newspaper and one Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong. All documents published in respect of the Privateco will be delivered to the Executive in electronic form for publication on the SFC's website.

RIGHT OF WITHDRAWAL

Acceptance of the Privateco Offer tendered by the Independent Privateco Shareholders shall be irrevocable and cannot be withdrawn unless the Executive requires that a right of withdrawal is granted in the event that the requirements of Rule 19 of the Takeovers Code relating to the announcement of results of offer as described in the paragraph headed "Announcements" above have not been complied with.

The Privateco Offer will be in respect of securities of a company incorporated in Bermuda and will be subject to the procedures and disclosure requirements under the relevant Hong Kong laws and regulations, which may be different from other jurisdictions. The making of the Privateco Offer or the acceptance thereof by persons not being a resident of Hong Kong or with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Independent Privateco Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should obtain their respective independent professional advice to advise themselves about and observe any applicable legal requirements in their own jurisdictions.

It is the responsibility of any such persons who wish to accept the Privateco Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to Smart Top that the local laws and requirements have been fully complied with. Independent Privateco Shareholders should consult their professional adviser if in doubt. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees is subject to any of the representations and warranties.

GENERAL

- (i) Acceptance of the Privateco Offer by any person will be deemed to constitute a warranty by such person to Smart Top, the Privateco and Quam Securities that the Privateco Shares sold under the Privateco Offer are sold by such person free from all rights of pre-emption, options, liens, claim, equities, charges, encumbrances or third party rights of any nature and the relevant Privateco Shares are sold with all rights attaching or accruing thereto, including the right to receive all dividends and distributions declared, paid or made on or after the date of the issue of those Privateco Shares.
- (ii) All communications, notices, Form of Acceptance and Transfer and remittances to settle the consideration payable under the Privateco Offer to be delivered by or sent to or from the accepting Independent Privateco Shareholders will be delivered by or sent to or from them, or their designated agents, by post at their own risk, and none of Smart Top, the Privateco, Quam Securities, any of their respective directors, agents and advisers accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (iii) The provisions set out in the Form of Acceptance and Transfer form part of the terms of the Privateco Offer.
- (iv) The accidental omission to despatch this Composite Document and/or the Form of Acceptance and Transfer to any person to whom the Privateco Offer is made will not invalidate the Privateco Offer in any way.
- (v) The Privateco Offer, all acceptances thereof and contracts resulting therefrom will be governed by and construed in accordance with the Laws of Hong Kong.
- (vi) References to the Privateco Offer in this Composite Document and in the Form of Acceptance and Transfer shall include any revision or extension thereof.
- (vii) Due execution of the Form of Acceptance and Transfer will constitute an irrevocable authority to any director of Smart Top or Quam Securities or such person or persons as Smart Top or Quam Securities may direct to complete and execute, on behalf of the person accepting the Privateco Offer, any document and to do any other act that may be necessary or expedient for the purpose of vesting in Smart Top, or such other person(s) as Smart Top shall direct, all rights of the accepting Independent Privateco Shareholders in respect of the Privateco Shares which are the subject of such acceptance.

1. FINANCIAL SUMMARY OF THE PRIVATECO GROUP

Set out below is a financial summary of the Privateco Group for the three financial years ended 31 December 2011 and the six months ended 30 June 2012 as extracted from the accountants' report contained in Appendix III to the Circular:

	Year ended 31 December			Six months ended	
	2009	2010	2011	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Turnover	<u>–</u>	<u>–</u>	<u>58,563</u>	<u>–</u>	<u>98,108</u>
Loss before taxation	<u>(1,279)</u>	<u>(270)</u>	<u>(9,378)</u>	<u>(384)</u>	<u>(11,696)</u>
Income tax credit	<u>35</u>	<u>48</u>	<u>69</u>	<u>24</u>	<u>231</u>
Loss for the year/period	<u>(1,244)</u>	<u>(222)</u>	<u>(9,309)</u>	<u>(360)</u>	<u>(11,465)</u>
(Loss) profit for the year/period attributable to:					
Owner of the Privateco	<u>(774)</u>	<u>158</u>	<u>(9,260)</u>	<u>(252)</u>	<u>(11,268)</u>
Non-controlling interests	<u>(470)</u>	<u>(380)</u>	<u>(49)</u>	<u>(108)</u>	<u>(197)</u>
	<u>(1,244)</u>	<u>(222)</u>	<u>(9,309)</u>	<u>(360)</u>	<u>(11,465)</u>
(Loss) earnings per share (HK cents)	<u>(0.24)</u>	<u>0.05</u>	<u>(2.86)</u>	<u>(0.08)</u>	<u>(3.48)</u>

Notes:

1. An unqualified opinion in respect of the accountants' report of the Privateco Group has been issued by SHINEWING (HK) CPA Limited for the three years ended 31 December 2011 at the six months ended 30 June 2012.
2. There were no extraordinary items or items which were exceptional because of its size, nature or incidence for the Privateco Group during the three years ended 31 December 2011 and the six months ended 30 June 2012.
3. No dividends were declared and paid for the three years ended 31 December 2011 and the six months ended 30 June 2012.
4. The (loss) earnings per share was calculated on a pro forma basis by dividing the (loss) profit for the year/period attributable to owner of the Privateco by the 323,896,933 Privateco Shares in issue.
5. The Privateco has not been incorporated yet up to 30 June 2012.

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP

The audited financial information of the Privateco Group contained in Appendix III to the Circular is reproduced below. Capitalised terms used in this section shall have the same meanings as those defined in the accountants' report contained in Appendix III to the Circular.



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

19 November 2012

The Directors

Kwang Sung Electronics H.K. Co. Limited

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

No. 2 Science Park West Avenue

Hong Kong Science Park

Shatin, N.T.

Hong Kong

Dear Sirs,

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

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

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

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

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

For the purpose of this report, the director of the Privateco has prepared the combined financial statements of the Privateco Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

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

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

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

The comparative combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Privateco Group for the six months ended 30 June 2011 together with the notes thereto have been extracted from the Privateco Group’s unaudited combined financial information for the same period (the “30 June 2011 Financial Information”) which was prepared by the director of the Privateco solely for the purpose of this report. We have reviewed the 30 June 2011 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the 30 June 2011 Financial Information consisted of making enquires, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME (Continued)

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF FINANCIAL POSITION

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF FINANCIAL POSITION (Continued)

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Share capital	Other reserve <i>(Note a)</i>	Capital reserve <i>(Note b)</i>	Properties revaluation reserve <i>(Note c)</i>	Exchange reserve	Accumulated losses	Sub-total	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011 (audited)	5,023	301	6,885	425	107	(616)	12,125	1,920	14,045
Loss for the period	—	—	—	—	—	(252)	(252)	(108)	(360)
Other comprehensive income for the period									
— Exchange differences arising on translation	—	—	—	—	260	—	260	112	372
Total comprehensive income (expense) for the period	—	—	—	—	260	(252)	8	4	12
At 30 June 2011 (unaudited)	<u>5,023</u>	<u>301</u>	<u>6,885</u>	<u>425</u>	<u>367</u>	<u>(868)</u>	<u>12,133</u>	<u>1,924</u>	<u>14,057</u>

