

---

## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

---

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

If you have sold or transferred all your shares in Karce International Holdings Company Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its 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 circular.

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

---



## KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

泰盛實業集團有限公司\*

*(incorporated in Bermuda with limited liability)*

(Stock Code: 1159)

### TERMINATION OF THE VERY SUBSTANTIAL ACQUISITION AFTER COMPLETION ON 15 JANUARY 2009 – VERY SUBSTANTIAL DISPOSAL

#### NOTICE OF THE SGM

---

A letter from the board of directors of the Company is set out on pages 9 to 44 of this circular.

A notice convening the SGM of the Company to be held at Empire Room III, 1/F, Empire Hotel Hong Kong • Wan Chai, 33 Hennessy Road, Wan Chai, Hong Kong on Thursday, 28 February 2013 at 11:00 a.m. or any adjournment is set out from pages 105 to 106 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting of the Company. Completion and return of the form of proxy shall not preclude you from attending and voting at the special general meeting of the Company should you so wish.

\* For identification purposes only

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	9
<b>APPENDIX I – FINANCIAL INFORMATION OF THE GROUP</b> .....	45
<b>APPENDIX II – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP</b> .....	65
<b>APPENDIX III – VALUATION REPORT ON THE PATENTS</b> .....	77
<b>APPENDIX IV – GENERAL INFORMATION</b> .....	98
<b>NOTICE OF SPECIAL GENERAL MEETING</b> .....	105

---

## DEFINITIONS

---

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

“Acquisition”	the acquisition as set out in Acquisition Circular, being the acquisition of the entire issued share capital in Pacific Choice and the shareholder’s loan of Pacific Choice by Sourcestar pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the conditional acquisition agreement dated 30 April 2008 entered into between Sourcestar (as the purchaser), the First Vendor, the Second Vendor, the Company (as warrantor of Sourcestar) and the Warrantors in relation to the Acquisition and as supplemented by the supplemental agreement dated 24 October 2008
“Acquisition Announcements”	the announcements issued by the Company on 15 January 2009, 20 April 2009, 5 January 2010, 12 February 2010 and 23 April 2010
“Acquisition Circular”	the circular issued by the Company on 28 November 2008 in relation to the Acquisition
“Acquisition Completion”	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
“Acquisition Completion Date”	the date of Acquisition Completion, being 15 January 2009
“Acquisition Consideration”	the total consideration of HK\$2,700 million payable by Sourcestar (or the Company) to the Vendors for the Acquisition (subject to adjustments)
“Acquisition Sale Debts”	being the face value of the loans outstanding as at the Acquisition Completion made by or on behalf of the Vendors to Pacific Choice
“Acquisition Sale Shares”	being such number of share as shall represent the entire issued share capital in Pacific Choice held by the Vendors immediately before the Acquisition Completion

---

## DEFINITIONS

---

“Acquisition Valuer”	B.I. Appraisals Limited, a professional business valuer and an Independent Third Party engaged by the Company for preparing the valuation report on the TMDC Sale Patents, which was included in the Acquisition Circular
“Announcements”	the announcement issued by the Company issued on 12 October 2012, 15 November 2012, 26 November 2012, 11 January 2013, 28 January 2013 and 31 January 2013
“Business”	the research and development, manufacturing and distribution of LCoS televisions, enlarged display units with related components by the Target Group
“Business Day”	a day (excluding Saturday and Sunday) on which banks are open for business in Hong Kong
“BVI”	British Virgin Islands
“Company”	Karce International Holdings Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Convertible Bond(s)”	the convertible bonds in a total principal amount of HK\$187,200,000 issued by the Company to TMDC and is currently held by Hong Kong International Securities Limited (formerly known as Mayfair Securities Limited) in escrow
“Director(s)”	the director(s) of the Company
“Disposal”	the transfer of the Patents the entire issued share capital of Precise Media back to the TMDC and the termination of a series of agreements wherein TMDC granted the Group the rights to use its patents and other related agreements signed between the Group and TMDC, as defined as Termination Deed I, Termination Deed II, Termination Deed III, Termination IV, Termination Deed V, and Patents Transfer Agreement

---

## DEFINITIONS

---

“Disposal Group”	Precise Media and its subsidiary, the PRC Subsidiary
“First Vendor”	China Eagle Development Limited, a company incorporated in the BVI with limited liability which held 90% equity interest in Pacific Choice immediately before the Acquisition Completion
“Gold Pioneer”	Gold Pioneer Enterprises Limited, a company incorporated in the BVI with limited liability whose entire issued share capital is held by Pacific Choice
“Group”	collectively, the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKGAAP”	accounting principles generally accepted in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, third party(ies) (and its/their ultimate beneficial owner(s)) independent of the Company and connected persons of the Company
“Latest Practicable Date”	6 February 2013 being the latest practicable date for ascertaining certain information included in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Qiu”	邱子溢 (Qiu Zi Yi*)
“Pacific Choice”	Pacific Choice Holdings Limited, a company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
“Patents”	such patents as set out in the Patents Transfer Agreement

---

## DEFINITIONS

---

“Patents Licensing Contract”	a patent licensing contract dated 4 September 2008 entered between TMDC as the licensor and Sheenway as the licensee, pursuant to which TMDC agreed to grant to Sheenway the exclusive license to use its patent registered in the PRC, namely “投影光機的照明和影像調整裝置 (Lighting and image adjustment device of projectors*)” (Patent No. ZL200520103712.2) (expiry date: 24 August 2015)
“Patents Licensing Deed”	a patent licensing deed dated 4 September entered between TMDC as the licensor and Sheenway as the licensee, pursuant to which TMDC agreed to grant to Sheenway the exclusive license to use the patents registered in Taiwan
“Patents Transfer Agreement”	the patent transfer agreement dated 27 July 2012 entered between Sheenway and TMDC in relation to the transfer of the Patents to TMDC as amended by the Supplemental Agreements
“Precise Media”	Precise Media Limited, a wholly-owned foreign enterprise established in West Samoa on 12 March 2002 whose entire issued share capital is held by Starwick Development, an indirect wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Subsidiary”	聯合光電(蘇州)有限公司 (United Opto-Electronics (Suzhou) Co., Ltd.), a company incorporated in the PRC on 3 November 2005 whose entire issued share capital is held by Precise Media
“Remaining Group”	the Group excluding Precise Media and the PRC Subsidiary
“Reorganization”	the reorganization of the Target Group pursuant to the Acquisition Agreement and the TMDC Agreement

---

## DEFINITIONS

---

“Second Vendor”	Fairtime International Limited, a company incorporated in the BVI with limited liability which held 10% equity interest in the Pacific Choice immediately before the Acquisition Completion
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time)
“Shareholder(s)”	holder(s) of Shares
“Sheenway”	Sheenway Limited, a company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
“SGM”	a special general meeting of the Company to be convened to consider and, if thought fit, approve the transaction documents and the transactions contemplated thereunder by the Shareholders
“Sourcestar”	Sourcestar Profits Limited, a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company
“Starwick Development”	Starwick Development Limited, a company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreements”	the supplemental agreements dated 5 November 2012 and 25 January 2013 entered into between Sheenway and TMDC to supplement the Patents Transfer Agreement
“Supplemental Deed”	the supplemental deed dated 5 November 2012 entered into between Starwick, TMDC and Mr. Qiu to supplement the Termination Deed I

---

## DEFINITIONS

---

“Supply Agreement”	a supply agreement dated 15 January 2009 entered between TMDC as the supplier and Pacific Choice as the customer, pursuant to which TMDC agreed to sell and Pacific Choice agreed to purchase the components for the manufacturing of the LCoS television for a term of 3 years commencing from 15 January 2009 to 14 January 2012
“Suzhou Plant”	the intention of the PRC Subsidiary to set up a manufacturing base for the production of LCoS televisions in Suzhou, the PRC
“Target Group”	Pacific Choice, Starwick Development, Gold Pioneer, Sheenway, Precise Media, the PRC Subsidiary and their respective subsidiaries (if any)
“Tenancy Agreement”	a tenancy agreement dated 15 January 2009 entered between TMDC as the landlord and Starwick Development as the tenant in relation to renting the premises located at 台灣竹南鎮南科段頂埔里10鄰科西一路8號 (No. 8 Kexi First Road, 10 Dingpuli, Nankeduan, Zhunan Town, Taiwan*)
“TMDC”	台灣微型影像股份有限公司 (Taiwan Micro Display Corp.), a company incorporated in Taiwan, an Independent Third Party
“TMDC Agreement”	the agreement dated 29 February 2008 entered into between, among others, TMDC as vendors, Starwick Development as purchaser in connection with, inter alia, the sale and purchase of the TMDC Sale Machineries, the TMDC Sale Patents and entire issued share capital in Precise Media and as supplemented by the supplemental agreements entered into between the same parties on 5 September 2008 and 3 October 2008 respectively
“TMDC Sale Machineries”	such machineries and equipment as set out in the TMDC Agreement, which have been agreed to be transferred and assigned to Starwick Development (or its nominee) pursuant to the terms and conditions of the TMDC Agreement

\* For identification purposes only



---

## DEFINITIONS

---

“TMDC Sale Patents”	such patents as set out in the TMDC Agreement, which have been agreed to be transferred and assigned to Starwick Development (or its nominee) pursuant to the terms and conditions of the TMDC Agreement
“Termination Deed I”	the termination deed dated 27 July 2012 entered among Starwick Development, TMDC and Mr. Qiu in relation to the termination of the TMDC Agreement as amended by the Supplemental Deed and the letter of confirmation dated 25 January 2013
“Termination Deed II”	the termination deed dated 27 July 2012 entered between Starwick Development and TMDC in relation to the termination of the Tenancy Agreement
“Termination Deed III”	the termination deed dated 27 July 2012 entered between Sheenway and TMDC in relation to the termination of the Patents Licensing Contract
“Termination Deed IV”	the termination deed dated 27 July 2012 entered between Sheenway and TMDC in relation to the termination of the Patents Licensing Deed
“Termination Deed V”	the termination deed dated 27 July 2012 entered between Pacific Choice and TMDC in relation to the termination of the Supply Agreement
“Termination Deeds”	collectively, Termination Deed I, Termination Deed II, Termination Deed III, Termination Deed IV and Termination Deed V
“Tranche 1 Bonds”	the Convertible Bonds in a total principal amount of HK\$300 million to be issued by the Company to the Vendors (or their respective nominee(s)) (as to HK\$255 million to the First Vendor and as to HK\$45 million to the Second Vendor) for the settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement

---

## DEFINITIONS

---

“Tranche 2 Bonds”	the Convertible Bonds in a total principal amount of HK\$600 million to be issued by the Company to the Vendors (or their respective nominee(s)) in their respective equity interest in the Pacific Choice for the settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement
“Tranche 3 Bonds”	the Convertible Bonds in a total principal amount of HK\$600 million to be issued by the Company to the Vendors (or their respective nominee(s)) in their respective equity interest in the Pacific Choice for the settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement
“Tranche 4 Bonds”	the Convertible Bonds in a total principal amount of HK\$800 million to be issued by the Company to the Vendors (or their respective nominee(s)) in their respective equity interest in the Pacific Choice for settlement of part of the Acquisition Consideration pursuant to the Acquisition Agreement
“United States” or “U.S.”	the United States of America
“Valuer”	Stirling Appraisals Limited, a professional business valuer and an Independent Third Party engaged by the Company for preparing the valuation report on the Patents
“Vendors”	the First Vendor and the Second Vendor
“Warrantors”	Mr. Chan Shun Yuen (now known Mr. Chan Hau Kong) and Ms. Hsu Ming Shan, the warrantors of the Vendors under the Acquisition Agreement

*In the case of inconsistency, the English text of this circular shall prevail over the Chinese text.*

---

**LETTER FROM THE BOARD**

---



**KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED**

**泰盛實業集團有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1159)**

*Executive Directors:*

Mr. Sun Ying Chung (*Chairman*)

Mr. Chan Sung Wai (*Deputy Chairman*)

*Non-executive Directors:*

Mr. Lee Kwok Leung

Mr. Yang Yiu Chong, Ronald Jeffrey

*Independent non-executive Directors:*

Mr. Lum Pak Sum

Mr. Mak Ka Wing, Patrick

Mr. Shum Kai Wing

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Head office and principal place  
of business:*

Suite 3404, 34th Floor

Bank of America Tower

12 Harcourt Road, Central

Hong Kong

8 February 2013

*To the Shareholders*

Dear Sir or Madam,

**TERMINATION OF THE VERY SUBSTANTIAL ACQUISITION  
AFTER COMPLETION ON 15 JANUARY 2009 –  
VERY SUBSTANTIAL DISPOSAL**

**INTRODUCTION**

Reference is made to the Acquisition Circular, Acquisition Announcement and the Announcements.

\* *For identification purposes only*

---

## LETTER FROM THE BOARD

---

As disclosed in the Acquisition Circular and the Acquisition Announcements, on 30 April 2008, Sourcestar (as the purchaser), a direct wholly-owned subsidiary of the Company, and the Company (as the warrantor of Sourcestar) entered into the conditional Acquisition Agreement with the First Vendor, the Second Vendor and the Warrantors. Pursuant to the Acquisition Agreement, Sourcestar has agreed to acquire the Acquisition Sale Shares and the Acquisition Sale Debts from the First Vendor and the Second Vendor at a total Acquisition Consideration of HK\$2,700 million (subject to adjustments as referred to the paragraph headed “Adjustments to the Acquisition Consideration” below, if any).

### **The Acquisition Agreement**

#### ***Date***

30 April 2008 (as supplemented by the supplemental agreement dated 24 October 2008)

#### ***Parties***

- Vendors:
- (1) China Eagle Development Limited, as the First Vendor, which held 90% equity interest in Pacific Choice before the Acquisition Completion
  - (2) Fairtime International Limited, as the Second Vendor, which held 10% equity interest in Pacific Choice before the Acquisition Completion
- Purchaser: Sourcestar Profits Limited, a direct wholly-owned subsidiary of the Company and an investment holding company
- Warrantors:
- (1) Mr. Chan Shun Yuen (being the sole beneficial owner of the entire equity interest in the Second Vendor), as the warrantor of the First Vendor and the Second Vendor
  - (2) Ms. Hsu Ming Shan, as another warrantor of the First Vendor
  - (3) the Company, as the warrantor of Sourcestar

---

## LETTER FROM THE BOARD

---

### *Assets acquired or assigned under the Acquisition Agreement*

- (i) the Acquisition Sale Shares, being the entire issued share capital of Pacific Choice; and
- (ii) the Acquisition Sale Debts, representing the face value of the total amounts due by Pacific Choice to the Vendors as at the Acquisition Completion Date.

### *Acquisition Consideration*

The aggregate Acquisition Consideration was HK\$2,700 million (subject to adjustments as set out in the paragraph headed “Adjustments to the Acquisition Consideration” below), of which the consideration for the Acquisition Sale Debts was the face value of the amount of the Acquisition Sale Debts as at the Acquisition Completion Date and the consideration for the Acquisition Sale Shares was the balance thereof.

The Acquisition Consideration shall be satisfied by Sourcestar (or the Company) to the Vendors in the following manner:

- (i) as to HK\$25 million payable in cash by Sourcestar (or the Company) to the Second Vendor as deposit (the “**Deposit**”) upon the signing of the Acquisition Agreement;
- (ii) upon Acquisition Completion:
  - (a) as to HK\$255 million by the issue of the Tranche 1 Bonds by the Company to the First Vendor (or its nominee(s));
  - (b) as to HK\$45 million by the issue of the Tranche 1 Bonds by the Company to the Second Vendor (or its nominee(s)); and
  - (c) as to HK\$375 million by, at the option of Sourcestar, the issue of the Promissory Note by Sourcestar or cash payment by Sourcestar (or the Company) to the First Vendor (or its nominee(s)); and
- (iii) as to the remaining balance of HK\$2,000 million by the issue of the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds by the Company to the Vendors (or their respective nominee(s)) in their respective equity interest in Pacific Choice, subject to the provision of the paragraph headed “Earn-out adjustments” below.

---

## LETTER FROM THE BOARD

---

All certificates for the entire Tranche 1 Bonds were held under escrow at Acquisition Completion until the receipt of confirmation by the Vendors from the Company of its satisfaction of fulfillment of all conditions set out under clause 1 of the agreement dated 3 October 2008 supplemental to the TMDC Agreement, i.e. (i) the Company having complied with all applicable laws and regulations (including without limitation the Listing Rules); (ii) the pledge created on the TMDC Sale Machineries having been released (or, in case the pledge created on the TMDC Sale Machineries has not been released, the creditors of certain TMDC's bank loans (to which pledge on the TMDC Sale Machineries has been given as security) having granted in-principle consent regarding the transfer of the TMDC Sale Machineries to Starwick Development); and (iii) Starwick Development and the Company having been satisfied that the Suzhou Plant (as defined below) has been established and in normal operation. Unless and until the Vendors receive such confirmation from the Company, none of the Tranche 1 Bonds shall be exercised or disposed of by the Vendors or either of them.

The following table set out the breakdown of the consideration paid by the Company to the Vendors and TMDC:–

	<b>The Second Vendor HK\$</b>	<b>The First Vendor HK\$</b>	<b>TMDC HK\$</b>	<b>Total HK\$</b>
Cash – paid in 2008	<u>25,000,000</u>	<u>–</u>	<u>–</u>	<u>25,000,000</u>
Promissory Note issued on 15/01/2009	<u>–</u>	<u>375,000,000</u>	<u>–</u>	<u>375,000,000</u>
Convertible bonds of the Company (held in escrow by Hong Kong International Securities Limited (formerly known as Mayfair Securities Ltd.)) issued on 15/01/2009	<u>45,000,000</u>	<u>67,800,000</u>	<u>187,200,000</u>	<u>300,000,000</u>
Total – at Acquisition Completion	<u><u>70,000,000</u></u>	<u><u>442,800,000</u></u>	<u><u>187,200,000</u></u>	<u><u>700,000,000</u></u>

---

## LETTER FROM THE BOARD

---

The following table set out the breakdown of the subsequent amendments to the consideration paid by the Company to the Vendors and TMDC:-

	<b>The Second Vendor HK\$</b>	<b>The First Vendor HK\$</b>	<b>TMDC HK\$</b>	<b>Total HK\$</b>
Cash				
– paid in 2008	25,000,000	–	–	25,000,000
– redemption of Promissory Note in 2009	–	250,000,000	–	250,000,000
	<u>25,000,000</u>	<u>250,000,000</u>	<u>–</u>	<u>275,000,000</u>
Promissory Note				
– Issued on 15/01/2009	–	375,000,000	–	375,000,000
– Early Redeemed on 16/02/2009	–	(125,000,000)	–	(125,000,000)
– Early Redeemed on 19/02/2009	–	(125,000,000)	–	(125,000,000)
– Waived on 16/02/2009	–	(37,500,000)	–	(37,500,000)
	<u>–</u>	<u>87,500,000</u>	<u>–</u>	<u>87,500,000</u>
Outstanding Promissory Note	<u>–</u>	<u>87,500,000</u>	<u>–</u>	<u>87,500,000</u>
Convertible bonds of the Company (held in escrow by Hong Kong International Securities Limited (formerly known as Mayfair Securities Ltd.)) issued on 15/01/2009	<u>45,000,000</u>	<u>67,800,000</u>	<u>187,200,000</u>	<u>300,000,000</u>

### ***Adjustments to the Acquisition Consideration***

Pursuant to the terms of the Acquisition Agreement, in addition to the adjustments to the Acquisition Consideration as detailed in the paragraph headed “Earn-out adjustments” below, the Vendors have warranted to Sourcestar that, among other things, as at the Acquisition Completion Date:

- (i) there shall be no other borrowings, obligations or liabilities (whether actual or contingent) of the Target Group owing to any other party (whether the Vendors or their respective associates or otherwise), otherwise than those as shown in the unaudited consolidated management accounts in respect of the Target Group as at 31 March 2008; and

---

## LETTER FROM THE BOARD

---

- (ii) there are no guarantees given by any members of the Target Group whatsoever and howsoever, otherwise than those as shown in the audited consolidated financial statements or unaudited consolidated management accounts in respect of the Target Group as at 31 March 2008 or disclosed to and agreed by Sourcestar in advance.

If there are any breach of the warranties set out in the above within twelve months from the Acquisition Completion Date, the Acquisition Consideration shall be reduced by an amount equal to the aggregate amount of such additional liabilities, firstly from the principal amount of the Tranche 1 Bonds and followed by the principal amount of the Promissory Note.

### *Earn-out adjustments*

Pursuant to the Acquisition Agreement, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds shall be issued by the Company to the Vendors (or their respective nominee(s)) in their respective equity interest in Pacific Choice, with reference to the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) net profits before tax and before amortization of any of the TMDC Sale Patents of the Target Group as shown in the reviewed (or, as the case may be, audited) consolidated financial statements of the Target Group prepared in accordance with HKGAAP, in the following manner within ten Business Days from the date of the respective reviewed (or, as the case may be, audited) consolidated financial statements of the Target Group being made available to the Vendors and Sourcestar:

- (i) for the period of six months from 1 January 2009 not less than:
  - (a) HK\$300 million but less than HK\$600 million, the Tranche 2 Bonds shall be issued; or
  - (b) HK\$600 million but less than HK\$1,000 million, the Tranche 2 Bonds and the Tranche 3 Bonds shall be issued; or
  - (c) HK\$1,000 million, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds shall be issued;



---

## LETTER FROM THE BOARD

---

- (ii) for the period of twelve months from 1 January 2009 not less than:
- (a) HK\$600 million but less than HK\$1,000 million, the Tranche 2 Bonds and the Tranche 3 Bonds (to the extent such Convertible Bonds or any of them will not have been issued in respect of the period of six months from 1 January 2009) shall be issued; or
  - (b) HK\$1,000 million, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds (to the extent such Convertible Bonds or any of them will not have been issued in respect of the period of six months from 1 January 2009) shall be issued;

Provided that where (1) the Tranche 2 Bonds shall not have been issued under condition (i) above, and (2) the reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) net profits before tax and before amortization of any of the TMDC Sale Patents of the Target Group for the period of twelve months from 1 January 2009 is less than HK\$600 million but more than HK\$300 million, then the Tranche 2 Bonds shall be issued to the Vendors (or their respective nominees);

- (iii) for the period of eighteen months from 1 January 2009:
- (a) not less than HK\$1,000 million, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds (to the extent such Convertible Bonds or any of them will not have been issued in respect of the period of six and/or twelve months from 1 January 2009) shall be issued; or
  - (b) less than HK\$1,000 million, the Tranche 2 Bonds, the Tranche 3 Bonds and the Tranche 4 Bonds in the total principal amount as calculated below shall be issued (but excluding such Convertible Bonds which will have been issued in respect of the period of six and/or twelve months from 1 January 2009);

Total principal amounts of Convertible Bonds to be issued:

$$= \{ \text{HK\$2,000 million} \} \times \{ \text{reviewed (or, as the case may be, audited) consolidated (or, as the case may be, combined) net profits before tax and before amortization of any of the TMDC Sale Patents of the Target Group for the period of eighteen months from 1 January 2009} \} / \{ \text{HK\$1,000 million} \}$$

---

## LETTER FROM THE BOARD

---

### *Basis of determination of the Acquisition Consideration*

The Acquisition Consideration was reached after arm's length negotiations between the parties to the Acquisition Agreement and was determined based on the net assets value of the Target Group as at 31 March 2008 of approximately RMB4.2 million (equivalent to approximately HK\$4.7 million<sup>#</sup>) as well as taking into account of the valuation of the TMDC Sale Patents of about US\$92 million (equivalent to approximately HK\$718 million<sup>#</sup>) as at 31 August 2008 as valued by the Acquisition Valuer, the face value of the Acquisition Sale Debts and the earning potential of the Target Group as detailed in the paragraph headed "Earn-out adjustments" above. As at 31 March 2008, the face value of the Acquisition Sale Debts was nil in balance. According to the then valuation report prepared by the Acquisition Valuer, the finalized valuation of the TMDC Sale Patents was US\$92 million (equivalent to approximately HK\$718 million<sup>#</sup>) as at 31 August 2008. The Acquisition Valuer has considered the cost approach, market approach and income capitalization approach for valuation of the TMDC Sale Patents.

As a condition precedent to the Acquisition Completions, Reorganization shall have been duly completed under the PRC laws in accordance with the TMDC Agreement and further pursuant to the business plans of the Vendors as below:

- (i) Precise Media has or will become a direct wholly-owned subsidiary of Starwick Development;
- (ii) the TMDC Sale Machineries will become vested in the PRC Subsidiary in the sense that they would be delivered to the PRC Subsidiary (or other person as nominated by Starwick Development) within three years from the date of completion of the agreement dated 5 September 2008 supplemental to the TMDC Agreement (or such later date as agreed by Starwick Development) and during the period before such delivery, Starwick Development is required to pay to TMDC a monthly fee of HK\$0.5 million for rental and management of a production base in Taiwan for the TMDC Sale Machineries;

<sup>#</sup> *As at the date of the Acquisition Circular, ie. 28 November 2008, amounts denominated in RMB was translated for the purpose of illustration only into HK\$ at the exchange rate of HK\$1.12 = RMB1.00*

---

## LETTER FROM THE BOARD

---

- (iii) the TMDC Sale Patents will be owned by Sheenway and (if required by Sourcestar) the registration of the TMDC Sale Patents in the name of Sheenway will have been effected;
- (iv) the officers of TMDC will enter into with the PRC Subsidiary legally valid and enforceable employment contracts in the agreed form;
- (v) on or before 30 November 2008 (or such later date as parties may agree), all purchase prices payable by Starwick Development under the TMDC Agreement shall be settled on behalf of Starwick Development by the convertible bonds of the Company on condition that (a) the Company having complied with all applicable laws and regulations (including without limitation the Listing Rules); (b) the pledge created on the TMDC Sale Machineries having been released (or, in case the pledge created on the TMDC Sale Machineries has not been released, the creditors of certain TMDC's bank loans (to which pledge on the TMDC Sale Machineries has been given as security) having granted in principle consent regarding the transfer of the TMDC Sale Machineries to Starwick Development); and (c) Starwick Development and the Company having been satisfied that the Suzhou Plant has been established and in normal operation, such that TMDC will not have any recourse against any members of the Target Group or the Company and its subsidiaries; and
- (vi) immediately before the Acquisition Completion, the loans owing by the members of the Target Group (other than Pacific Choice) to the respective associates of the Vendors will be assigned to become loans owing by Pacific Choice to the Vendors.

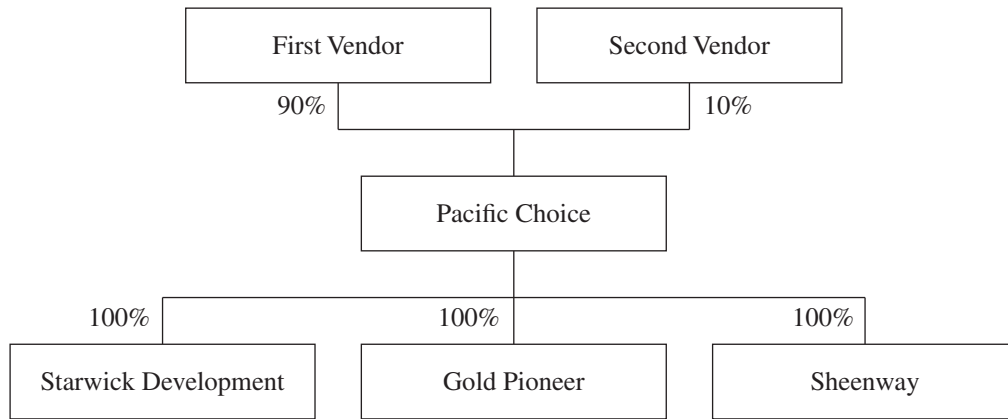
---

## LETTER FROM THE BOARD

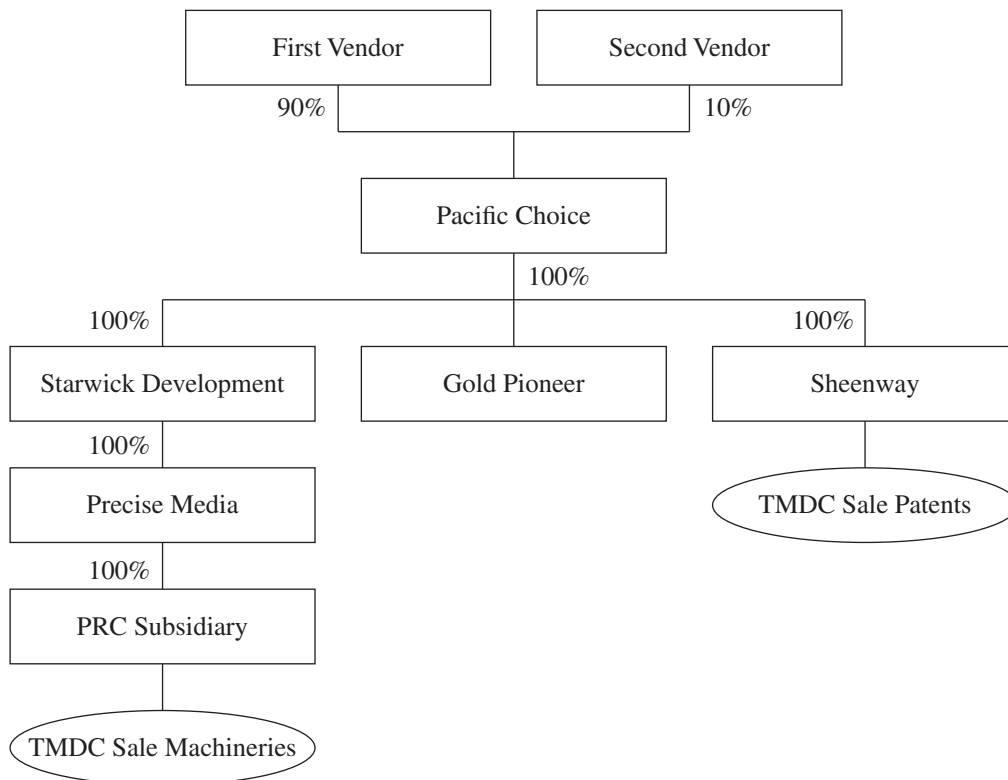
---

### *Shareholding structure before and after the Reorganization and the Acquisition*

Immediately before the completion of the Reorganization and the Acquisition:



Immediately after the completion of the Reorganization but before the Acquisition:

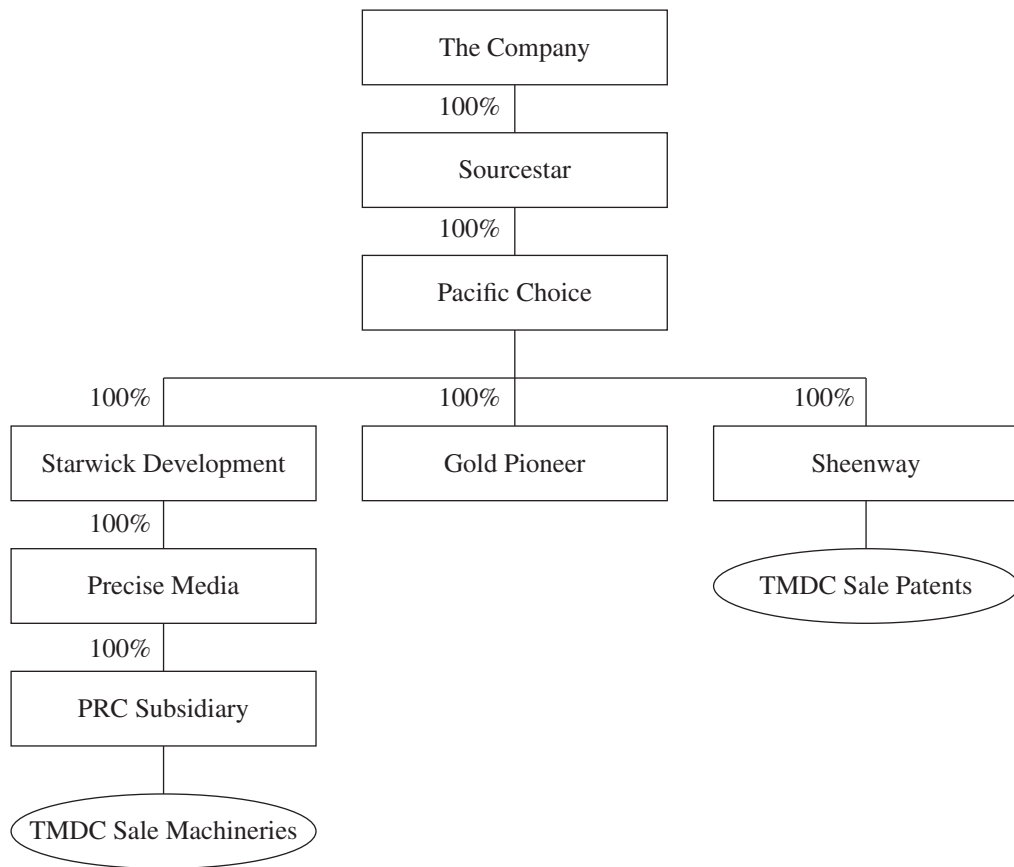


---

## LETTER FROM THE BOARD

---

Immediately after the completion of the Reorganization and the Acquisition:



---

## LETTER FROM THE BOARD

---

### *Completion of the Acquisition*

On 15 January 2009, the Acquisition Agreement has proceeded to completion. However, in view of the fact that the purchase price payable by Starwick Development to TMDC under the TMDC Agreement has not been settled on behalf of Starwick Development by the convertible bonds of the Company before the Acquisition Completion (but have been so settled simultaneously at the Acquisition Completion) and that as at the date of the Acquisition Completion, the pledge (“**Pledge**”) created on the TMDC Sale Machineries has not been released, Sourcestar has agreed, subject to the following undertakings given by the Vendors and TMDC, to waive certain closing conditions to the Acquisition Completion:

1. The Vendors shall (and TMDC shall procure the Vendors to) procure the transfer of the ownership of the TMDC Sale Machineries from TMDC to Starwick Development within twelve months from the date of the Acquisition Completion to the effect that on or before the expiry of the said twelve-month-period, the Pledge will have been released. Prior to such transfer, TMDC shall allow any members of the Target Group to use or otherwise occupy the TMDC Sale Machineries at no costs.
2. Among the Tranche 1 Bonds to be issued to the First Vendors (or such person(s) as nominated by the First Vendor) on the date of the Acquisition Completion, a principal amount as to US\$4,000,000 (or its Hong Kong dollar equivalent of HK\$31,000,000 (at the exchange rate of US\$1: HK\$7.75)) will be withheld by Sourcestar (“**Withheld Consideration**”) and will, upon the transfer of the TMDC Sale Machineries in accordance with paragraph 1 above, be delivered to the escrow agent jointly appointed by the Vendors, Sourcestar and TMDC, who shall hold such Tranche 1 Bonds in accordance with the terms of the escrow agreement made in contemplation of Clause 3.4B of the Acquisition Agreement.
3. In the event that transfer of the ownership of the TMDC Sale Machineries from TMDC to Starwick Development does not take place within twelve months from the date of the Acquisition Completion (or any such later time (if at all) as Sourcestar may determine at its absolute discretion), the Acquisition Consideration shall be reduced by the Withheld Consideration.

---

## LETTER FROM THE BOARD

---

4. The Vendors and TMDC shall, if so demanded by Sourcestar, indemnify Sourcestar in full and hold Sourcestar harmless of (i) any costs losses or expenses incurred or sustained for the purpose of purchasing, installing and using alternative machineries in place of the TMDC Sale Machineries; and (ii) any economic loss (including loss of profit) suffered or sustained by Sourcestar arising from or in connection with the interruption of the business caused by or in connection with the enforcement action taken by the pledgee of the TMDC Sale Machineries (or party(ies) deriving any rights therefrom) or the replacement by such alternative machineries for the TMDC Sale Machineries for whatever reasons (collectively, the “**Indemnified Costs**”).
5. Both the Vendors and TMDC acknowledge that one of the steps for the Reorganisation, i.e. that the TMDC Sale Machineries will become vested in the PRC Subsidiary to the effect that they will be delivered to the PRC Subsidiary (or other persons as nominated by the Starwick Development) within three years from the date of completion of the agreement dated 5 September 2008 supplemental to the TMDC Agreement, shall remain unchanged notwithstanding the arrangement in paragraph 1 above. In addition, by the time the TMDC Sale Machineries are to be delivered to the PRC Subsidiary (or other persons as nominated by Starwick Development), the Vendors and TMDC undertake to use their best endeavors and at their own costs to procure that the import of the TMDC Sale Machineries to the PRC shall comply with the relevant laws and regulations in the PRC.
6. The Vendors and TMDC further undertake that without the prior written consent from Sourcestar, TMDC shall not increase any of its indebtedness or liability which is secured by the Pledge, and TMDC shall, upon the request of Sourcestar, execute such documents and do such acts and things to perform and/or perfect the undertakings given hereunder.

### ***The Dispute***

Notwithstanding the undertakings given by the Vendors and TMDC, the title to the TMDC Sale Machineries without encumbrance has not been transferred to the Group. It was because pledge made by TMDC in favour of certain banks over the TMDC Sale Machineries has not been released. Moreover, despite employment contracts being entered into between certain officers from TMDC and the PRC Subsidiary at the time of the Acquisition Completion, such officers have not gone to the Suzhou Plant to render services to the Group for the purpose of carrying on the business. Trial production at the Suzhou Plant has not yet commenced. As a result, the original production plan has not been realized, which constitute breaches of certain undertakings on the part of the Vendors under the Acquisition Agreement.

---

## LETTER FROM THE BOARD

---

According to the record of the Company, since Acquisition Completion, the Company has no control over any other physical assets, save and except the TMDC Sale Patents which have been transferred to Sheenway.

The Group has by itself and through its legal advisers issued demand letters to the Vendors and the Warrantors under the Acquisition Agreement requesting them to provide satisfactory explanations and to suggest remedial actions to address the above breaches.

In February 2010, the Company engaged lawyers and financial adviser trying to reach a settlement with the Vendors in relation to the breach of the Acquisition Agreement. The same has been disclosed in 2009 Annual Report that the Company tried to negotiate with the Vendors to unwind the Acquisition. On 5 March 2010, a letter was issued by the Group's legal adviser requesting the Vendors to provide satisfactory explanations and suggest remedial actions to the breach of the Acquisition Agreement. Thereafter, letters dated 21 April 2009, 28 April 2009 and 4 May 2009 have also been sent from the Group to the First Vendor. Notwithstanding the Company's good-faith approach to the Vendors to resolve the issues in an amicable manner and the Company's repeated requests for meetings to discuss about the possible alternatives on such resolution, the Vendors have continued to disregard the request of the Company. On 12 January 2011, another letter was issued by the legal adviser. Despite the repeated demands on the part of the Group, the Vendors and Warrantors failed and refused to remedy any of the breaches or failed to respond at all to the said demands.

The Group was legally advised that by reason of wrongful breaches by the Vendors and the Warrantors and their failure to take any remedial actions despite repeated demands by the Group, there was a total failure of consideration for what the Group has bargained and paid for under the Acquisition Agreement. A letter was therefore, issued by the Group's legal adviser dated 23 July 2012 to terminate the Acquisition Agreement by accepting the wrongful repudiation of the same on the part of the Vendors and the Warrantors. In the circumstances, those outstanding convertible bonds in the principal amount of HK\$2,000,000,000, namely, Tranche 2 Bonds, Tranche 3 Bonds and Tranche 4 Bonds, being the remaining balance of the consideration under the Acquisition Agreement will not be issued to the Vendors. A counsel has been retained to advise and to issue legal proceedings for claims of rescission and restitution of all consideration paid including cash of HK\$275,000,000, and cancellation of convertible bonds of a total principal amount of HK\$112,800,000 and promissory notes of HK\$87,500,000.



---

## LETTER FROM THE BOARD

---

On 12 September, 2012, the Group has issued legal proceedings against the Vendors in the High Court of Hong Kong Special Administrative Region in regard to the claim of restitution for total failure of consideration and rescission in connection with the Acquisition Agreement (the “**Action**”). For details of the Action, please refer to the announcement of the Company dated 12 September 2012.

Even though the legal proceedings against the Vendors is still underway, considering that the Company can get back the Convertible Bonds and TMDC is willing to co-operate with the Company in order to get back the patents for their use, as one of the remedial actions to the above breaches and to mitigate the loss, the Company agreed to transfer back to TMDC the entire issued share capital of Precise Media, the sales patents (excluding those have already expired), which were transferred to the Group from TMDC under the Acquisition Agreement, and to terminate a series of agreements wherein TMDC granted the Group the rights to use its patents, as well as other related agreements signed between TMDC and the Group, as defined as Termination Deed I, Termination Deed II, Termination Deed III, Termination Deed IV, Termination Deed V and Patent Transfer Agreement (collectively known as the “**Disposal**”). In return, TMDC shall tender back the Convertible Bonds to the Company for cancellation.

On 27 July 2012, TMDC entered into the following Agreements with the Group for the Disposal.

### **TERMINATION DEED I: TERMINATION OF THE TMDC AGREEMENT (THE “TERMINATION DEED I”)**

#### **TMDC Agreement**

##### ***Date***

29 February 2008 (and supplemented by supplemental agreements dated 5 September 2008 and 3 October 2008)

##### ***Parties***

- (1) TMDC, an Independent Third Party
- (2) Starwick Development, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (3) Mr. Qiu, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, save that Mr. Qiu was the director and legal representative of the PRC Subsidiary and the director of TMDC, Mr. Qiu has no other relationship with the Vendors, TMDC and the Company. Mr. Qiu is an Independent Third Party

---

## LETTER FROM THE BOARD

---

### *Terms*

TMDC as vendors, Starwick Development as purchaser, and among others entered into a sale and purchase agreement on 29 February 2008 (which was supplemented by the supplemental agreements made between the same parties on 5 September 2008 and 3 October 2008 respectively) in connection with, inter alia, the sale and purchase of the TMDC Sale Machineries, the TMDC Sale Patents and the entire issued share capital in Precise Media at a consideration of US\$25,000,000.

Under the TMDC Agreement, within three years from the date of completion of such agreement (or such later date as agreed by Starwick Development and TMDC), Starwick Development has agreed to purchase components from TMDC for at least 50,000 sets of LCoS televisions semi-annually and at least 100,000 sets annually and if the aforesaid minimum purchase quantity cannot be met, the grant of license of those patents held by TMDC which may have to be used in connection with the production of LCoS televisions and enlarged display units but not forming part of the TMDC Sale Patents for exclusive use by Sheenway (or its nominee(s)) may be terminated upon mutual agreement between Starwick Development and TMDC.

Pursuant to the TMDC Agreement, Starwick Development, Sheenway and Pacific Choice entered into the Tenancy Agreement, the Patents Licensing Contract, the Patents Licensing Deed and the Supply Agreement with TMDC respectively.

### **Termination Deed I**

### *Date*

27 July 2012 (as amended by the Supplemental Deed and a letter of confirmation dated 25 January 2013)

### *Parties*

- (1) Starwick Development, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party
- (3) Mr. Qiu, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save that Mr. Qiu was the director and legal representative of the PRC Subsidiary and the director of TMDC, Mr. Qiu has no other relationship with the Vendors, TMDC and the Company. Mr. Qiu is an Independent Third Party

---

## LETTER FROM THE BOARD

---

### *Terms*

Each of TMDC, Mr. Qiu and Starwick Development unconditionally and irrevocably agreed to terminate the TMDC Agreement in accordance with the terms of the Termination Deed I.

### **Conditions precedent**

The Termination Deed I is subject to the fulfillment of the following conditions on or before 28 February 2013:

- (1) The board of directors and shareholders of the Company (if required under the Listing Rules) having granted all necessary approvals and consents in respect of the cancellation of the TMDC Agreement and the termination of the transactions contemplated thereunder, and Termination Deed I;
- (2) TMDC having tendered back the Convertible Bonds to the Company for cancellation;
- (3) Starwick Development having transferred the entire issued share capital of Precise Media to TMDC or its nominees; and
- (4) Starwick Development having procured Sheenway and TMDC to enter into a patents transfer agreement to transfer the Patents to TMDC or its designated parties and TMDC having obtained the written undertaking of the Company to procure the relevant patent authorities and departments (including the patent authorities and departments in the PRC, Taiwan and the United States) having agreed and registered the rights of the Patents under the name(s) of TMDC or parties designated by TMDC.

Upon the fulfillment of the conditions precedent of the Termination Deed I, the rights and liabilities of both parties under the TMDC Agreement will be retrospectively terminated from the date of the Termination Deed I. As at the Latest Practicable Date, none of the above conditions had been fulfilled or waived and the Company has no intention to waive any of the above conditions.

### **TERMINATION DEED II: TERMINATION OF THE TENANCY AGREEMENT (THE “TERMINATION DEED II”)**

#### **Tenancy Agreement**

#### *Date*

15 January 2009

---

## LETTER FROM THE BOARD

---

### *Parties*

- (1) TMDC, an Independent Third Party
- (2) Starwick Development, an indirect wholly-owned subsidiary of the Company and an investment holding company

### *Terms*

TMDC as the landlord and Starwick Development as the tenant entered into the Tenancy Agreement in relation to renting the premises located at 台灣竹南鎮南科段頂埔里10鄰科西一路8號 (No. 8 Kexi First Road, 10 Dingpuli, Nankeduan, Zhunan Town, Taiwan\*) (the “**Premises**”) for a term of 3 years commencing from 15 January 2009 to 14 January 2012 at a rent of HK\$500,000.00 per month.

The Company cannot find any records for the rental payment.

### **Termination Deed II**

### *Date*

27 July 2012

### *Parties*

- (1) Starwick Development, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party

### *Terms*

Starwick Development and TMDC unconditionally and irrevocably agreed to terminate the Tenancy Agreement in accordance with the terms of the Termination Deed II. Both Starwick Development and TMDC confirmed and agreed unanimously that the Tenancy Agreement has expired. Both Starwick Development and TMDC shall release each other from all the liabilities and obligations under the Tenancy Agreement (including but not limited to any rents owed by Starwick Development to TMDC).

---

## LETTER FROM THE BOARD

---

### Conditions precedent

The Termination Deed II is subject to the fulfillment of the following conditions:

- (1) the board of Directors and the shareholders of the Company (if necessary) having granted all necessary approvals and consents in respect of the cancellation of the Tenancy Agreement and the termination of the relevant transactions contemplated thereunder, and the Termination Deed II; and
- (2) both Starwick Development and TMDC, including their parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong).

Upon the fulfillment of the conditions precedent of the Termination Deed II, the rights and liabilities of both parties under the Tenancy Agreement will be retrospectively terminated from the date of the Termination Deed II. As at the Latest Practicable Date, none of the above conditions had been fulfilled or waived and the Company has no intention to waive any of the above conditions.