Notes:

(a) Other reserve

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

(b) Capital reserve

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

(c) Properties revaluation reserve

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2011 HK\$'000 (Unaudited)	2012 HK\$'000
OPERATING ACTIVITIES					
Loss before taxation	(1,279)	(270)	(9,378)	(384)	(11,696)
Adjustments for:					
Interest income					
from bank deposits	(1)	(5)	(131)	–	(9)
Finance costs	–	8	–	2	–
Depreciation	19	121	627	371	2,483
Amortisation of intangible assets	353	476	694	347	576
Impairment loss recognised on goodwill	–	–	5,857	–	–
Impairment loss recognised on intangible assets	–	–	–	–	1,748
Impairment loss recognised on freehold land	–	–	1,095	–	1,799
Allowance for inventories	–	–	2,224	–	794
Operating cash flows before movements in working capital	(908)	330	988	336	(4,305)
Increase in inventories	–	–	(27,476)	–	(3,457)
Increase in trade and other receivables	(20)	(82)	(31,025)	(1,349)	(31,811)
(Decrease) increase in trade and other payables	(112)	668	31,318	4,520	316
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(1,040)	916	(26,195)	3,507	(39,257)
INVESTING ACTIVITIES					
Net cash inflow from acquisition of a subsidiary	866	–	–	–	–
Interest received	1	5	131	–	9
Acquisition of property, plant and equipment	(89)	(52,043)	(72,754)	(32,716)	(23,018)
(Advance to) repayment from fellow subsidiaries	(117)	(4)	–	–	–
Deposits paid for purchase of property, plant and equipment	–	–	–	–	(3,480)
(Placement) withdrawal of restricted bank deposits	–	–	(472)	–	472

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

A. FINANCIAL INFORMATION (Continued)

COMBINED STATEMENTS OF CASH FLOWS (Continued)

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

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

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

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

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

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

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

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

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

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

- (i) the bank borrowings of approximately HK\$60,303,000 as at 30 June 2012 was renewed on 21 September 2012 by its major banker and the Privateco Group will repay the entire principal on 17 September 2013 according to the renewed bank loan agreement.
- (ii) subsequent to 30 June 2012, the Company has agreed the amount due to the ultimate holding company of approximately HK\$36,400,000 will be settled by issuance of ordinary shares by the Privateco rather than settled by cash.
- (iii) Before the completion of the Proposed Group Reorganisation and Transaction, the fellow subsidiaries will not demand repayment of the balances of approximately HK\$52,813,000 as at 30 June 2012 from the Privateco Group for the next twelve months from 30 June 2012.
- (iv) Pursuant to the share sale agreement (“Share Sale Agreement”) signed on 27 September 2012 as detailed in the section “A. Share Sale Agreement” in the Circular, Mr. Yang Jai Sung (“Mr. Yang”) will become the ultimate and controlling shareholder of the Privateco when the Proposed Group Reorganisation and Transaction completed. The balance payable to the fellow subsidiaries of the Company by the Privateco Group will become payable to Mr. Yang upon completion of the Share Sale Agreement.

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)*B. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HKFRS 9 Financial Instruments

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

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

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

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

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

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

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

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)***B. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)** *(Continued)***New and revised standards on consolidation, joint arrangements, associates and disclosures**
*(Continued)****HKFRS 13 Fair Value Measurement***

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

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

Amendment to HKAS 1 Presentation of Items of Other Comprehensive Income

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

The principal accounting policies are set out below.

Basis of combination

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

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

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

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

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

Business combinations

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)***B. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Business combinations** *(Continued)*

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

Business combinations under common control

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Goodwill**

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

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

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Intangible assets (Continued)****(ii) Intangible assets acquired in a business combination**

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

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

(iii) Research and development cost

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

Financial instruments

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

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

Financial assets

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Financial instruments (Continued)****Financial assets (Continued)***Effective interest method*

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

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

Loans and receivables

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

Impairment on financial assets

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

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

Objective evidence of impairment could include:

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

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

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

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

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

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

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)***B. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Derecognition**

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Leasing

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

The Privateco Group as lessee

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

Retirement benefit costs

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Taxation**

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

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

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

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)***B. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***Revenue recognition**

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

(i) Sales of goods

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

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

(ii) Interest income

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

(iii) Service income

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

(iv) Patent income

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Foreign currencies**

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

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

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

Cash and cash equivalents

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

Borrowing costs

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)***B. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

Critical judgments in applying the entity's accounting policies

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

Going concern basis

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

Key sources of estimation uncertainty

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

(a) Impairment loss recognised on goodwill

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

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

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

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

(c) Impairment loss recognised on trade and other receivables

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

(d) Impairment on intangible assets

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

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

(e) Allowance for inventories

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

(f) Estimate of fair value of freehold land

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

5. CAPITAL RISK MANAGEMENT

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

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

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)***B. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***6. FINANCIAL INSTRUMENTS** *(Continued)*

(b) Financial risk management objectives and policies

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

Market risk***Interest rate risk***

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

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

Sensitivity analysis

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

Foreign currency risk

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)**Foreign currency risk** (Continued)*Exposure to currency risk*

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

USD

	2009		31 December 2010		2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and cash equivalents	–	–	862	–	15,111	–
Trade and other receivables	–	–	–	–	11,736	–
Trade and other payables	–	–	–	–	–	7,262
Amount due to ultimate holding company	–	–	–	40,921	–	–
	<u>–</u>	<u>–</u>	<u>862</u>	<u>40,921</u>	<u>26,847</u>	<u>7,262</u>

30 June 2012

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)**Foreign currency risk** (Continued)*Sensitivity analysis*

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

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

30 June 2012

	Increase/ (decrease) in foreign exchange rates	Effect on loss for the period HK\$'000
USD	5%	1,119
	(5%)	(1,119)

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

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

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

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

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

The Privateco Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the Privateco Group has a certain concentration of credit risk as nil, nil, 35% and 32% of the trade receivables was due from the Privateco Group's largest customer respectively and nil, nil, 87% and 84% of the trade receivables was due from the Privateco Group's five largest customers respectively.

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

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

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

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

As at 31 December

	Within 1 year or on demand <i>HK\$'000</i>	2009		Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
		After 1 year but within 2 years <i>HK\$'000</i>	After 2 years but within 5 years <i>HK\$'000</i>		
Non-derivative financial liabilities					
Trade and other payables	635	–	–	635	635
Bank borrowings	116	88	–	204	194
	<u>751</u>	<u>88</u>	<u>–</u>	<u>839</u>	<u>829</u>

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

As at 31 December

	2010				Carrying amount HK\$'000
	Within 1 year or on demand HK\$'000	After 1 year but within 2 years HK\$'000	After 2 years but within 5 years HK\$'000	Total undiscounted cash flows HK\$'000	
Non-derivative financial liabilities					
Trade and other payables	1,303	–	–	1,303	1,303
Amount due to ultimate holding company	40,921	–	–	40,921	40,921
Bank borrowings	14,495	–	–	14,495	13,844
	<u>56,719</u>	<u>–</u>	<u>–</u>	<u>56,719</u>	<u>56,068</u>
	2011				Carrying amount HK\$'000
	Within 1 year or on demand HK\$'000	After 1 year but within 2 years HK\$'000	After 2 years but within 5 years HK\$'000	Total undiscounted cash flows HK\$'000	
Non-derivative financial liabilities					
Trade and other payables	32,411	–	–	32,411	32,411
Amounts due to fellow subsidiaries	26,096	–	–	26,096	26,096
Bank borrowings	63,348	–	–	63,348	60,482
	<u>121,855</u>	<u>–</u>	<u>–</u>	<u>121,855</u>	<u>118,989</u>

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

As at 30 June

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

(c) Fair values

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)*B. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

7. SEGMENT INFORMATION

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

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

Segment revenue and results

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

For the year ended 31 December 2009

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2010

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

For the year ended 31 December 2011

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the period ended 30 June 2011 (Unaudited)

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

For the period ended 30 June 2012

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2009

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

For the year ended 31 December 2010

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2011

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

For the six months ended 30 June 2011 (Unaudited)

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the six months ended 30 June 2012

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. SEGMENT INFORMATION (Continued)

Geographical information

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

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

For the year ended 31 December 2009

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

For the year ended 31 December 2010

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

For the year ended 31 December 2011

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

7. SEGMENT INFORMATION (Continued)

Geographical information (Continued)

For the six months ended 30 June 2011 (Unaudited)

	Turnover HK\$'000	Non-current assets HK\$'000
Korea	–	104,294

For the six months ended 30 June 2012

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

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

Information about major customers

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

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

¹Turnover from sales of composite components and unit electronic components

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

8. TURNOVER

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

9. OTHER INCOME

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

10. FINANCE COSTS

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)*B. NOTES TO THE FINANCIAL INFORMATION *(Continued)*

11. INCOME TAX CREDIT

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

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

11. INCOME TAX CREDIT (Continued)

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

12. LOSS FOR THE YEAR/PERIOD

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****13. DIRECTOR'S REMUNERATION**

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

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

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

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

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

15. DIVIDENDS

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

16. PROPERTY, PLANT AND EQUIPMENT

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

Notes:

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

17. GOODWILL

	<i>HK\$'000</i>
COST	
Arising on acquisition of a subsidiary and at 31 December 2009, 31 December 2010, 31 December 2011 and 30 June 2012	<u>5,857</u>
IMPAIRMENT	
At 31 December 2009, 31 December 2010 and 1 January 2011	–
Impairment loss recognised	<u>5,857</u>
At 31 December 2011 and 30 June 2012	<u>5,857</u>
CARRYING VALUES	
At 31 December 2009	<u>5,857</u>
At 31 December 2010	<u>5,857</u>
At 31 December 2011	<u>–</u>
At 30 June 2012	<u>–</u>

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

18. INTANGIBLE ASSETS

	Patents			As at 30 June 2012 HK\$'000
	2009 HK\$'000	As at 31 December 2010 HK\$'000	2011 HK\$'000	
Cost				
At 1 January	–	8,016	8,273	17,834
Acquisition of a subsidiary (note 29)	8,043	–	–	–
Exchange adjustments	(27)	257	(166)	(24)
Acquisition	–	–	9,727	–
At 31 December/30 June	<u>8,016</u>	<u>8,273</u>	<u>17,834</u>	<u>17,810</u>
Amortisation and impairment				
At 1 January	–	353	850	1,507
Impairment losses	–	–	–	1,748
Exchange adjustments	–	21	(37)	(8)
Charge for the year	<u>353</u>	<u>476</u>	<u>694</u>	<u>576</u>
At 31 December/30 June	<u>353</u>	<u>850</u>	<u>1,507</u>	<u>3,823</u>
Carrying values				
At 31 December/30 June	<u><u>7,663</u></u>	<u><u>7,423</u></u>	<u><u>16,327</u></u>	<u><u>13,987</u></u>

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

18. INTANGIBLE ASSETS (Continued)

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

19. INVENTORIES

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	–	–	7,284	9,723
Work in progress	–	–	12,321	10,636
Finished goods	–	–	7,871	10,574
	<u>–</u>	<u>–</u>	<u>27,476</u>	<u>30,933</u>
Less: impairment	–	–	(2,224)	(3,018)
	<u>–</u>	<u>–</u>	<u>25,252</u>	<u>27,915</u>

20. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	–	–	24,935	53,343
Deposits, prepayments and other receivables	60	142	6,232	9,635
	<u>60</u>	<u>142</u>	<u>31,167</u>	<u>62,978</u>

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****20. TRADE AND OTHER RECEIVABLES (Continued)**

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

	As at 31 December		As at 30 June	
	2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 — 90 days	—	—	24,935	39,526
90 — 120 days	—	—	—	13,817
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>24,935</u>	<u>53,343</u>

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

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

21. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES/ULTIMATE HOLDING COMPANY

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

22. RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

23. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

24. BANK BORROWINGS

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

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

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)***B. NOTES TO THE FINANCIAL INFORMATION** *(Continued)***25. SHARE CAPITAL**

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

26. DEFERRED TAX LIABILITIES

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

27. EMPLOYEE RETIREMENT BENEFITS

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

28. COMMITMENTS

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

28. COMMITMENTS (Continued)

(b) The Privateco Group as lessee

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

29. ACQUISITION OF A SUBSIDIARY

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

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

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

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

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

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

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

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)

B. NOTES TO THE FINANCIAL INFORMATION (Continued)

30. MATERIAL RELATED PARTY TRANSACTIONS

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

Transactions with other related parties

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

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

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP (Continued)**B. NOTES TO THE FINANCIAL INFORMATION (Continued)****30. MATERIAL RELATED PARTY TRANSACTIONS (Continued)**

Transactions with other related parties (Continued)

(ii) Compensation of key management personnel

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

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

31. MAJOR NON CASH TRANSACTION

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

2. AUDITED FINANCIAL INFORMATION OF THE PRIVATECO GROUP *(Continued)***C. EVENTS AFTER THE REPORTING PERIOD**

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

D. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON

Reproduced below are (i) the unaudited combined statement of financial position of the Privateco Group; (ii) the unaudited pro forma combined statement of comprehensive income and unaudited pro forma combined statement of cash flows of the Privateco Group, and the accountants' report thereon, which were prepared for the purpose of inclusion in the Circular. Capitalised terms used in this section shall have the same meanings as those defined in the accountants' report contained in Appendix VI to the Circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