### **TERMINATION DEED III: TERMINATION OF THE PATENTS LICENSING CONTRACT (THE “TERMINATION DEED III”)**

#### **Patents Licensing Contract**

##### ***Date***

4 September 2008

##### ***Parties***

- (1) TMDC, an Independent Third Party
- (2) Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company

---

## LETTER FROM THE BOARD

---

### *Terms*

TMDC as the licensor and Sheenway as the licensee entered into the Patents Licensing Contract on 4 September 2008, pursuant to which TMDC agreed to grant to Sheenway the exclusive license to use its patent registered in the PRC, namely “投影光機的照明和影像調整裝置 (Lighting and image adjustment device of projectors\*)” (Patent No. ZL 200520103712.2) (expiry date: 24 August 2015) (the “**PRC Patent**”), in consideration of US\$100 payable by Sheenway upon the execution of the Patents Licensing Contract. The Patents Licensing Contract and the rights and licences conferred therein shall commence on 4 September 2008 and expire on 11 August 2015. The license granted by TMDC is valid within the PRC and any other area specified by Sheenway.

### **Termination Deed III**

### *Date*

27 July 2012

### *Parties*

- (1) Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party

### *Terms*

TMDC and Sheenway agreed to unconditionally and irrevocably terminate the Patents Licensing Contract in accordance with the terms of the Termination Deed III. Upon the fulfillment of all the conditions precedent of the Termination Deed III, the right to use the PRC Patent will be terminated pursuant to Termination Deed III. All technical information possessed by Sheenway shall be returned to TMDC within seven Business Days from the date of the Termination Deed III. Nevertheless, the parties therein shall only release each other from their respectively liabilities and obligations under the Patents Licensing Contract upon the Termination Deed III becoming effective.

\* For identification purposes only

---

## LETTER FROM THE BOARD

---

### *Conditions Precedent*

The Termination Deed III is subject to the fulfillment of the following conditions:

- (1) the board of Directors and the shareholders of the Company (if necessary) having granted all necessary approvals and consents in respect of the cancellation of the Patents Licensing Contract and the termination of the relevant transactions contemplated thereunder, and the Termination Deed III; and
- (2) both parties, including their parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong).

Upon the fulfillment of the conditions precedent of the Termination Deed III, the rights and liabilities of both parties under the Patents Licensing Contract will be retrospectively terminated from the date of the Termination Deed III. As at the Latest Practicable Date, none of the above conditions had been fulfilled or waived and the Company has no intention to waive any of the above conditions.

### **TERMINATION DEED IV: TERMINATION OF THE PATENTS LICENSING DEED (THE “TERMINATION DEED IV”)**

#### **The Patents Licensing Deed**

#### *Date*

4 September 2008

#### *Parties*

- (1) TMDC, an Independent Third Party
- (2) Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company

---

## LETTER FROM THE BOARD

---

### *Terms*

TMDC as the licensor and Sheenway as the licensee entered into the Patents Licensing Deed on 4 September 2008, pursuant to which TMDC agreed to grant to Sheenway the exclusive license to use the following patents, all of which were registered in Taiwan (the “**Taiwan Patents**”), in consideration of US\$100 payable by Sheenway upon the execution of the Patents Licensing Deed:–

- (1) No. M286929 “投影光機的照明和影像調整裝置 (Lighting and image adjustment device of projectors)” (expiry date: 26 July 2015);
- (2) No. M251417 “組合式背投影電視機 (Combined rear-projection television\*)” (expiry date: 8 February 2014);
- (3) No. I216985 “投影光源更換指示裝置 (Replacement indicator for projector light source\*)” (expiry date: 9 January 2015);
- (4) No. M260965 “電動組合背投影電視機 (Electrical combined rear-projection television\*)” (expiry date: 25 May 2014); and
- (5) No. M260756 “微型投影裝置 (Miniature projection device\*)” (expiry date: 25 May 2014).

### **Termination Deed IV**

### *Date*

27 July 2012

### *Parties*

- (1) Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party

\* For identification purposes only



---

## LETTER FROM THE BOARD

---

### *Terms*

TMDC and Sheenway agreed to unconditionally and irrevocably terminate the Patents Licensing Deed in accordance with the terms of the Termination Deed IV. Upon the fulfillment of all the conditions precedent of the Termination Deed IV, the right to use the Taiwan Patents will be terminated pursuant to Termination Deed IV.

### *Conditions Precedent*

The Termination Deed IV is subject to the fulfillment of the following conditions:

- (1) the board of Directors and the shareholders of the Company (if necessary) having granted all necessary approvals and consents in respect of the cancellation of the Patent Licensing Deed and the termination of the relevant transactions contemplated thereunder, and the Termination Deed IV; and
- (2) both parties, including their parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong).

Upon the fulfillment of the conditions precedent of the Termination Deed IV, the rights and liabilities of both parties under the Patents Licensing Deed will be retrospectively terminated from the date of the Termination Deed IV. As at the Latest Practicable Date, none of the above conditions had been fulfilled or waived and the Company has no intention to waive any of the above conditions.

### **TERMINATION DEED V: TERMINATION OF THE SUPPLY AGREEMENT (THE “TERMINATION DEED V”)**

#### **Supply Agreement**

#### *Date*

15 January 2009

#### *Parties*

- (1) TMDC, an Independent Third Party
- (2) Pacific Choice, an indirect wholly-owned subsidiary of the Company and an investment holding company

---

## LETTER FROM THE BOARD

---

### *Terms*

TMDC as the supplier and Pacific Choice as the customer entered into the Supply Agreement on 15 January 2009, pursuant to which TMDC agreed to sell and Pacific Choice agreed to purchase the components for the manufacturing of the LCoS television for a term of 3 years commencing from 15 January 2009 to 14 January 2012.

### **Termination Deed V**

### *Date*

27 July 2012

### *Parties*

- (1) Pacific Choice, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (2) TMDC, an Independent Third Party

### *Terms*

TMDC and Pacific Choice agreed to terminate the Supply Agreement from the date of the Termination Deed V in accordance with the terms of the Termination Deed V, and both parties shall not be obliged to assume any liabilities for breaching the Supply Agreement.

### *Conditions Precedent*

Termination Deed V is subject to the fulfillment of the following conditions:

- (1) the board of Directors and the shareholders of the Company (if necessary) having granted all necessary approvals and consents in respect of the cancellation of the Supply Agreement and the termination of the relevant transactions contemplated thereunder, and the Termination Deed V; and
- (2) both parties, including their parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong).

---

## LETTER FROM THE BOARD

---

Upon the fulfillment of the conditions precedent of the Termination Deed V, the rights and liabilities of both parties under the Supply Agreement will be retrospectively terminated from the date of the Termination Deed V. As at the Latest Practicable Date, none of the above conditions had been fulfilled or waived and the Company has no intention to waive any of the above conditions.

### **PATENTS TRANSFER AGREEMENT (THE “PATENTS TRANSFER AGREEMENT”)**

#### **Date**

27 July 2012 (as amended by Supplemental Agreements)

#### **Parties**

Transferor : Sheenway, an indirect wholly-owned subsidiary of the Company and an investment holding company

Transferee : TMDC, an Independent Third Party

#### **Terms**

As a condition for the transfer of the Patents to TMDC by Sheenway, TMDC shall tender back the Convertible Bonds to the Company for cancellation within 15 Business Days from the date of entering into the Patents Transfer Agreement or a later date as agreed by Sheenway. In return, Sheenway (or its nominee) shall transfer the Patents to TMDC within 15 Business Days from the day of entering into the Patents Transfer Agreement or a later date as agreed by Sheenway.

#### **Conditions Precedent**

The completion of the Patents Transfer Agreement is subject to the fulfillment (or waiver, as the case may be) of the following conditions precedent, which shall remain to be satisfied on the completion date:

- (1) the shareholders and the board of Directors of the Company (if required under the Listing Rules) having granted all necessary approvals and consents in respect of the transfer of the Patents, cancellation of the Convertible Bonds and the relevant transactions contemplated thereunder;
- (2) the board of directors of Sheenway having approved the transfer of the Patents and the relevant transactions contemplated thereunder;

---

## LETTER FROM THE BOARD

---

- (3) the board of directors of TMDC having approved the transfer of the Patents, tendering back the Convertible Bonds and the relevant transactions contemplated thereunder;
- (4) TMDC having tendered back the Convertible Bonds to the Company in accordance with the requirements;
- (5) TMDC having obtained the written undertaking of the Company to procure the relevant patent authorities and departments (including the patent authorities and departments in the PRC, Taiwan and the United States) having agreed and registered the rights of the Patents under the name(s) of TMDC or parties designated by TMDC;
- (6) the transferor of the Patents Transfer Agreement, including its parent and holding companies, having complied with the disclosure requirements under the relevant laws, regulations and/or trading rules of the governments and regulatory authorities (including the Stock Exchange and industry associations) in the countries of domicile (including Hong Kong); and
- (7) the representations and undertakings given by both parties to the Patents Transfer Agreement on the date of signing remaining to be true and accurate, and not omitting or misleading in all material aspects as at the completion of the transfer of the Patents by reference to the facts and circumstances subsisting at the completion of the transfer of the Patents.

The conditions precedent set out above (save for conditions numbered 1, 5 and 6 ) could be exempted or waived upon mutual agreement of Sheenway and TMDC. Sheenway and TMDC do not have any immediate intention to waive any of the conditions precedent at present. If the Company subsequently determines to waive the conditions precedent number 3 and 4, shareholder's approval will be sought beforehand. If the conditions mentioned above are not fulfilled in full (or, where applicable, waived by Sheenway and TMDC in writing) on or before 28 February 2013, the Patents Transfer Agreement shall lapse. As at the Latest Practicable Date, none of the above conditions had been fulfilled or waived and the Company has no intention to waive any of the above conditions.

### **Completion**

The completion of the transfer of the Patents shall take place on the third Business Day after the fulfillment (or waiver) of the last of the conditions precedent referred to under the paragraph headed "Conditions Precedent" above or such other date as the parties to the Patents Transfer Agreement shall agree.

---

## LETTER FROM THE BOARD

---

### INFORMATION ON TMDC

TMDC was incorporated in Taiwan. It principally engages in the research and development of LCoS, which is a MD technology that is typically applied in projection televisions, and the production and sales of LCoS television sets.

TMDC is formed by a professional team with thorough knowledge and experience in LCoS field. The business enterprise focuses its business in the production of 65-inch LCoS television set and the 200-inch LCoS television wall by applying its patent technology in the production of MD Imager, the core component of a LCoS television set.

### INFORMATION ON PRECISE MEDIA, TMDC SALE MACHINERIES AND THE PATENTS

The TMDC Sale Machineries mainly comprise colour analysers, spectrometers and so forth relating to the manufacturing of LCoS televisions and related components whereas, the Patents comprise patents and/or patents applications in the PRC, Taiwan and the U.S. relating to micro-display elements and manufacturing of LCoS televisions and related components. Details of the Patents are set out as follows:–

Place of registration	Description	Expiry Date
PRC	顯示面板的框膠注入裝置及其注入方法 (Frame Glue Injection Device for Display Panel and its injection method*)	30/12/2023
PRC	微型顯示面板的封裝外殼 (Packaging Shell for Micro-Display Panel*)	15/07/2014
Taiwan	微型顯示器之間隙柱組成方法 (Composition method of Gap Column for Micro-Display*)	07/01/2022
Taiwan	微型顯示器之製造方法 (Manufacturing Method for Micro-Display*)	09/05/2020
Taiwan	顯示面板之邊框及其構成方法 (Frame for Micro-Display and its constituting method*)	15/12/2023

\* For identification purposes only

---

## LETTER FROM THE BOARD

---

<b>Place of registration</b>	<b>Description</b>	<b>Expiry Date</b>
Taiwan	顯示面板之框膠注入裝置及其注入方法 (Frame Glue Injection Device for Display Panel and its injection method*)	15/12/2023
Taiwan	微型顯示元件 (Micro-Display Element*)	07/04/2012
Taiwan	微型顯示面板之封裝外殼 (Packaging Shell for Micro-Display Panel*)	01/07/2014
U.S.	Method of manufacturing micro-display	22/08/2020
U.S.	Micro-Display Element	10/08/2020

Each of the TMDC Sale Machineries and the Patents are related to the production of LCoS televisions. LCoS is a “mirco-projection” or “micro-display” technology typically applied in projection televisions. A typical LCD television uses transmissive LCD chips, allowing light to pass through the liquid crystal while in LCoS television, liquid crystals are applied direct to the surface of a silicon chip coated with an aluminized layer, with some type of passivation layer, which is highly reflective. LCoS technology can therefore produce higher resolution images than conventional LCD and plasma display technologies.

Precise Media is an indirect wholly-owned subsidiary of the Company and an investment holding company. Its sole asset is United Opto-Electronics (Suzhou) Co., Ltd., its wholly-owned PRC subsidiary. However, the results of Precise Media have been treated as having been de-consolidated from that of the Group on 1 December 2009 since the Company has lost its control on Precise Media given that (i) the Company is not the administrator of Precise Media; (ii) the Company has not received its further financial statements; and (iii) the Company has lost its control on the board of directors of Precise Media. Therefore, the total assets of Precise Media are nil as shown on the consolidated financial statements of the Group. The Group has not recorded any profit or liabilities for the TMDC Sale Machineries and the Patents as the machinery, equipment and technology for the production of LCoS TV have never been delivered to the Company for further development.

\* For identification purposes only

---

## LETTER FROM THE BOARD

---

The following table set out the profit and loss effect attributable to the Acquisition for each of the year 2009 to 2012 (all information were extracted from the financial reports of the Company):–

	30/6/2009	31/12/2009	31/12/2010	31/12/2011	30/6/2012
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Asset value</b>					
Fair value of LCoS TV	603,686,000	–	–	–	–
Reverse of intangible asset impaired	–	–	50,000,000	–	–
<b>Liabilities</b>					
Fair value of convertible bonds	300,000,000	176,785,000	201,389,000	229,583,000	245,128,000
Deferred tax liabilities	–	22,388,000	18,339,000	11,695,000	9,054,000
Fair value of promissory note	278,686,000	75,031,000	74,964,000	87,036,000	87,500,000
<b>Profit/(Loss)</b>					
Net (loss)/profit	–	(602,806,000) <i>note 1</i>	50,000,000 <i>note 2</i>	(35,000,000) <i>note 3</i>	–

*Notes*

- 1 Net (loss) on deconsolidation/full impairment of subsidiaries
- 2 Net profit on reverse of intangible asset impaired
- 3 Net (loss) on refund of deposit of disposal in 2011

### FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

Pursuant to Termination Deed I, it is one of the conditions precedents that Starwick Development has transferred the entire issued share capital of Precise Media to TMDC or its nominees. Accordingly, upon completion of the transaction, the Company will not hold any shares of Precise Media. As such, Precise Media will cease to be a subsidiary of the Company. Since the financial results of Precise Media having been de-consolidated from that of the Group since 1 December 2009, the proceeds from the Disposal will be recorded as a profit in the financial statements of the Company. Upon the completion of the Disposal, it is expected that the Group would record a profit before tax of approximately HK\$157.2 million, being the difference between the debt component of the Convertible Bonds tendered back to the Company for cancellation and the total costs and expenses of the Disposal, assuming the Disposal was completed on 30 June 2012. Shareholders should note that the actual proceeds of the Company to be recorded from the Disposal will depend on the total costs and expenses of the Disposal on the date of completion. The details of the financial effect of the Disposal on the financial position and results of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix II to this circular.

---

## LETTER FROM THE BOARD

---

### PRINCIPAL BUSINESSES OF THE COMPANY

The Group is principally engaged in the trading of conductive silicon rubber keypad and related products.

Due to keen competition in the pricing of the conductive rubber keyboard market, the Company has not been able to secure new orders with reasonable profits from existing and potential customers ever since the second half of 2011 apart from the selling of Acrylonitrile Butadiene Styrene. The Company is, therefore, now actively selling the inventory of Acrylonitrile Butadiene Styrene which was acquired in the second half of 2012.