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

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

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

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

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON (Continued)

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

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

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

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON (Continued)

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

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

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

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON *(Continued)*A. UNAUDITED PRO FORMA FINANCIAL INFORMATION *(Continued)*

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

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

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON (Continued)

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

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

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

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON (Continued)

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION (Continued)

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

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

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON *(Continued)***A. UNAUDITED PRO FORMA FINANCIAL INFORMATION** *(Continued)**Notes:*

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

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON *(Continued)***B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP**

19 November 2012

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

Dear Sirs,

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

Respective responsibilities of Directors and reporting accountants

It is the responsibility solely of the Directors to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP AND THE ACCOUNTANTS' REPORT THEREON *(Continued)***B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE PRIVATECO GROUP** *(Continued)***Basis of opinion**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Privateco Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Privateco Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Wing Kit

Practising Certificate Number: P03224

Hong Kong

4. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 September 2012, being the latest practicable date for the purpose of this indebtedness statement, the Privateco Group had secured bank borrowings of approximately HK\$34,650,000 and unsecured bank borrowings of approximately HK\$27,537,000.

Pledge of assets

As at the close of business on 30 September 2012, land and buildings held for own use of approximately HK\$34,650,000 were pledged to secure the banking facilities of the Privateco Group.

Commitments

- (a) As at the close of business on 30 September 2012, the Privateco Group did not have any commitments for future minimum lease payments under non-cancellable operating leases.
- (b) As at the close of business on 30 September 2012, the Privateco Group had capital expenditure in respect of acquisition of property, plant and equipment are as follows:

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

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

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

The sole Privateco Director confirmed that there had been no material changes in the indebtedness and contingent liabilities of the Privateco Group since 30 September 2012 and up to the Latest Practicable Date.

5. MATERIAL CHANGE

Save for the pro forma current liabilities of the Privateco Group would be approximately HK\$145,898,000, which represented a decrease of approximately HK\$36,555,000 from the Privateco Group's current liabilities as at 30 June 2012 and the pro forma net assets of the Privateco Group would be approximately HK\$122,087,000, which represented an increase of approximately HK\$36,400,000 from the Privateco Group's net assets as at 30 June 2012 assuming the Group Reorganisation and the Distribution In Specie had taken place on 30 June 2012, as set out in Appendix VI to the Circular and that the Privateco Group is only engaged in the Distributed Businesses pursuant to the completion of the Group Reorganisation and the Distribution In Specie, the sole director of Privateco confirmed that there have been no material changes in the financial or trading position or outlook of the Privateco Group subsequent to 30 June 2012, being the date to which the audited financial information of Privateco Group set out in Appendix II to this Composite Document was made up, up to the Latest Practicable Date.

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



Unit 3806, 38/F, China Resources Building,
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14 December 2012

Kwang Sung Electronics H.K. Co. Limited

Units 208-209, 2/F.

Bio-Informatics Centre

No. 2 Science Park West Avenue

Hong Kong Science Park

Shatin, New Territories

Hong Kong

Dear Sir/Madam,

Re: An Industrial Development situated at 1026-2, 1026-3 and 1026-5, Sanbon-dong, Gunpo-si, Gyeonggi-do, the Republic of Korea

In accordance with the instructions for us to value the property intended to be disposed of by Kwang Sung Electronics H.K. Co. Limited (the “Company”), its subsidiaries and / or associate companies (hereinafter together referred to as the “Group”) located in the Republic of Korea, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property as at 30 June 2012 and 30 September 2012 (the “Dates of Valuations”) for the purpose of incorporation in the circular of the Company dated 14 December 2012.

1. BASIS OF VALUATION

Our valuations of the property are our opinion of the market values of the concerned property which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

2. VALUATION METHODOLOGY

We have valued the property by reference to sales evidence as available on the market assuming that vacant possession of the property would be readily available upon completion of a sale.

3. TITLE INVESTIGATION

For the property located in the Republic of Korea, we have been provided with extracts of various documents and have been advised by the Group that no further relevant documents have been produced. However, we have not examined the original documents to verify the existing title to the property or any amendment, which may not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers. In the course of our valuations, we have relied upon the advice and information given by the Group regarding the title of the property. All documents have been used for reference only.

In valuing the property, we have relied on the advice given by the Group and its legal adviser, Jipyong Jisung, that the Group has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent / land use fees and all requisite land premium / purchase consideration payable have been fully settled.

4. VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the property in the market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of such property.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no allowance has been made for the property to be sold in one lot or to a single purchaser.

5. SOURCE OF INFORMATION

In the course of our valuations, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupation, site and floor areas, age of building and all other relevant matters which can affect the values of the property. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

6. VALUATION CONSIDERATION

We have inspected the exterior and, where possible, the interior of certain property. No structural survey has been made in respect of the property. However, in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have not carried out on-site measurement to verify the site and floor areas of the property under consideration but we have assumed that the site and floor areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its values.

Our valuations are prepared in accordance with The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors and in compliance with the requirements of Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities published by The Stock Exchange of Hong Kong Limited and Rule 11 of the Takeovers Code.

According to the information prepared by the Group, the potential tax liabilities which would arise on the disposal of the property at the amounts as valued by us mainly comprise corporate income tax rate from 11% to 24.2%, value-added tax for building at 10%, stamp duty from KRW20,000 to KRW350,000 and securities transaction tax for shares transfer of 0.5% in the Republic of Korea.

7. REMARKS

Unless otherwise stated, all monetary amounts stated in our valuations are in South Korean Won (“KRW”).

Our Valuation Certificate is attached.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Alan W K Lee
BCom(Property) MFin
MHKIS RPS(GP) RBV
AAPI CPV CPV(Business)
Associate Director

Note: Mr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 8 years' valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, including the Republic of Korea, and European countries.

VALUATION CERTIFICATE

Property held for owner-occupation in the Republic of Korea

Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State
An Industrial Development situated at 1026-2, 1026-3 and 1026-5, Sanbon-dong, Gunpo-si, Gyeonggi-do, The Republic of Korea	The property comprises a parcel of land with a site area of approximately 2,455.6 sq.m. (or about 26,432 sq.ft.) on which a 7-storey industrial development, including a level of basement, is erected in 2012. As advised by the Group, the total gross floor area of the property is approximately 8,764.51 sq.m. (or about 94,341 sq.ft.) and comprises the following accommodation:	The property is occupied by the Group for industrial and office uses.	as at 30 June 2012 KRW19,282,000,000.
			as at 30 September 2012 KRW19,282,000,000.

Premises	Approximate Gross Floor Area (sq.m.)
Ground Floor and Upper Floors	6,889.27
Basement	1,875.24
Total:	<u>8,764.51</u>

The property is held under freehold.

Notes:

- Pursuant to Certified Copies of Real Estate Register (Effective Information) — Land (For Submission), numbered as 1351-1996-012712, 1351-1996-012710 and 1351-1996-012709, issued by Government Official Responsible for Computer Operation Central Management Office of Registration Information Court's Administrative Bureau, Republic of Korea, the property with a total site area of 2,455.6 sq.m. is owned by Kwang Sung Electronics Korea Co., Ltd..

2. Pursuant to Temporary Use Approval issued by Gunpo City Hall dated 17 May 2012, total approved area of the property is 8,764.5122 sq.m.. The salient development conditions of the property are summarized as follows:
 - a. Owner : Kwang Sung Electronics Korea Co., Ltd.
 - b. Approval Period : 9 May 2014
 - c. Main Purpose : Factory
3. Pursuant to a sale and purchase contract entered into between Young Co., Ltd. and Kwang Sung Electronics Korea Co., Ltd. dated 14 May 2010, the former agreed to transfer the land of the property with a site area of 2,455.6 sq.m. to the latter at a consideration of KRW7,500,000,000.
4. As advised by the Group, the total construction cost of the development of the property is approximately KRW11,991,000,000.
5. As advised, the land of the property is subject to a keun-mortgage in favour of Industrial Bank of Korea for securing of a bank loan up to an amount of KRW11,000,000,000.
6. As advised by the Group, Kwang Sung Electronics Korea Co., Ltd. is a wholly-owned subsidiary of the Company.
7. Our inspection was performed by Mr. Alan W K Lee in November 2012.

Set out below is a summary of certain provisions of the memorandum of association adopted upon incorporation (the “Memorandum of Association”) and bye laws (the “Bye-laws”) of the Privateco adopted on 6 December 2012.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Privateco is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Privateco is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Privateco was formed which are unrestricted and that the Privateco has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Privateco will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Privateco to purchase its own shares and pursuant to its Bye laws, this power is exercisable by its board (the “board”) of Directors (the “Directors”) upon such terms and subject to such conditions as it thinks fit.

2. BYE LAWS

The following is a summary of certain provisions of the Bye laws:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Privateco may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Privateco or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Privateco before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Privateco on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye laws, any direction that may be given by the Privateco in general meeting and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Privateco shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Privateco nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Privateco or any of its subsidiaries*

There are no specific provisions in the Bye laws relating to the disposal of the assets of the Privateco or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Privateco and which are not required by the Bye laws or the Companies Act to be exercised or done by the Privateco in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Privateco in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) *Financial assistance to purchase shares of the Privateco*

Neither the Privateco nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Privateco for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye laws shall not prohibit transactions permitted under the Companies Act.

(vi) *Disclosure of interests in contracts with the Privateco or any of its subsidiaries*

A Director may hold any other office or place of profit with the Privateco (except that of auditor of the Privateco) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Privateco or any other company in which the Privateco may be interested, and shall not be liable to account to the Privateco or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Privateco to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Privateco, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Privateco or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Privateco shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Privateco or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Privateco or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Privateco or any other company which the Privateco may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Privateco by virtue only of his/their interest in shares or debentures or other securities of the Privateco; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Privateco or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Privateco in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Privateco or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Privateco or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Privateco or companies with which it is associated in business) in establishing and making contributions out of the Privateco's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with the Privateco or any of its subsidiaries) and ex employees of the Privateco and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire shall include any Director who wishes to retire and not to offer himself for re-election. Any further Directors to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director appointed by the board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the board as an addition to the existing board shall hold office only until the next following annual general meeting of the Privateco and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Privateco by way of qualification.

A Director may be removed by an ordinary resolution of the Privateco before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Privateco) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Privateco in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Privateco.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Privateco for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Privateco or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) *Borrowing powers*

The board may from time to time at its discretion exercise all the powers of the Privateco to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Privateco and, subject to the Companies Act, to issue debentures, bonds and other securities of the Privateco, whether outright or as collateral security for any debt, liability or obligation of the Privateco or of any third party.

Note: These provisions, in common with the Bye laws in general, can be varied with the sanction of a special resolution of the Privateco.

(b) Alterations to constitutional documents

The Bye laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Privateco in general meeting. The Bye laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye laws or to change the name of the Privateco.

(c) Alteration of capital

The Privateco may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Privateco may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye laws relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special resolution majority required

A special resolution of the Privateco must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designed Stock Exchange (as defined in the Bye-laws), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and not less than ten (10) clear business days has been given.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye laws, at any general meeting on a poll every member present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Privateco it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Privateco or at any meeting of any class of members of the Privateco provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

Any member that has a material interest (as defined in the Listing Rules) in the transaction or arrangement which is subject to resolution(s) of the Company shall abstain from voting on the resolution(s) approving such transaction or arrangement and shall not be reckoned in any quorum at the general meeting.

(g) Requirements for annual general meetings

An annual general meeting of the Privateco must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Privateco, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Privateco and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Privateco's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Privateco except as conferred by law or authorised by the board or the Privateco in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Privateco under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Privateco at the annual general meeting in accordance with the requirements of the Companies Act (and in any event no more than four months after the end of the financial year to which they related) provided that this provision shall not require a copy of those documents to be sent to any person whose address the Privateco is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, the Privateco may send to such persons summarised financial statements derived from the Privateco's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Privateco, demand that the Privateco sends to him, in addition to summarised financial statements, a complete printed copy of the Privateco's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Privateco and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Privateco shall, during his continuance in office, be eligible to act as an auditor of the Privateco. The remuneration of the auditor shall be fixed by the Privateco in general meeting or in such manner as the members may determine.

The financial statements of the Privateco shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

Unless any share is issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists or any share is transferred to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Privateco has a lien, the board shall not refuse to register a transfer of any share (being a fully paid up share) to any person.

The board may decline to recognise any instrument of transfer unless the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper, at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Privateco to purchase its own shares

The Bye laws supplement the Privateco's Memorandum of Association (which gives the Privateco the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit provided that the total number of shares that the Privateco may purchase or otherwise acquire shall not exceed 10 per cent. (10%) of the total issued share capital of the Privateco as at the date of the relevant resolution of the board. Any purchase, acquisition or otherwise by the Privateco of its own shares exceeding 10 per cent. (10%) of the total issued share capital of the Privateco as at the date of the relevant resolution of the board approving such purchases, acquisitions or otherwise shall be subject to approval by the members by an ordinary resolution.

(l) Power for any subsidiary of the Privateco to own shares in the Privateco

There are no provisions in the Bye laws relating to ownership of shares in the Privateco by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Privateco in general meeting may declare dividends in any currency to be paid to the members according to their respective rights and interests in the profits of the Privateco but no dividend shall be declared in excess of the amount recommended by the board. The Privateco in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Privateco unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than its liabilities.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Privateco on or in respect of any shares all sums of money (if any) presently payable by him to the Privateco on account of calls or otherwise.