In the second half of 2012, the Company has recorded a turnover of approximately HK\$5.2 million from selling of Acrylonitrile Butadiene Styrene. From 1 January 2013 to 15 January 2013, the Company has already recorded a total turnover of HK\$1.26 million on the sale of Acrylonitrile Butadiene Styrene. The Company believes that further sales orders will be received during the ordinary course of business.

The Company believes that the scale of activities of this business segment would be further expanded after the completion of the Disposal and the clearance of the Convertible Bonds through the current legal actions, by which time the Company would be able raise further capital and credit facilities.

In addition, the Company intends to continue to operate this business segment and is now studying the feasibility of working in cooperation with PRC notebook & computer keyboard manufacturers. The Company is also focusing its attention on the study other non-traditional petroleum derivative products such as Aramids Paper which will provide a better margin on trading.

Aramid Paper is a high-temperature resistant insulation product with an excellent balance of physical and electrical properties and is a calendered insulating paper which offers high inherent dielectric strength, mechanical toughness, flexibility and resilience. It is widely used in two major end uses including (i) insulation for electrical equipment applications in liquid and dry transformers, motors, and generators, printed circuit boards and (ii) structural composites. The Company's management has broad business contact with manufacturers of fire-proof apparels, printed circuit boards and other users who are good potential customers for this product. No expert knowledge is necessary in order to sell the Aramid Paper. The supplier would provide sufficient technical support. The Company intends to act as a distributor of the Aramid Paper. The Company is negotiating business terms with targeted suppliers. However, since everything in this regard is still in the negotiation and study process, no concrete business plan has been formulated at the present stage.



---

## **LETTER FROM THE BOARD**

---

On the other hand, the Company has been exploring other business opportunities including but not limited to acquiring or cooperating with other third parties on new projects which would generate immediate and reasonable profits to the Company. However, no concrete agreement, either implied or expressed, has yet been reached on any of those projects. Appropriate announcement will be released should any of the negotiations materialize.

The Company's directors are of the view that the Company is maintaining a viable and sustainable business along the rubber/plastic related materials despite the small scale of transactions currently undertaken since the Company is able to enlarge the scale of this operation provided that there is sufficient working capital and/or credit facilities.

However, the success in trading of these materials relies very much on the sufficiency of credit facilities from banks and suppliers. The main task for the current board of directors is to unwind those convertible bonds and promissory note through the current settlement, technically in the form of a very substantial disposal to resolve the matter, coupled with all necessary legal proceedings.

### **REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL**

As disclosed in the Announcements and the paragraph headed "The Dispute" in this circular, notwithstanding completion of the Acquisition Agreement in January 2009, the original production plan has not been realized for various reasons, which constitute breaches of certain undertakings on the part of the Vendors under the Acquisition Agreement. These include: despite employment contracts being entered into between certain officers from TMDC and the PRC Subsidiary at the time of the Acquisition Completion, such officers so far have not gone to the Suzhou Plant to render services to the Group for the purpose of carrying on the business. Trial production at the Suzhou Plant has not yet commenced. The pledge by TMDC in favour of certain banks over the TMDC Sale Machineries has not been released, and the title to the TMDC Sale Machineries without encumbrance has not been transferred to the Group. The Group has by itself and through its legal advisers issued demand letters to the Vendors and the Warrantors under the Acquisition Agreement requesting them to provide satisfactory explanations and to suggest remedial actions to address the above breaches.

In February 2010, the Company engaged lawyers and financial adviser trying to reach a settlement with the Vendors in relation to the breach of the Acquisition Agreement. The same has been disclosed in 2009 Annual Report that the Company tried to negotiate with the Vendors to unwind the Acquisition. On 5 March 2010, a letter was issued by the Group's legal adviser requesting the Vendors to provide satisfactory explanations and suggest remedial actions to the breach of the Acquisition Agreement. Thereafter, letters dated 21 April 2009, 28 April 2009 and 4 May 2009 have also been sent from the Group to the First Vendor. Notwithstanding the Company's good-faith approach to the Vendors to resolve the issues in an amicable manner and the Company's

---

## LETTER FROM THE BOARD

---

repeated requests for meetings to discuss about the possible alternatives on such resolution, the Vendors have continued to disregard the request of the Company. On 12 January 2011, another letter was issued by the legal adviser. Despite the repeated demands on the part of the Group, the Vendors and Warrantors failed and refused to remedy any of the breaches or failed to respond at all to the said demands.

At the meeting held on 20 April 2010, the Board resolved that the Company would first negotiate with the Vendors and the Warrantors for a proposal to sell Pacific Choice back to the Vendors. Other alternatives such as disposing Pacific Choice to other third parties as potential buyers has also been explored by the Company. Since October 2010, the directors have been trying to find a willing buyer. On 30 December 2010, the Company entered into a Heads of Agreement with a buyer, details of which were disclosed in the announcement of the Company dated 17 January 2011. However, the transaction was not completed by the long stop date of 30 June 2011 mainly because the buyer was unable to provide an acceptable fund proof in support of his future payments. Other than that buyer, no one has ever shown any interest to acquire this project or the Patents. The directors, therefore, considered that there is no solid genuine buyer in the market. Thereafter the directors resorted to negotiate with the Vendors and TMDC for unwinding the whole transaction.

After a lengthy and tedious negotiation process, the directors have eventually been able to come up with acceptable settlement terms with TMDC though the Vendors have remained intransigent up to the present moment. As one of the remedial actions to the above breaches, TMDC agreed to tender back the Convertible Bonds to the Company, and the Company shall transfer back the sales patents transferred by TMDC to the Group under the Acquisition Agreement to TMDC, in order to mitigate the loss of the Group under the Acquisition Agreement.

The Directors considered that the above suggested remedial action is in the interest of the Company and the shareholders as a whole because of the following reasons:–

**1. the technologies under the Patents have become obsolete**

The Directors, after studying the current outdoor television market, have come to an understanding that, nowadays, LED television has already taken the largest market share. Over the past 4 years, the market has been focusing on developing 3D televisions or televisions with slimming in size and weight and other advance features which are not readily available through the application of the old technologies applicable to the Patents. Whereas, the LCoS televisions built on the Patents were significantly bulkier than those available in the current market.

---

## LETTER FROM THE BOARD

---

Without the original inventors and expertise, it would not be practicable or justifiable for the Company to develop the LCoS television based on the Patents. The Directors, therefore, are of the view that the technologies under the Patents have become obsolete from the Company's standpoint.

### **2. the consideration is a fair value of the Patents**

According to the sales contract transferred pursuant to the Acquisition Agreement (the "**Sales Contract**"), a purchaser has agreed to purchase a total 83,000 m<sup>2</sup> of LCoS television walls and 97,000 sets of 65-inch LCoS TV sets in the brand name of "Blue Ocean" for the period of 1 January 2009 to 31 December 2012 at respective unit price of US\$5,500 per m<sup>2</sup> and US\$3,350 per set. The acquired technology was the core component of those Blue Ocean products.

However, the machineries, equipment and technology for the production of LCoS televisions have never been delivered to the Company by TMDC for further development. In the circumstances, the Company could never produce any LCoS televisions based on the acquired technology and the original expected sales plan has never been implemented accordingly.

According to the valuation report prepared by the Valuer as set out in Appendix III to this circular, the Patent is of no commercial value for the Company as at 31 August 2012. The Valuer has considered the cost approach, market approach and income capitalization approach for valuation of the Patents.

In view of the above, the fair value of the Patent is considered to be "Nil". The Board is, therefore, of the view that it would no doubt be beneficial to the Company if the disposal of the Patents could reduce the Company's liabilities by HK\$187,200,000.

For the Valuer is originally established in Australia and has bought together a number of appraisal experts in their respective fields. It has the experience in valuing various assets for listing companies, including but not limited to trade mark valuation, intangible assets valuation and business valuation.

---

## LETTER FROM THE BOARD

---

The substance of the Disposal is to unwind the Acquisition. Nevertheless, the board strongly aimed at recovering the whole amount of HK\$662.5 million paid (i.e. the total consideration paid: HK\$700 million less promissory note waived on 16 February 2009: HK\$37.5 million) as far as possible in the following manner:

- (a) transferring back the Patents, excluding those already expired, to TMDC; and in return cancellation of the Convertible Bonds; and
- (b) issuing legal proceedings against the Vendors for claim of rescission and restitution of all consideration paid including cash of HK\$275,000,000 and cancellation of convertible bonds of a total principal amount HK\$112,800,000 and promissory notes of HK\$87,500,000.

The Group was legally advised that by reason of wrongful breaches by the Vendors and the Warrantors and their failure to take any remedial actions despite repeated demands by the Group, there was a total failure of consideration for what the Group has bargained and paid for under the Acquisition Agreement. A letter was issued by the Group's legal adviser dated 23 July 2012 to terminate the Acquisition Agreement by accepting the wrongful repudiation of the same on the part of the Vendors and the Warrantors. A counsel has been retained to advise and to issue legal proceedings for claims of rescission and restitution of all consideration paid including cash of HK\$275,000,000, and cancellation of convertible bonds of a total principal amount of HK\$112,800,000 and promissory notes of HK\$87,500,000. On 12 September, 2012, the Group has issued legal proceedings against the Vendors in the High Court of Hong Kong in regard to the claim of restitution for total failure of consideration and rescission in connection with the Acquisition Agreement. For details of the Action, please refer to the announcement of the Company dated 12 September 2012. The Action against the Vendors forms part of this process of unwinding the Acquisition.

The Company has obtained a legal opinion from counsel retained by the Company. Counsel advised that the Disposal would not have any adverse impact and effect on the legal action now contemplated against the Vendors because after the Company exercising the right to terminate the Acquisition Agreement and discharge the same by reason of breaches by the Vendors, the Company is entitled at law to take such action as necessary to restore the position of the Company and/or to mitigate any loss that has been suffered. The Disposal is therefore a lawful means for the Company to achieve partial restitution of part of the consideration paid and given under the Acquisition. In the absence of any settlement arrangement with the Vendors, the Company is legally advised and obliged to take out legal

---

## LETTER FROM THE BOARD

---

action to seek judicial remedies in the form of restitution against the Vendors for return of the balance of consideration paid and given to the Vendors. Both the Disposal and the contemplated legal action are lawful coterminous acts by the Company to achieve restitution of all the consideration that has been paid or given by the Company and/or alternatively to seek damages for breaches of contract.

Based on legal counsel's legal advice above, it is not unreasonable that the Company does not sell the Patents to a third party. The Disposal and the legal action as a whole would render the Company to clear all the liabilities under the convertible bonds and promissory notes issued by the Company under the Acquisition Agreement with the view to get back as much money and/or consideration given as quickly as possible.

The Disposal was agreed after arm's length negotiations between the Company and TMDC, and is on normal commercial terms. The Directors (including the independent non-executive Directors) are of the view that the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### LISTING RULES IMPLICATION

As certain of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules exceed 75%, the Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, TMDC and Mr. Qiu are third parties independent of the Company and its connected persons. Shareholder has any material interest in the Disposal and, therefore, no Shareholder is required to abstain from the voting in respect of the proposed resolution to approve the Disposal at the SGM.

As at the Latest Practicable Day, none of the First Vendor, Second Vendor, TMDC, Mr. Qiu and their respective associates are Shareholders. Accordingly, they shall not be entitled to vote at the SGM. No Directors have material interest in the Disposal and shall be required to abstain from voting on the relevant resolution(s) to approve the Disposal and the transactions contemplated thereunder.

---

## LETTER FROM THE BOARD

---

### SGM

The SGM will be held at Empire Room III, 1/F, Empire Hotel Hong Kong • Wan Chai, 33 Hennessy Road, Wan Chai, Hong Kong on Thursday, 28 February 2013 at 11:00 a.m. to consider and, if thought fit, approve, among other matters, the Disposal and the transactions contemplated thereunder.

A notice convening the SGM to be held at Empire Room III, 1/F, Empire Hotel Hong Kong • Wan Chai, 33 Hennessy Road, Wan Chai, Hong Kong at 11:00 a.m. is set out on pages 105 to 106 of this circular. Whether or not you are able to attend the SGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the SGM. Completion and delivery of the form of proxy will not preclude you from attending and voting at the SGM should you so wish.

### RECOMMENDATION

The Directors consider that the terms of the Termination Deeds and Patent Transfer Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and accordingly recommend all Shareholders to vote in favour of the ordinary resolution as set out in the notice of the SGM to approve the Disposal and the transactions contemplated thereunder at the SGM.

### ADDITIONAL INFORMATION

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

By order of the Board  
**Karce International Holdings Company Limited**  
**Sun Ying Chung**  
*Chairman*

**1. FINANCIAL SUMMARY OF THE GROUP**

The published audited consolidated financial statements of the Group for the years ended 31 December 2009, 2010 and 2011 are set out on pages 45 to 159, 42 to 146 and 42 to 130 of the annual reports of the Group for the years ended 31 December 2009, 2010 and 2011 approved on 28 April 2010, 31 March 2011 and 28 March 2012, respectively. They can be accessed on the website of the Company ([www.aplushk.com/clients/1159](http://www.aplushk.com/clients/1159)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

The independent auditor's report for all of the Group's consolidated financial statements for each of the year ended 31 December 2009, 2010 and 2011 were modified. The details of the modifications are set out on pages 40 to 44, 36 to 41 and 34 to 41 of the annual reports of the Group for the years ended 31 December 2009, 2010 and 2011, respectively.

The published unaudited condensed consolidated financial statements of the Group with the relevant notes to the accounts for the six months ended 30 June 2012 are set out on pages 13 to 32 of the interim report of the Group for the six months ended 30 June 2012 dated 29 August 2012. They can be accessed on the website of the Company ([www.aplushk.com/clients/1159](http://www.aplushk.com/clients/1159)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

**2. FINANCIAL INFORMATION OF THE DISPOSAL GROUP**

As set out in the published audited consolidated financial statements of the Group for the years ended 31 December 2009, 2010 and 2011, the directors of the Company had been unable to obtain and access to the books and records of the Disposal Group after 30 November 2009 and resolved that the Group no longer had the power to govern the financial and operating policies of the Disposal Group, and accordingly the control over the Disposal Group was lost on that date. Accordingly, no financial information of the consolidated statement of financial position of the Disposal Group as at 31 December 2009, 2010 and 2011, and 30 June 2011 and 2012, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the years/periods then ended has therefore been prepared.

The Acquisition was completed on 15 January 2009. The fair value of net asset acquired, including goodwill arising as a result of the Acquisition of approximately HK\$77,685,000, was approximately HK\$604,616,000. The consideration comprises cash, fair value of convertible bonds of the Company and fair value of promissory notes.