Whenever the board or the Privateco in general meeting has resolved that a dividend be paid or declared on the share capital of the Privateco, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Privateco may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Privateco that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Privateco in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Privateco until claimed and the Privateco shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Privateco.

(n) Proxies

Any member of the Privateco entitled to attend and vote at a meeting of the Privateco is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Privateco or at a class meeting. A proxy need not be a member of the Privateco. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Privateco may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Privateco all monies which, at the date of forfeiture, were payable by him to the Privateco in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon during business hours by members of the public without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Privateco under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Privateco be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Privateco shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Privateco whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Privateco may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Privateco has not during that time received any indication of the existence of the member; and (iii) the Privateco has given notice to, and caused advertisement in newspapers to be made of its intention to sell such shares and a period of three months has elapsed since such advertisement. The net proceeds of any such sale shall belong to the Privateco and upon receipt by the Privateco of such net proceeds, it shall become indebted to the former member of the Privateco for an amount equal to such net proceeds.

(u) Other provisions

The Bye laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Privateco and the Privateco does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye laws also provide that the Privateco is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon during business hours.

(v) Reserved Matters

Notwithstanding any provision to the contrary contained in the Bye-laws, no connected transactions (as defined in the Listing Rules) may be undertaken by the Privateco unless (1) it is a transaction on normal commercial terms in the ordinary and usual course of business (as defined in the Listing Rules) of the Privateco; or (2) it is a transaction (or a series of transactions within a 12-month period or are otherwise related) involving any acquisition(s) or disposal(s) of assets (or securities or an interest in one particular company or group of companies or parts of one assets) with each of the amount of total assets (as calculated in accordance with the Listing Rules) and the total revenue attributable to such asset(s) (i) less than 5% of that as shown in the latest audited accounts of the Privateco and its subsidiaries; or (ii) less than 25% of that as shown in the latest audited accounts of the Privateco and its subsidiaries provided that the total consideration of the relevant transaction(s) is less than HK\$10,000,000; (3) it is made with the approval of disinterested member(s) by way of ordinary resolution in general meeting. Where any such transaction requiring approval of disinterested member(s) is proposed for consideration by the members, the Board shall prepare and send, in accordance with the Bye-laws, a notice convening a special general meeting accompanied by a circular to all members which contain a summary of the terms of the proposed transaction and other relevant information relating to such transaction and the advice of an independent financial adviser as to whether the transaction is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Privateco and the members as a whole.

Notwithstanding any provision contained in the Bye-laws and without prejudice to the above paragraph, no transaction involving the acquisition or disposal of assets in a transaction which is not a connected transaction with (i) an aggregate value of more than twenty-five per cent (25%) of the value of the total assets (as calculated in accordance with the Listing Rules) as shown on the latest audited accounts of the Privateco and its subsidiaries, or (ii) the revenue attributable to the assets which are the subject of the relevant transaction being more than twenty-five per cent (25%) of that as shown on the latest audited accounts of the Privateco and its subsidiaries, or (iii) the profits attributable to the assets which are the subject of the relevant transaction being more than twenty-five per cent (25%) of that as shown on the latest audited accounts of the Privateco and its subsidiaries may be undertaken by the Privateco unless it is made with the approval of the member(s) by way of ordinary resolution in general meeting. Where any such transaction requiring approval of the members is proposed for consideration by the members, the board shall prepare and send, in accordance with the Bye-laws, a notice convening a special general meeting accompanied by a circular to all members containing a summary of the terms of the proposed transaction and other relevant information relating to such transaction. So long as the proposed transaction is a non-connected transaction, the requirement as to approval by the members shall be satisfied without holding a general meeting if:— (i) no member is required to abstain from voting if the Privateco were to convene a special general meeting for the approval of the non-connected party transaction; and (ii) a member, or group of members, holding more than fifty per cent (50%) of the issued share capital of the Privateco and being entitled to receive notice of and to attend and vote at general meetings of the Privateco, has or have given written consent to the proposed transaction.

Notwithstanding any provision to the contrary contained in the Bye-laws, the Directors shall obtain the approval of the members by way of ordinary resolution in general meeting prior to allotting, issuing or granting shares, securities convertible into shares or options, warrants or similar rights to subscribe for any shares or such convertible securities. However, no such consent shall be required: (a) for the allotment, issue or grant of such shares or securities pursuant to an offer made to the members, excluding for that purpose any member who is resident in a place where such offer is not permitted or where there are, in the opinion of the Directors, unduly onerous restrictions under the law of that place and where appropriate, to holders of other equity securities of the Privateco entitled to be offered them, in proportion (apart from fractional entitlements) to their then holdings; or (b) if, but only to the extent that, the existing members have by ordinary resolution given a general mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to allot or issue such securities or to grant any offers, agreements or options which would or might require securities to be issued, allotted or disposed of, whether during the continuance of such mandate or thereafter, subject to a restriction that the aggregate number of shares or securities allotted or agreed to be allotted must not exceed in aggregate twenty (20) per cent of the issued share capital of the Privateco in issue from time to time.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE LAWS

The Memorandum of Association may be altered by the Privateco in general meeting. The Bye laws may be amended by the Directors subject to the confirmation of the Privateco in general meeting. The Bye laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye laws or to change the name of the Privateco. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three fourths of the votes cast by such members of the Privateco as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' and not less than ten clear business days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Privateco is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account was paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye laws and nothing therein precludes a variation of such rights, the written consent of the holders of three fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

There is no longer any statutory restriction in Bermuda on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in accordance with their fiduciary duties to the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend

and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than its liabilities. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

Unless the requirement to appoint an auditor is waived by all of the shareholders and all of the directors, either in writing or at the general meeting, any auditor appointed shall hold office until a successor is appointed by the members or if the members fail to do so until the directors appoint a successor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at a general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 31st March 2035, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting or in the case of a company that has made an election to dispense with annual general meetings in accordance with the Companies Act, at or before the next following general meeting which shall be convened within 12 months of the authorisation of the making of the loan, if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye laws of a company, minutes of general meetings and the company's audited financial statements. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Privateco's legal advisers on Bermuda law, have sent to the Privateco a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. RESPONSIBILITY STATEMENTS

The information contained in this Composite Document (other than those relating to the Privateco Offer, Smart Top, its associates and parties acting in concert with any of them) is supplied by the sole Privateco Director. The sole Privateco Director accepts full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Privateco Offer, Smart Top, its associates and parties acting in concert with any of them) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than opinions expressed by Smart Top, its associates and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The information contained in this Composite Document relating to Smart Top, its associates and parties acting in concert with any of them, the terms and conditions of the Privateco Offer and Smart Top's intention regarding the Privateco Group is supplied by Smart Top. The sole director of Smart Top accepts full responsibility for the accuracy of the information contained in this Composite Document relating to the Privateco Offer, Smart Top and its associates and parties acting in concert with any of them and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Privateco) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Privateco as at the Latest Practicable Date were as follows:

<i>Authorised:</i>		<i>HK\$</i>
400,000,000	Privateco Shares of HK\$0.01 each as at the Latest Practicable Date	4,000,000
<u>400,000,000</u>		<u>4,000,000</u>
<i>Issued and fully paid or credited as fully paid:</i>		
1	Privateco Share allotted and issued on 12 October 2012	0.01
1	Privateco Share allotted and issued on 6 December 2012	0.01
323,896,931	Privateco Shares allotted and issued on 6 December 2012	3,238,969.31
<u>323,896,933</u>	Privateco Shares as at the Latest Practicable Date	<u>3,238,969.33</u>

All Privateco Shares in issue rank pari passu in all respects with each other including all rights as regards rights to dividends, voting and return of capital.