---

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

---

The assets and liabilities of the Target Group acquired by the Group at the date of the Acquisition were as follows:

	<i>HK\$'000</i>
Intangible asset	668,000
Property, plant and equipment	1,268
Inventories	2,730
Deposits and prepayments	1,974
Amounts due from shareholders	24,985
Bank balances and cash	46
Accruals and other payables	(3,487)
Deferred tax liabilities	<u>(143,600)</u>
	551,916
Waiver of shareholders' loan	(24,985)
Goodwill	<u>77,685</u>
	<u><u>604,616</u></u>

The consideration for the acquisition of the Target Group was satisfied by:

	<i>HK\$'000</i>
Cash consideration	25,000
Fair value of convertible bonds	300,000
Fair value of promissory notes	278,686
Cost of acquisition	<u>930</u>
	<u><u>604,616</u></u>



---

**APPENDIX I****FINANCIAL INFORMATION OF THE GROUP**

---

The assets and liabilities of the Target Group derecognised from the consolidated financial statements of the Group upon control over the Disposal Group were as follows:

	<i>HK\$'000</i>
Goodwill	77,685
Intangible asset	668,000
Property, plant and equipment	854
Inventories	2,730
Prepayments, deposits and other receivables	620
Bank balances and cash	4
Accruals and other payables	(3,487)
Deferred tax liabilities	(143,600)
	<u>602,806</u>

As set out above, the independent auditor's report for all of the Group's consolidated financial statements for each of the year ended 31 December 2009, 2010 and 2011 were modified in relation to the Acquisition. The relevant qualifications in relation to the Acquisition are set out as follows:

**Limitation of Scope – Deconsolidation of the Disposal Group during the Year Ended 31 December 2009**

As set out above, the directors of the Company consider that the control over the Disposal Group was lost after 30 November 2009. The Disposal Group has therefore been deconsolidated from the consolidated financial statements of the Group and recognised as an available-for-sale investment from 1 December 2009 onwards. Besides, since the assets of the Disposal Group and the planned operations thereof predominantly accounted for the reason for which the Group acquired the Target Group, the loss of control over the Disposal Group effectively impaired any practical value of the entire Target Group, if any, and therefore, the directors of the Company considered that assets of the entities comprising the Target Group other than the Disposal Group should be fully impaired on the same date the Group lost control over the Disposal Group.

The auditors of the Company were unable to carry out audit procedures to obtain sufficient reliable audit evidence to satisfy themselves as to whether:

- (i) the accumulated losses of the Group as at 1 January 2010 resulted from the losses on (i) deconsolidation of the Disposal Group and (ii) incurred by the Disposal Group for the period from 15 January 2009 (date of acquisition) to 30 November 2009 (date of deconsolidation) are free from material misstatement; and
- (ii) the Group had lost its control over the Disposal Group and whether it was appropriate to deconsolidate the assets and liabilities and cease to record results of operations of the Disposal Group from the consolidated financial statements of the Group and be recognised as an available-for-sale investment.

The auditors were therefore unable to determine whether any adjustments were necessary to be made to the accumulated losses as at 1 January 2010 and the results of operations for the years ended 31 December 2009, 2010 and 2011 that might have a significant effect on the state of the Group's affairs as at 1 December 2009, 31 December 2009, 2010, and 2011 and on its losses for the year ended 31 December 2009 and 2011 and profit for the year ended 31 December 2010.

**Limitation of Scope – Fair Value and Carrying Amounts of Convertible Bonds as at 15 January 2009 and 31 December 2009, 2010 and 2011 and Interest Charge for the years ended 31 December 2010 and 2011**

As set out above, the Company issued zero-coupon convertible bonds due in 2014 with a principal amount of HK\$300,000,000, subject to a downward adjustment, as part of the consideration for acquisition of the Target Group. The directors of the Company appointed an independent valuer to perform a valuation of the fair value of the convertible bonds issued at the date of issue on 15 January 2009. However, the auditors of the Company were unable to obtain sufficient evidence to satisfy themselves as to whether the valuation methodology and the assumptions adopted by the valuer in this valuation was appropriate and accordingly, we were unable to satisfy ourselves as to whether:

- (i) the fair value of the liability component of the convertible bonds on initial recognition was reliably measured in accordance with the relevant requirements of Hong Kong Accounting Standard (“HKAS”) 39 “Financial Instruments: Recognition and Measurement” issued by the HKICPA (“HKAS 39”) and whether their carrying values 15 January 2009, 31 December 2009, 2010 and 2011 were free from material misstatement;

- (ii) convertible bonds reserve representing equity component of the convertible bonds, net of deferred tax liabilities arising from the issue of the convertible bonds thereof, recognised in the consolidated statement of changes in equity was free from material misstatement;
- (iii) any other embedded derivatives of the convertible bonds issued for the acquisition of the Pacific Choice Group would have been recognised in accordance with HKAS 39 as at 15 January 2009, 31 December 2009, 2010 and 2011;
- (iv) goodwill of HK\$77,685,000 arising from the acquisition of the Pacific Choice Group as at 15 January 2009 (date of acquisition) as disclosed in note 18 to the consolidated financial statements was reliably measured in accordance with the relevant requirements of Hong Kong Financial Reporting Standard 3 “Business Combinations” issued by the HKICPA and whether the impairment loss of HK\$77,685,000 recognised in respect of goodwill during the year ended 31 December 2009 and included in the accumulated losses as at 31 December 2009, 2010 and 2011 was free from material misstatement; and
- (v) the interest charge recognised in respect of the liability component of the convertible bonds for the years ended 31 December 2010 and 2011 was free from material misstatement.

The auditors were therefore unable to determine whether any adjustments were necessary to be made to the accumulated losses as at 1 January 2010 and the results of operations for the years ended 31 December 2009, 2010 and 2011 that might have a significant effect on the state of the Group’s affairs as at 1 December 2009, 31 December 2009, 2010, and 2011 and on its losses for the year ended 31 December 2009 and 2011 and profit for the year ended 31 December 2010.

**Limitation of Scope – Carrying Amount of Promissory Notes as at 31 December 2011 and Interest Charge and Income Tax Credit for the years ended 31 December 2011**

As set out above, the Group issued zero-coupon promissory notes due in 2011 with a principal amount of HK\$375,000,000 as part of the consideration for the acquisition of the Target Group. As further set out in this Circular, principal amounts of HK\$250,000,000 and HK\$37,500,000 of the promissory notes were early settled and cancelled, respectively, in 2009, and the maturity of the remaining promissory notes with a principal amount of HK\$87,500,000 was extended to January 2012. As further set out below under the heading “Working Capital” of this Appendix I, the Group is not prepared to settle the liabilities arising from the promissory notes.

The auditors were unable either to obtain direct confirmations from the holder of the promissory notes or other supporting evidence to satisfy themselves as to whether the promissory notes included in the consolidated statement of financial position as at 31 December 2011 and the interest charge and income tax credit recognised in respect of the promissory notes and included in the consolidated statement of comprehensive income for the year ended 31 December 2011 are free from material misstatements. Any adjustment that might have been found to be necessary in respect of the above may have a significant effect on the state of the Group's affairs as at 31 December 2011 and on its loss for the year then ended.

**Limitation of Scope – Reversal of Impairment Loss Recognised in respect of Intangible Asset during the Year Ended 31 December 2010 and Impairment Loss Recognised in respect of Intangible Asset during the Year Ended 31 December 2011 and Carrying Value of Intangible Asset as at 31 December 2011 and 31 December 2010**

Included in the consolidated statement of financial position as at 31 December 2010 is an intangible asset with a carrying value of HK\$50,000,000 arising from the reversal of the impairment loss recognised in respect of intangible asset during the year ended 31 December 2010. The carrying value was determined by the directors of the Company based on the amount of the non-refundable deposit received in January 2011 for the proposed disposal of Sourcestar and its subsidiaries, the Target Group. The total consideration of the proposed disposal was more than HK\$50,000,000.

In the absence of a valuation prepared in accordance with HKAS 36 "Impairment of Assets" issued by the HKICPA ("HKAS 36"), the auditors of the Company were unable to satisfy themselves as to whether the reversal of impairment loss of HK\$50,000,000 included in the consolidated statement of comprehensive income for the year ended 31 December 2010 was free from material misstatement and whether any additional reversal was necessary and the carrying value of the intangible asset had been reliably measured in accordance with HKAS 38 "Intangible Assets" issued by the HKICPA ("HKAS 38") as at 31 December 2010.

The proposed disposal of Sourcestar was terminated upon the lapse of the relevant agreement during the year ended 31 December 2011 and the directors of the Company determined that the then carrying value of the intangible asset of HK\$50,000,000 was fully impaired. Due to the circumstances described in the above paragraph and in the absence of a valuation prepared in accordance with HKAS 36, the auditors were unable to satisfy themselves as to whether:

- (i) the impairment included in the consolidated statement of comprehensive income for the year ended 31 December 2011 is recognised in accordance with the requirements of HKAS 38; and

- (ii) the carrying value of the intangible asset has been reliably measured in accordance with HKAS 38 as at 31 December 2011.

Any adjustment that might have been found to be necessary in respect of the above may have a significant effect on the state of the Group's affairs as at 31 December 2011 and 31 December 2010 and on its loss for the year ended 31 December 2011 and profit for the year ended 31 December 2010.

### **3. INDEBTEDNESS STATEMENT**

#### **Borrowings**

At the close of business on 15 December 2012, the Group, excluding those that may have been arising from Precise Media and the PRC Subsidiary which had been deconsolidated from the consolidated financial statements of the Group from 1 December 2009 due to loss of control of Precise Media and the PRC Subsidiary by the Group, had outstanding unsecured and unguaranteed borrowings from a shareholder of approximately HK\$1,653,000.

#### **Debt securities**

As at the close of business on 15 December 2012, the Group, excluding those that may have been arising from Precise Media and the PRC Subsidiary which had been deconsolidated from the consolidated financial statements of the Group from 1 December 2009 due to loss of control of Precise Media and the PRC Subsidiary by the Group, had convertible bonds with aggregate outstanding principal amount of HK\$300,000,000.

As at the close of business on 15 December 2012, the Group, excluding those that may have been arising from Precise Media and the PRC Subsidiary which had been deconsolidated from the consolidated financial statements of the Group from 1 December 2009 due to loss of control of Precise Media and the PRC Subsidiary by the Group, had promissory notes with aggregate outstanding principal amount of HK\$87,500,000.

**Disclaimer**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and the liabilities, if any, arising from Precise Media and the PRC Subsidiary, which had been deconsolidated from the consolidated financial statements of the Group from 1 December 2009 due to loss of control of Precise Media and the PRC Subsidiary by the Group, the Group did not have outstanding at the close of business on 15 December 2012 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

**4. WORKING CAPITAL**

After taking into account the completion of the Disposal and that accordingly TMDC will tender back the convertible bonds to the Company for cancellation before they fall due in January 2014, as well as the financial resources available to the Group, representing the Group's internal resources, the Company does not have sufficient working capital to satisfy its requirements for at least the next 12 months from the date of this Circular.

However, after taking into account of the assumptions that the Group would not have to settle the promissory notes held by the First Vendor which have fallen due, and the convertible bonds held by the Vendors which will fall due in January 2014, the Directors are of the opinion that the Group has sufficient working capital to satisfy its requirements for at least the next 12 months from the date of this Circular.

As referred to in the legal opinions, the Company has taken the firm legal position as evinced in the statement of claims filed in the Actions that the Acquisition Agreement should terminate and there should be restitution whereby all the consideration paid or given out by the Company would be recovered or cancelled in the case of promissory notes and convertible notes. In the current litigation process, the reason for not joining TMDC as one of the Defendants is that at the time of taking out the Action, the Company and TMDC had already entered into the Settlement Deeds and it was not necessary to involve TMDC in the legal proceedings.

At worst, on or after 31 January 2014, even if TMDC seeks to enforce the convertible bonds against the Company, the Company will defend against such action vigorously and diligently. In view of the complexity of facts and laws, the matters are unlikely to be resolved summarily within a short period of time. In this regard, this action will follow normal course of procedure for civil proceedings under the Rules of the High Court up to trial. In between, pleadings are to be filed,

lists of documents relied upon by the parties are to be disclosed and that witness statements are to be exchanged. The whole process may take about 2 to 3 years to set down a matter for a trial even if the case is proceeded in an expedient and diligent manner. Therefore the Directors are of the opinion that the Group has sufficient working capital to satisfy its requirements for at least the next 12 months from the date of this Circular.

If the Disposal is completed, the Group will be able to cancel the convertible bonds due to TMDC.

A major assumption made by the Directors is that the Group will not be required to settle (i) the promissory notes with an aggregate principal amount of HK\$87,500,000 held by the First Vendor that had matured in January 2012 and (ii) the convertible bonds with an aggregate principal amount of HK\$112,800,000 held by the Vendors that will mature in January 2014, due to the following reasons.

As set out in notes 2 and 24 to the Group's audited consolidated financial statements for the year ended 31 December 2011 which were issued on 28 March 2012, the promissory notes had matured in January 2012. However, such liabilities have not been settled, and instead, the Directors have engaged legal counsel for the negotiations with the Vendors to cancel, among other matters, the promissory notes held by the First Vendor, and are therefore not prepared to settle the liabilities arising from the promissory notes. No demand for claims of any amount of the promissory notes has been received by the Group from the First Vendor or its representative up to the Latest Practicable Date.

In September 2012, the Group commenced legal proceedings against the Vendors and the Vendors have not filed their acknowledgment of service or defence before the deadlines (further details regarding this legal proceedings are set out in section 5 of Appendix IV to this Circular). The Group has decided to apply to court for a default judgment to declare the Acquisition Agreement null and void for total failure of consideration and an order that the parties be restored to the original position prior to signing of the Acquisition Agreement, which is pending hearing. After seeking legal opinion, the Directors are of the view that (i) it is likely that the Group will succeed in obtaining such default judgment; (ii) even if the Vendors applied for, and were granted, leave to file and serve defence and counterclaim, for money due under promissory notes and convertible bonds, the Group will defend the counterclaim (if any) on the promissory notes, convertible bonds and other possible counterclaims lodged by the defendants vigorously and diligently; and (iii) in view of the complexity of the facts and laws, the matters may take two to three years to set down for a trial. Therefore, the Directors consider that it is justifiable to assume that the Group will not be required to settle the promissory notes held by the First Vendor and the convertible bonds held by the Vendors within the foreseeable future, at a minimum not within the next 12 months from the date of this Circular.

**5. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP**

Global economic uncertainties slowdown in major countries will continue in 2013. Sluggish demand and rising production costs are expected to pose even greater challenges for the Remaining Group's conductive silicon rubber keypads trading business.

The Remaining Group will continue to consolidate its existing business through exploring new associated products of conductive silicon rubber keypads and exercising stringent cost control.

To broaden its revenue base, the Remaining Group will keep identifying suitable targets for investment or acquisition. However, in view of the current market conditions, the remaining Group will adopt a prudent investment approach when it comes to decide on a specific project.

The directors consider that there has been no material adverse change in the financial or trading position of the group since 31 December 2011 to the Latest Practicable Date.

**6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP****(a) For the year ended 31 December 2009*****Segmental analysis******Conductive Silicon Rubber Keypads***

The popularity of electronic devices, such as mobile phones and audio visual products, continued to drive the growth of demand for conductive silicon rubber keypads. However, industry competition remained severe during the year under review as a result of over production of keypads, leading to significant decline in the selling prices.

The adverse operating environment had greatly affected the turnover of the Remaining Group's conductive silicon rubber keypads business for the year ended 31 December 2009, which amounted to approximately HK\$43,485,000, representing a decrease of approximately 38.5 percent from HK\$70,681,000 of the previous year. In the face of the difficult market environment, the Remaining Group continued to exercise stringent cost control and improved operational efficiency. For the year 2009, the Remaining Group succeeded in narrowing the segment loss to approximately HK\$21,701,000 from approximately HK\$43,766,000 in 2008.



The Remaining Group's conductive silicon rubber keypads business involved both manufacturing and trading activities. In late 2009, the Remaining Group decided to dispose the entire manufacturing operation after considering its continued loss-making performance. The disposal was completed on 30 December 2009 and the Remaining Group realised a gain on disposal of approximately HK\$19,018,000.

Following the completion of the disposal of the manufacturing operation, the Remaining Group continues to engage in the trading business of conductive silicon rubber keypads. In view of increasingly fierce competition in the market, the Remaining Group anticipates further decline in the selling prices. With a prudent financial management and seasoned experience in trading operations, the Remaining Group is confident in weathering any possible challenges ahead and will continue to explore ways to improve operational efficiency of this segment.

#### *Electronic products*

On 26 February 2009, the Remaining Group completed the disposal of its entire interest in electronic products operation for a consideration of HK\$250,000,000. The decision to dispose the electronic products business was made after taking into account the squeezed profit margin and rising production costs of this operation as well as the alternate investment opportunities provided for with the use of proceeds from the disposal of this business.