Save for the 323,896,933 Privateco Shares in issue as at the Latest Practicable Date, the Privateco Group did not have any other Privateco Shares, or outstanding options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for the Privateco Shares.

3. MARKET PRICES

As the Privateco Shares are not listed on the Stock Exchange or any other stock exchanges, there is no information in relation to the prices of the Privateco Shares quoted on the Stock Exchange or any other stock exchanges.

4. SHAREHOLDINGS AND DEALINGS

Interests in the Privateco

As at the Latest Practicable Date, the interests of the sole Privateco Director in the share capital of the Privateco were as follows:

Name	Type of interest	Number of Privateco Shares	Approximate percentage of the issued share capital of the Privateco (Note 2)
Mr. Yang	Beneficial owner	114,582,000	35.38
	Interest in controlled corporation	59,500,000 (Note 1)	18.37

Notes:

- (1) 59,500,000 Privateco Shares are held by KSE which in turn is beneficially owned in aggregate as to 79.5% by Mr. Yang and his family members and the remaining 20.5% issued share capital of KSE are held by Independent Third Parties.
- (2) The percentage is calculated based on the number of Privateco Shares in issue as at the Latest Practicable Date.

Save as disclosed in this section, the sole Privateco Director had no other interests in the Privateco Shares, warrants, options, derivatives and securities carrying conversion or subscription rights in the Privateco as at the Latest Practicable Date.

As Mr. Yang is the sole beneficial owner of Smart Top (i.e. the offeror of the Privateco Offer) and KSE is a party acting in concert with Mr. Yang, the Privateco Offer will not be extended to him nor KSE.

As at the Latest Practicable Date, the shareholdings in the Privateco in which Smart Top and its ultimate beneficial owner and sole director are interested (as defined in Note 3 of paragraph 4 of Schedule 1 of the Takeovers Code) were as follows:

Name	Type of interest	Number of Privateco Shares	Approximate percentage of the issued share capital of the Privateco (Note 2)
Mr. Yang	Beneficial owner	114,582,000	35.38
	Interest in controlled corporation	59,500,000 (Note 1)	18.37

Notes:

- (1) 59,500,000 Privateco Shares are held by KSE which in turn is beneficially owned in aggregate as to 79.5% by Mr. Yang and his family members and the remaining 20.5% issued share capital of KSE are held by Independent Third Parties.
- (2) The percentage is calculated based on the number of Privateco Shares in issue as at the Latest Practicable Date.

Save as disclosed in this section, neither Smart Top nor its sole director or any persons acting in concert with any of them had any other interests in the Privateco Shares, warrants, options, derivatives and securities carrying conversion or subscription rights in the Privateco as at the Latest Practicable Date.

Interests in Smart Top

As at the Latest Practicable Date, the Privateco did not have any interest in the shares, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of Smart Top and had not dealt for value in the shares, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of Smart Top during the Relevant Period.

As at the Latest Practicable Date, the interests of the sole Privateco Director in the share capital of Smart Top were as follows:

Name	Type of interest	Number of shares in Smart Top	Approximate percentage of the issued share capital of Smart Top
Mr. Yang	Beneficial owner	1	100

Save as disclosed above in this section, as at the Latest Practicable Date, the sole Privateco Director had no other interests in the shares, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of Smart Top.

Dealings in securities of the Privateco

During the Relevant Period, save for the Distribution In Specie under which an aggregate of 174,082,000 Privateco Shares were issued to Mr. Yang and parties acting in concert with him (being 114,582,000 Privateco Shares to Mr. Yang and 59,500,000 Privateco Shares to KSE), the sole Privateco Director had not dealt for value in the Privateco Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Privateco Shares.

During the Relevant Period, save for the Distribution In Specie under which an aggregate of 174,082,000 Privateco Shares were issued to Mr. Yang and parties acting in concert with him (being 114,582,000 Privateco Shares to Mr. Yang and 59,500,000 Privateco Shares to KSE), none of Mr. Yang, Smart Top or parties acting in concert with any of them had dealt for value in the Privateco Shares, warrants, options, derivatives and securities carrying conversion or subscription rights in the Privateco Shares.

During the Relevant Period, none of Mr. Yang, Smart Top, its sole director and ultimate beneficial owner and parties acting in concert with any of them, have borrowed or lent any Privateco Shares or other securities of the Privateco carrying voting rights, or convertible securities, warrants, options or derivatives of the Privateco.

Dealings in securities of Smart Top

During the Relevant Period, the sole Privateco Director had not dealt for value in shares of Smart Top, warrants, options, derivatives and securities carrying conversion or subscription rights into shares of Smart Top.

Miscellaneous

During the Relevant Period and as at the Latest Practicable Date,

- (a) no shareholding in the Privateco was owned or controlled by a subsidiary of the Privateco or by a pension fund of any member of the Privateco Group or by an adviser to the Privateco as specified in class (2) of the definition of associate under the Takeovers Code or by the Independent Financial Adviser and no such person had dealt in any Privateco Shares, warrants, options, derivatives or securities carrying conversion or subscription rights into Privateco Shares;
- (b) save for the Distribution In Specie, no person had any arrangement of the kind described in note 8 to Rule 22 of the Takeovers Code with the Privateco or any person who is an associate of the Privateco by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code and no such person had dealt in any Privateco Shares, warrants, options, derivatives or securities carrying conversion or subscription rights into Privateco Shares;