During the year under review, the Remaining Group realised a gain on the disposal of the electronic products business of HK\$90,828,000 and, prior to the disposal, revenue and operating profit of HK\$90,787,000 and HK\$5,171,000 respectively.

#### *LCoS Television*

In mid 2008, the Remaining Group announced its plan to expand into production and distribution of liquid crystal on silicon ("LCoS") television through the acquisition of the entire issued share capital of Pacific Choice Holdings Limited ("Pacific Choice"), which included the patents ("TMDC Sale Patents") and machineries ("TMDC Sale Machineries") required for the production of LCoS televisions, enlarged display units and related components. The acquisition was completed on 15 January 2009.

During the year under review, the production plan of LCoS at the Suzhou plant was put off, as the pledge created on TMDC Sale Machineries had not been discharged and the transfer of ownership of the TMDC Sale Machineries could not be completed. Moreover, the management of the Suzhou plant had never complied with the request of the Company concerning its operation and production. In light of this, the Board acknowledged at a meeting held on 20 April 2010 that the results of the PRC subsidiary which carried out the LCoS television business shall be treated as having been de-consolidated from that of the group with effect from 1 December 2009. As a result, the Remaining Group reported a net loss on deconsolidation of subsidiaries of HK\$602,806,000 for the year ended 31 December 2009.

In view of the delay of the production plan and rapid advancement in television technology, the Remaining Group will negotiate with the vendors for a proposal to sell the LCoS television business back to the Vendors, and subject to the terms of the proposed disposal to be agreed the convertible bonds and promissory notes issued to the vendors as part of the consideration for the acquisition may be required to be cancelled.

*Available-for-sale investment*

The Remaining Group has become a shareholder of KFE Japan since 1 October 2008 by subscribing, through a subsidiary, for the KFE Japan subscription shares (“KFE Japan Subscription Shares”) as part of the consideration for the disposal of the Remaining Group’s printed circuit board business in 2008. The value of KFE Japan Subscription Shares is accounted for as the Remaining Group’s available-for-sale investment.

Listed on the Nagoya Stock Exchange, KFE Japan is principally engaged in the development, trading and manufacture of electronic products in Japan.

The Remaining Group’s available-for-sale investment is measured at fair value at each end of the reporting period, which exposes the Remaining Group to equity security price risk. As such, the Remaining Group regularly reviews the value of the available-for-sale investment and will consider adequate impairment to be made when necessary.

The value of KFE Japan Subscription Shares has been decreasing because of the global financial tsunami. Fair value change of approximately HK\$2,030,000 was recorded in equity for year ended 31 December 2009, and on 30 December 2009 the Remaining Group disposed the subsidiary which held the KFE Japan Subscription Shares.

*Capital Structure*

The Remaining Group had a deficiency in shareholder's fund of approximately HK\$255,849,000. As at 31 December 2009, the short term and long term interest bearing debts to shareholders' equity was nil.

As announced by the Remaining Group on 20 January 2009, the Remaining Group entered into Subscription Agreements with each of the subscribers for the subscription of 50,000,000 new shares for a total consideration of HK\$5,000,000 at the subscription price of HK\$0.10 per Subscription Share.

The Subscription Shares of 50,000,000 new shares represent about 7.66% of the then existing issued share capital of the Remaining Group and about 7.12% of the enlarged share capital of the Remaining Group immediately after Subscription. The Subscription Shares were issued under the General Mandate and rank equally among themselves and with the then existing shares.

The Directors believe that the above fund raising exercise provides an opportunity to broaden the shareholder base and strengthen its capital base and financial position for its future business developments. Further, the Remaining Group considers that the Subscription is currently a preferred method of fund raising as compared with other equity fund raising exercises based on time and costs involved. The Remaining Group used the net proceeds of the Subscription as general working capital of the Remaining Group.

*Liquidity and Financial Resources*

The Remaining Group generally finances its operation by internally generated cash flow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled the Remaining Group to maintain a strong financial position. As at 31 December 2009, the Remaining Group's fixed deposits and cash balances increased to approximately HK\$25,544,000.

In 2009, the current ratio was approximately 9.6 based on current assets of approximately HK\$41,042,000 and current liabilities of approximately HK\$4,257,000 and the quick ratio was approximately 9.6.

*Material Acquisition and Disposals during the year*

On 23 May 2008, the Remaining Group announced the investment in the production and distribution of LCoS televisions through the acquisition of the entire issued share capital of Pacific Choice. The acquisition was completed on 15 January 2009.

On 23 May 2008, the Remaining Group announced the disposal of the electronic products business, the disposal of which was completed on 26 February 2009. The financial results of the disposed electronic products segment for the period from 1 January 2009 to 26 February 2009 are presented under discontinued operations.

On 14 December 2009 the Remaining Group announced the disposal of the conductive silicon rubber keypads manufacturing operation. The disposal was completed on 30 December 2009.

***Foreign Exchange Risk Management***

Most of the Remaining Group's assets and liabilities, revenues and expenditure are denominated in Hong Kong dollars, the United States dollars and the Renminbi. It is the Remaining Group's policy to adopt a conservative approach on foreign exchange exposure management. However, the Remaining Group will continue to monitor its foreign exchange exposure and market conditions to determine if any hedging is required. The Remaining Group generally finances its operation with internal resources and bank facilities provided by the banks in Hong Kong.

As a measure of additional prudence, the Remaining Group uses different low-risk derivative instruments to manage its exposure to foreign currency risks on the receivables and payables.

There are no outstanding derivative instruments as at 31 December 2009.

The exposure to foreign currency of the Remaining Group mainly arose from the net cash flow and the net working capital translation of its PRC subsidiaries. The management of the Remaining Group will actively hedge the foreign currency exposures through natural hedges, forward contracts and options. Speculative currency transactions are strictly prohibited. The management of currency risk is centralised in the headquarters of the Remaining Group in Hong Kong.

Apart from the above, most of the Remaining Group's assets and liabilities, revenues and expenditure are either denominated in Hong Kong dollars, the United States dollars and the Renminbi. Therefore, the Directors consider the exposure risk to foreign currency fluctuations is minimal.

*Employees and Remuneration Policies*

As at 31 December 2009, the Remaining Group employed approximately 871 full time employees, out of which approximately 9 were based in Hong Kong and approximately 862 were based in the PRC. Total staff cost incurred for continuing operations (including directors' remuneration and excluding equity settled share-based payment expenses) was HK\$3,877,704 and decrease by 89% as compared to HK\$35,199,000 in 2008. The Remaining Group remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Employees may also participate in the share option scheme of the Remaining Group.

*Contingent Liability*

At 31 December 2009, the Remaining Group had no significant contingent liability.

**(b) For the year ended 31 December 2010**

*Segmental analysis*

*Conductive Silicon Rubber Keypads*

The market environment of conductive silicon rubber keypads continued to be extremely competitive. Coupled with a market oversupply, the stagnant demand for conductive silicon rubber keypads amid the rising trend of touch-screen keyboards had caused the selling prices to decline further during the year.

Following the completion of the disposal of the manufacturing operation in 2009, the Remaining Group continued to exercise stringent cost control and improved operational efficiency of its trading business to mitigate the downward pressure on the selling prices, which had eroded profitability across the industry. The Remaining Group's efforts paid off during the year. Despite a 39% decrease in revenue, the conductive silicon rubber keypads trading business returned to the black and reported a segment profit of approximately HK\$1,273,000 during the year, compared to a segment loss of HK\$21,701,000 in 2009.

In view of intensified market competition, the Remaining Group anticipates further decline in the selling prices. With a prudent financial management and seasoned experience in trading operations, the Remaining Group is confident in weathering any possible challenges ahead and will continue to explore ways to improve operational efficiency of this segment.

*LCoS Television*

The production plan of LCoS at the Suzhou plant did not realize during the year under review even though the acquisition of the entire issued share capital of Pacific Choice Holdings Limited (“Pacific Choice”) by the Remaining Group was completed in early 2009. Despite continual requests by the Remaining Group seeking the original vendors’ fulfillment of the agreed terms, the pledge created on the key manufacturing machineries had not been discharged, and the transfer of ownership of the machineries to the Remaining Group could not be completed. Moreover, the management of the Suzhou plant had never complied with the request of the Company concerning its operation and production.

For the year ended 31 December 2010, the Remaining Group incurred non-cash finance costs of HK\$36,445,000, as a result of the imputed interests on the convertible bonds and promissory notes issued to the vendors as part of the consideration for the acquisition of patents and machineries required for the production of LCoS televisions.

The Remaining Group acknowledged at a meeting held on 20 April 2010 that the results of the PRC subsidiary which carried out the LCoS television business shall be treated as having been deconsolidated from that of the Remaining Group with effect from 1 December 2009.

Despite the recovery of the LCoS television market from its bottom, the operation of this segment remains difficult. Moreover, the Remaining Group is of the opinion that it has missed the golden opportunity for developing LCoS televisions, in view of the rapid advancement in television technology. As such, the Remaining Group considers that the continual holding of the LCoS television business would not be in the interests of the shareholders and the Company as a whole. During the year under review, the Company had been actively seeking potential purchaser to acquire this business.

In January 2011, the Remaining Group entered into a formal agreement with an independent third party for the disposal of the entire LCoS Television segment. A non-refundable deposit of HK\$50,000,000 was paid to the Company.

***Capital Structure***

The Remaining Group has a deficiency in shareholders' equity of approximately HK\$231,420,000. As at 31 December 2010, the short term and long term interest bearing debts to shareholders' equity was nil.

***Liquidity and Financial Resources***

The Remaining Group generally finances its operation by internally generated cash flow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled the Remaining Group to maintain a strong financial position. As at 31 December 2010, the Remaining Group's bank balances and cash decreased to approximately HK\$15,856,000.

In 2010, the current ratio was approximately 12.4 based on current assets of approximately HK\$22,200,000 and current liabilities of approximately HK\$1,792,000, and the quick ratio was approximately 12.4.

The Directors considered that the Remaining Group shall have sufficient financial resources to meet its future expansion plan and working capital requirement after a due consideration of the net cash position and the availability of the existing banking facilities.

***Material Acquisition and Disposals during the year***

During the year under review, the Company had not announced any material acquisition; but the Company had on 31 December 2010 entered into the Heads of Agreement with an independent third party for the possible disposal of the entire LCoS Television segment.

***Foreign Exchange Risk Management***

Most of the Remaining Group's assets and liabilities, revenue and expenditure are denominated in Hong Kong dollars, the United States dollars and the Renminbi. The Remaining Group was not exposed to material exchange risks and had not employed any financial instruments for hedging purposes.

***Employees and Remuneration Policies***

As at 31 December 2010, the Remaining Group employed approximately 8 employees in Hong Kong. The Remaining Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Employees may also participate in the share option scheme of the Remaining Group.

***Contingent Liability***

At 31 December 2010, the Remaining Group had no significant contingent liability.

**(c) For the year ended 31 December 2011*****Business and Operational Review***

Conductive silicon rubber keypads trading continued to be the Remaining Group's core business. For the year ended 31 December 2011, the Remaining Group exercised stringent cost control in order to reduce operating expenses and maintain its competitiveness. In an attempt to diversify its product portfolio and enhance its earning base, the Remaining Group expanded the scope of trading to include products related to conductive silicon rubber keypads during the period under review.

With respect to the discontinued LCoS television operation, the agreement for the disposal of this business was cancelled and an impairment loss of HK\$50,000,000 was recognised in respect of intangible asset during the year under review. Simultaneously, a gain of HK\$15,000,000 on the forfeited deposit for the disposal of LCoS television business was recognised.

As a result, the Remaining Group reported a loss attributable to owners of the Company of approximately HK\$75,423,000 for the year ended 31 December 2011, as opposed to a profit of approximately HK\$24,429,000 for 2010. Basic loss per share from continuing and discontinued operations for the year under review was approximately 10.74 HK cents.



*Segmental Analysis**Conductive Silicon Rubber Keypads*

The market environment of conductive silicon rubber keypads continued to be extremely severe during the year under review. Immense popularity of smartphones and touch-screen computers undermined the sales volume of conductive silicon rubber keypads. Selling prices of conductive silicon rubber keypads had been declining amid weak demand for traditional electronic devices with keypads. The trend inevitably had adverse effects on the revenue of the Remaining Group's conductive silicon rubber keypad trading business.

On the other hand, the production costs of this segment remained high as a result of the rise in wages and raw material costs. Furthermore, the Company also recognised cost of moulds amounting HK\$1,900,000 as cost of inventories in the consolidated statement of comprehensive income for the year ended 31 December 2011.

The Remaining Group's conductive silicon rubber keypads trading business for the year under review reported a segment profit of HK\$836,000.

*LCoS Television*

The Remaining Group and an independent third party entered into a formal agreement in January 2011 for the disposal of its LCoS television business. The consideration for the disposal amounted to HK\$637,500,000, with HK\$50,000,000 as a non-refundable deposit ("Deposit") and part payment of the consideration. The Deposit had been paid to the Company upon the signing of the formal agreement. Based on the amount of the Deposit, an impairment loss recognised in respect of intangible asset of HK\$50,000,000 was reversed, which was recognised as profit from discontinued (LCoS television) operations for the year ended 31 December 2010.

However, the agreement was cancelled after certain conditions thereunder had not been fulfilled by the long stop date (i.e. 30 June 2011). Pursuant to the cancellation of the agreement, an impairment loss of HK\$50,000,000 was recognised in respect of intangible asset during the year under review. After negotiation, the Company was able to retain HK\$15,000,000 of the Deposit, which was treated as gain on forfeiture of the deposit for the disposal of the LCoS television business. As a result of the aforesaid factors, a loss of HK\$35,000,000 was reported from the discontinued (LCoS television) operations for the year under review.

***Capital Structure***

As at 31 December 2011, the Remaining Group had a deficiency in shareholders' equity of approximately HK\$306,857,000. As at 31 December 2011, the short term and long term interest bearing debts to shareholders' equity was nil.

***Liquidity and Financial Resources***

The Remaining Group generally finances its operation by internally generated cash flow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled the Remaining Group to maintain a strong financial position. As at 31 December 2011, the Remaining Group's bank balances and cash amounted to approximately HK\$19,293,000.

In 2011, the current ratio was approximately 0.24 based on current assets of approximately HK\$21,631,000 and current liabilities of approximately HK\$90,793,000.

As at 31 December 2011, the Remaining Group was in a net cash position. The Directors considered that the Remaining Group shall have sufficient financial resources to meet its working capital requirement.

***Foreign Exchange Risk Management***

Most of the Remaining Group's assets and liabilities, revenue and expenditure are denominated in Hong Kong dollars and the United States dollars. The Remaining Group was not exposed to material exchange risks and had not employed any financial instruments for hedging purposes.

***Employees and Remuneration Policies***

As at 31 December 2011, the Remaining Group employed approximately 8 employees in Hong Kong. The Remaining Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Employees may also participate in the share option scheme of the Remaining Group.

***Contingent Liability***

At 31 December 2011, the Remaining Group had no significant contingent liability.

**ACCOUNTANTS’S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountant of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this Circular, in respect of the unaudited pro forma financial information of the Remaining Group.*

**A. ACCOUNTANTS’S REPORT ON UNAUDITED PRO FORMA FINANCIAL  
INFORMATION****TO THE DIRECTORS OF KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED**

We report on the unaudited pro forma financial information of Karce International Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed Disposal (as defined in the Circular mentioned below) by the Group might have affected the financial information presented, for inclusion in Parts B to D of Appendix II of the circular dated 8 February 2013 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out in Parts B to D of Appendix II to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

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

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

**Basis of opinion**

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

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

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 June 2012 or any future date; or the results and cash flows of the Group for the year ended 31 December 2011 or any future period.