- (c) none of Mr. Yang, Smart Top, its ultimate beneficial owner or any person acting in concert with any of them had any arrangement or indemnity of the kind described in note 8 to Rule 22 of the Takeovers Code with any person;
- (d) no shareholding in the Privateco was managed on a discretionary basis by fund managers connected with the Privateco and none of them had dealt for value in any Privateco Shares, convertible securities, warrants, options or derivatives of the Privateco;
- (e) Smart Top did not receive any indication or irrevocable commitment from any Independent Privateco Shareholder to accept or reject the Privateco Offer;
- (f) no benefit (other than statutory compensation) would be given to the sole Privateco Director as compensation for loss of office or otherwise in connection with the Privateco Offer;
- (g) there was no agreement, arrangement or understanding (including any compensation arrangement) between Mr. Yang, Smart Top, its ultimate beneficial owner or any person acting in concert with any of them and any director, recent director, shareholder or recent shareholder of the Privateco which had any connection with or dependence upon the Privateco Offer;
- (h) there was no material contracts entered into by Smart Top or its ultimate beneficial owner in which the sole Privateco Director has any material personal interest;
- (i) there is no service contract with the Privateco or any of its subsidiaries or associated companies in force for the sole Privateco Director (i) which (including both continuous and fixed term contracts) has been entered into or amended within six months before the commencement of the Privateco Offer period; (ii) which is a continuous contract with a notice period of 12 months or more; or (iii) which is fixed term contract with more than 12 months to run irrespective of the notice period;
- (j) save for completion of the Share Sale Agreement and the Distribution In Specie, there was no agreement or arrangement to which Mr. Yang, Smart Top or its ultimate beneficial owner is a party which relate to circumstances in which it may or may not invoke or seek to invoke a condition to the Privateco Offer;
- (k) none of the Privateco nor the sole Privateco Director had borrowed or lent any Privateco Shares;
- (l) there was no agreement or arrangement between the sole Privateco Director and any other person which is conditional on or dependent upon the outcome of the Privateco Offer or otherwise connected with the Privateco Offer; and
- (m) no fund managers connected with the Privateco had any dealings in any Privateco Shares, warrants, options, derivatives or securities carrying conversion or subscription rights into the Privateco Shares.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Privateco or any of its subsidiaries) have been entered into by members of the Privateco Group within the two years preceding 17 October 2012, being the date of commencement of the offer period (as defined in the Takeovers Code), and are or may be material:

- (a) a construction agreement dated 30 November 2010 entered into between Kwang Sung Electronics Korea Co., Ltd., an indirect wholly-owned subsidiary of the Privateco, and Yuan Engineering Corporation regarding the construction of a complex building in Korea at the consideration of KRW6,998,283,945;
- (b) a sale and purchase agreement dated 6 December 2012 entered into between Kwang Sung and the Privateco, pursuant to which Kwang Sung sold and the Privateco purchased the entire issued share capital (“KSH Shares”) of Kwang Sung Holdings Co., Ltd. (“KSH”) in consideration of (i) the crediting as fully paid one Privateco Share previously issued to Kwang Sung on 12 October 2012 and (ii) the issue and allotment of 323,896,931 Privateco Shares to Kwang Sung as part of the Group Reorganisation;
- (c) an instrument of transfer dated 6 December 2012 entered into between Kwang Sung and the Privateco in respect of the transfer of the KSH Shares referred to in (b) above;
- (d) a deed of novation dated 6 December 2012 entered into amongst Kwang Sung, the Privateco and KSH, pursuant to which KSH novated and the Privateco assumed a loan in the sum HK\$36,400,000 owed by KSH to Kwang Sung; and
- (e) a loan note dated 6 December 2012 issued by KSH in favour of the Privateco in respect of HK\$36,400,000.

6. LITIGATION

As at the Latest Practicable Date, none of the members of the Privateco Group was engaged in any litigation, arbitration of material importance and no litigation or claim of material importance was known to the sole Privateco Director to be pending or threatened by or against any member of the Privateco Group.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts whose letters or reports (as the case may be) are contained in this Composite Document:

Name	Qualification
Conyers Dill & Pearman	Bermuda legal advisers
Goldin Financial Limited	a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO
Quam Securities Company Limited	a corporation licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Roma Appraisals Limited	Independent property valuer
SHINEWING (HK) CPA Limited	Certified Public Accountants

Each of the experts named above have given and have not withdrawn their respective written consents to the issue of this Composite Document, with the inclusion of their letters or reports (as the case may be) or references to their names in the form and context in which they are respectively included.

8. GENERAL

- (a) Smart Top is wholly owned by Mr. Yang. The sole director of Smart Top is Mr. Yang. The principal members of the parties acting in concert with Smart Top are Mr. Yang and KSE (79.5% of its shareholding is held by Mr. Yang and his family members). The registered office of Smart Top is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands and the correspondence address of Mr. Yang is Flat A & G, 22/F., Block 6, Sausalito, 1 Yuk Tai Street, Ma On Shan, Hong Kong. The registered office of KSE is 8 (Mok-dong) 3-gagil Joongangnamro Mokdong, Yangcheongu, Seoul, Korea.
- (b) The registered office of the Privateco is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is Unit 13, 12/F, Wing On Plaza, 62 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong.
- (c) The registered address of Quam Securities Company Limited is at 18/F-19/F, Aon China Building, 29 Queen's Road Central, Hong Kong.
- (d) The registered address of Goldin Financial Limited is at 23/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

- (e) The securities to be acquired in pursuance to the Privateco Offer will not be transferred, charged or pledged to any other persons.
- (f) The English text of each of this Composite Document and the accompanying Form of Acceptance and Transfer shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at Units 208-209, 2/F, Bio-Informatics Centre, No. 2 Science Park West Avenue, Science Park Shatin, New Territories, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. on any weekday other than public holidays; (ii) on the website of the SFC (www.sfc.hk) and Kwang Sung (www.kse.com.hk) from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum of association and bye-laws of the Privateco;
- (b) the memorandum and articles of association of Smart Top;
- (c) the letter from Quam Securities, the text of which is set out on pages 10 to 16 of this Composite Document;
- (d) the letter from the Privateco Board, the text of which is set out on pages 5 to 9 of this Composite Document;
- (e) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 17 to 27 of this Composite Document;
- (f) the accountants' report on the audited financial information of the Privateco Group for the three financial years ended 31 December 2011 and the six months ended 30 June 2012 from SHINEWING (HK) CPA Limited contained in the Circular, part of which is extracted/reproduced in Appendix II to this Composite Document;
- (g) the unaudited pro forma financial information on the Privateco Group and the accountants' report thereon from SHINEWING (HK) CPA Limited contained in the Circular, the text of each of which is reproduced in Appendix II to this Composite Document;
- (h) the property valuation report from Roma Appraisals Limited contained in the Circular, the text of which is reproduced in Appendix III to this Composite Document;
- (i) the material contracts referred to in the section headed "Material contracts" in this appendix;
- (j) the written consents referred to in the section headed "Experts and consents" in this appendix;
- (k) the letter from Conyers Dill & Pearman dated 14 December 2012 as referred to in the Circular and in Appendix IV to this Composite Document summarising certain provisions of the memorandum of association and bye-laws of the Privateco and certain aspects of Bermuda company law, together with a copy of the Companies Act 1981 of Bermuda; and
- (l) the Circular.