**Opinion**

In our opinion:

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

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

8 February 2013

**B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION OF THE REMAINING GROUP**

The unaudited pro forma consolidated statement of financial position of the Remaining Group presented below has been prepared to illustrate the financial position of the Remaining Group as if the Disposal had been completed on 30 June 2012. This unaudited pro forma consolidated statement of financial position was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group as at 30 June 2012 or any future date.

The preparation of the unaudited pro forma consolidated statement of financial position is based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2012 which has been extracted from the published unaudited interim report of the Company for the six months ended 30 June 2012 after giving effect to reflect the pro forma adjustments described in the accompanying note and was prepared in accordance with Rule 4.29 of the Listing Rules.

**APPENDIX II****UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE REMAINING GROUP**

	<b>Unadjusted unaudited consolidated statement of financial position of the Group as at 30 June 2012 <i>HK\$'000</i></b>	<b>Pro forma adjustments <i>HK\$'000</i> <i>Note (a)</i></b>	<b>Adjusted unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2012 <i>HK\$'000</i></b>
<b>NON-CURRENT ASSETS</b>			
Equipment	14		14
Intangible asset	–		–
Available-for-sale investments	<u>5,682</u>		<u>5,682</u>
	<u>5,696</u>		<u>5,696</u>
<b>CURRENT ASSETS</b>			
Trade receivables	893		893
Prepayments, deposits and other receivables	797		797
Bank balances and cash	<u>13,184</u>	(1,410)	<u>11,774</u>
	<u>14,874</u>		<u>13,464</u>
<b>CURRENT LIABILITIES</b>			
Accruals and other payables	973		973
Promissory notes	<u>87,500</u>		<u>87,500</u>
	<u>88,473</u>		<u>88,473</u>
<b>NET CURRENT LIABILITIES</b>	<u>(73,599)</u>		<u>(75,009)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>(67,903)</u>		<u>(69,313)</u>

**APPENDIX II**

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

	<b>Unadjusted unaudited consolidated statement of financial position of the Group as at 30 June 2012 HK\$'000</b>	<b>Pro forma adjustments HK\$'000 Note (a)</b>	<b>Adjusted unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2012 HK\$'000</b>
<b>NON-CURRENT LIABILITIES</b>			
Amount due to a shareholder	1,653		1,653
Convertible bonds	245,128	(152,960)	92,168
Deferred tax liabilities	9,054	(5,650)	3,404
	<u>255,835</u>		<u>97,225</u>
	<u>(323,738)</u>		<u>(166,538)</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	70,236		70,236
Reserves	(393,974)	157,200	(236,774)
	<u>(323,738)</u>		<u>(166,538)</u>

*Note:*

- (a) Adjustments to reflect the estimated gain of HK\$157,200,000 arising from the Disposal based on the tender back of the convertible bonds held by TMDC with a carrying amount of HK\$152,960,000 and the reversal of the related balance of deferred tax liabilities of HK\$5,650,000 less estimated legal and professional fees relating to the Disposal of approximately HK\$1,410,000. It is assumed that the Disposal was completed, and the convertible bonds and deferred tax liabilities were derecognised from the unaudited proforma condensed consolidated statement of financial position of the Remaining Group on 30 June 2012.

**C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME OF THE REMAINING GROUP**

The unaudited pro forma consolidated statement of comprehensive income of the Remaining Group presented below has been prepared to illustrate the results of the Remaining Group for the year ended 31 December 2011 as if the Disposal had been completed on 1 January 2011. This unaudited pro forma consolidated statement of comprehensive income was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the results of the Remaining Group for the year ended 31 December 2011 or for any future period.

The preparation of the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group is based on the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2011 which has been extracted from the published annual report of the Company for the year ended 31 December 2011 after giving effect to reflect the pro forma adjustments described in the accompanying notes and was prepared in accordance with Rule 4.29 of the Listing Rules.



**APPENDIX II**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE REMAINING GROUP**

	Unadjusted audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2011 <i>HK\$'000</i>	Pro Forma Adjustments		Adjusted unaudited pro forma consolidated statement of comprehensive income of the Remaining Group for the year ended 31 December 2011 <i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	
		<i>Note (b)</i>	<i>Note (c)</i>	
<b>Continuing operations</b>				
Revenue	5,025			5,025
Cost of goods sold	(6,232)			(6,232)
Gross loss	(1,207)			(1,207)
Administrative expenses	(8,109)			(8,109)
Other gain and loss	2,515			2,515
Gain on the Disposal	–			–
Finance costs	(40,266)		17,593	(22,673)
Loss before taxation	(47,067)			(29,474)
Income tax credit	6,644		7,250	13,894
Loss for the year from continuing operations	(40,423)			(15,580)
<b>Discontinued operations</b>				
(Loss) profit for the year from discontinued operations	(35,000)	124,257		89,257
<b>(Loss) profit for the year, attributable to owners of the Company</b>	<b>(75,423)</b>			<b>73,677</b>
Decrease in fair value of available-for-sale investments, representing other comprehensive expense for the year	(14)			(14)
<b>(Loss) profit and total comprehensive (expense) income for the year, attributable to owners of the Company</b>	<b>(75,437)</b>			<b>73,663</b>

*Notes:*

- (b) Adjustment to reflect the estimated gain of HK\$124,257,000 arising from the Disposal based on the tender back of the convertible bonds held by TMDC with a carrying amount of HK\$125,667,000 less estimated legal and professional fees relating to the Disposal of approximately HK\$1,410,000. It is assumed that the Disposal was completed, and the convertible bonds and deferred tax liabilities were derecognised from the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group on 1 January 2011.
- (c) Adjustments to reflect (i) the reversal of the effective interests on the convertible bonds held by TMDC charged to the profit or loss of the Group of HK\$17,593,000, (ii) the reversal of the release of deferred taxation credit recognised in profit or loss upon accretion of interests of the convertible bonds held by TMDC under the effective interest method of HK\$2,903,000 for the year ended 31 December 2011; and (iii) the reversal of the balance of deferred tax liabilities of HK\$10,153,000 relating to the convertible bonds held by TMDC as at 1 January 2011, assuming the Disposal was completed on 1 January 2011.

The above adjustments are not expected to have continuing effects on the Remaining Group.

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

The unaudited pro forma consolidated statement of cash flows of the Remaining Group presented below has been prepared to illustrate the cash flows of the Remaining Group for the year ended 31 December 2011 as if the Disposal had been completed on 1 January 2011. This unaudited pro forma consolidated statement of cash flows was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the cash flows of the Remaining Group for the year ended 31 December 2011 or for any future period.

The preparation of the unaudited pro forma consolidated statement of cash flows is based on the audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 which has been extracted from the published annual report of the Company for the year ended 31 December 2011 after giving effect to reflect the pro forma adjustments described in the accompany note and was prepared in accordance with Rule 4.29 of the Listing Rules.

**APPENDIX II**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE REMAINING GROUP**

	<b>Unadjusted audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 HK\$'000</b>	<b>Pro Forma Adjustments HK\$'000 Note (d)</b>	<b>Adjusted unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2011 HK\$'000</b>
<b>OPERATING ACTIVITIES</b>			
(Loss) profit before taxation:			
Continuing operations	(47,067)	17,593	(29,474)
Discontinued operations	(35,000)	124,257	89,257
	<u>(82,067)</u>		<u>59,783</u>
<i>Adjustments for:</i>			
Depreciation of equipment	6		6
Loss on disposal of equipment	5		5
Provision for cost of inventories	1,900		1,900
Gain on forfeiture of the deposit received for disposal of subsidiaries	(15,000)		(15,000)
Impairment loss recognised in respect of intangible asset	50,000		50,000
Reversal of impairment loss recognised in respect of trade receivables, net	(2,516)		(2,516)
Finance costs	40,266	(17,593)	22,673
Gain on the Disposal	<u>–</u>	<u>(124,257)</u>	<u>(124,257)</u>
Operating cash flows before movements in working capital	(7,406)		(7,406)
Increase in inventories	(937)		(937)
Decrease in trade receivables	7,514		7,514
Increase in prepayments	(55)		(55)
Decrease in trade payables	(1,196)		(1,196)
Increase in accruals	<u>1,261</u>		<u>1,261</u>
<b>Cash used in operations and net cash used in operating activities</b>	<u>(819)</u>		<u>(819)</u>

**APPENDIX II****UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE REMAINING GROUP**

	<b>Unadjusted audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 HK\$'000</b>	<b>Pro Forma Adjustments HK\$'000 Note (d)</b>	<b>Adjusted unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2011 HK\$'000</b>
<b>INVESTING ACTIVITIES</b>			
Refund of deposit received for disposal of intangible asset	(35,000)		(35,000)
Purchases of available-for-sale investments	(5,234)		(5,234)
Completion of the Disposal	–	(1,410)	(1,410)
Purchase of equipment	(10)		(10)
Deposits received for disposal of intangible asset	<u>50,000</u>		<u>50,000</u>
<b>Net Cash generated from investing activities</b>	<u>9,756</u>		<u>8,346</u>
<b>CASH USED IN A FINANCING ACTIVITY</b>			
Repayment to a shareholder	<u>(5,500)</u>		<u>(5,500)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	3,437		2,027
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<u>15,856</u>		<u>15,856</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>	<u><u>19,293</u></u>		<u><u>17,883</u></u>

*Note:*

- (d) Adjustments to reflect the reversal of the effective interest on the convertible bonds held by TMDC charged to the profit or loss of HK\$17,593,000 for the year ended 31 December 2011 and the estimated gain of HK\$124,257,000 arising from the Disposal based on the tender back of the convertible bonds held by TMDC with a carrying amount of HK\$125,667,000 less estimated legal and professional fees relating to the Disposal of approximately HK\$1,410,000, assuming the Disposal and the tender back of the convertible bonds held by TMDC were completed on 1 January 2011. The above adjustment is not expected to have continuing effects on the Remaining Group.



Stirling Appraisals Limited

中寧評估有限公司

Unit A, 15th Floor, Wing On Cheong Building,  
No.5 Wing Lok Street, Central, Hong Kong

31 October 2012

The Directors

**Karce International Holdings Company Limited**

Unit 04, 34/F., Bank of America Tower,  
12 Harcourt Road,  
Central,  
Hong Kong.

Dear Sirs,

**Re: Valuation of the Fair values of the intellectual property in Liquid Crystal on Silicon related technology of Micro-Display for the production of rear projection television held by Sheenway Limited.**

## INSTRUCTIONS

We refer to the instructions from Karce International Holdings Company Limited (referred to as the “Company”), we have made an investigation and appraised the Fair Value of the intellectual property of patents in Liquid Crystal on Silicon (“LCoS”) related technology of Micro-Display for the production of rear projection television (“RPTV”) (referred to as the “Intangible Assets”) held by Sheenway Limited (referred to as “Sheenway”). The date of valuation is 31 August 2012.

This report describes the background of Sheenway, a description of the Intangible Assets, an industry overview & investigation and the basis of valuation & assumptions. It also explains the valuation analysis performed and presents our conclusion of value.

**PURPOSE OF VALUATION**

The purpose of this appraisal is to formulate and express an independent opinion on the Fair Value of the Intangible Assets as at 31 August 2012 in the Company's perspective. We understand this appraisal will be used for your public documentation purpose. No other purpose is intended or should be inferred without our written consent.

**BASIS OF VALUATION**

We have appraised the value of the Intangible Assets on the basis of "Fair Value". The term of "Fair Value" is defined by the International Valuation Standards (hereinafter referred to as the "IVS"), Eighth Edition, 2007 published by the International Valuation Standards Committee, which the Business Valuation Standards (hereinafter referred to as the "BVS") 2005 published by the Hong Kong Business Valuation Forum and the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises (hereinafter referred to as the "HKIS Standards"), First Edition, 2004 published by the Hong Kong Institute of Surveyors also follow, as "the estimated amount for which an asset 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".

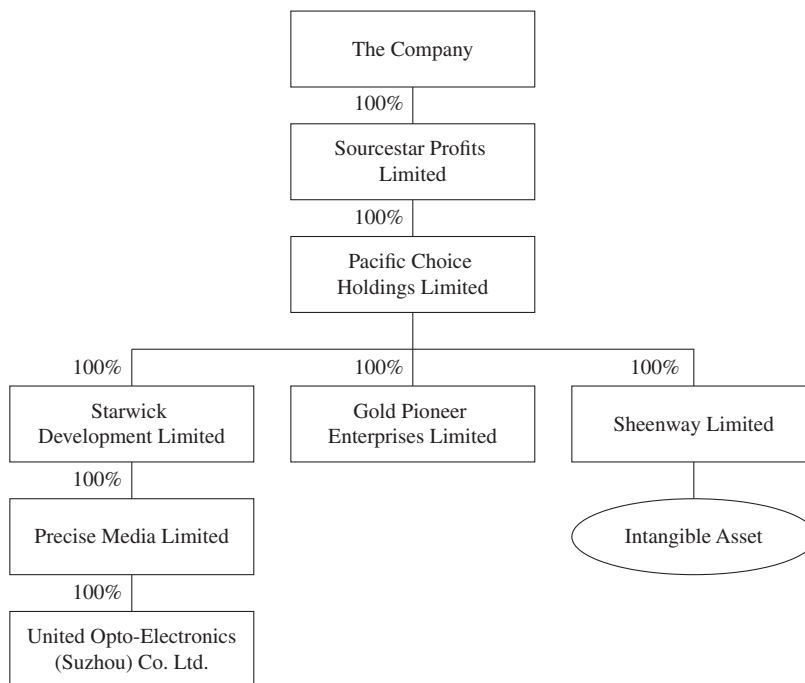
**BACKGROUND OF SHEENWAY**

Sheenway is a wholly owned subsidiary of Pacific Choice Holdings Limited (referred to as "Pacific Choice"). Its only major asset is the Intangible Assets.

On 15 January 2009, the Company acquired through, Sourcestar Profits, the entire issued share capital of Pacific Choice. Pacific Choice is an investment holdings company incorporated in the British Virgin Island with limited liability on 14 January 2008 and it engages through its wholly-owned subsidiaries (together with Pacific Choice, jointly referred to as the "Pacific Choice



Group”) in the business of the research and development, manufacturing and distribution of LCoS televisions, enlarged display units with related components. The shareholding structure of Pacific Choice Group is as follow:



**Figure 1 – Shareholding Structure of Pacific Choice Group**

Pacific Choice Group was planned to focus its business in the production of 65-inc LCoS television set and the 200-inc LCoS television wall through United Opto-Electronics (Suzhou) Co., Ltd (referred to as the “PRC Subsidiary”) by application of its patent technology in the production of LCoS RPTV.

It was planned that the PRC Subsidiary was to set up a manufacturing base for the production of LCoS television in Suzhou, the PRC, which had leased a property with a total gross floor area a approximately 3,500 m<sup>2</sup>. The initial annual production capacity of the plant in Suzhou was expected to be approximately 2 million units of LCoS televisions. Under the original production and sales plan of Pacific Choice Group, trial production was initially planned to commence in the first quarter of 2009 and, where the trial production is satisfactory, commercial production was initially planned to commerce in or around the first-half of 2009.

Pursuant to the sales contract (referred to as the “Sales Contract”) made during the acquisition, the vendor agreed to sell and the purchaser agreed to buy certain quantity of television walls and 65-inch television sets in the brand name of “Blue Ocean” for the period of 1 January 2009 to 31 December 2012. We have been advised that the Intangible Assets was originally planned to be the core component of these Blue Ocean products. According to the Sales Contract, the vendor will purchase a total 23,000 m<sup>2</sup> of television wall and 28,000 sets of 65-inch television sets in 2009 at respective unit price of US\$5,500 per m<sup>2</sup> and US\$3,350 per set. The purchase volume for 3 year period from 2010 to 2012 will be 20,000 m<sup>2</sup> and 23,000 sets at the same unit prices in each year. The sales and revenues in accordance with the Sales Contract for the period from 1 January 2009 to 31 December 2012 are summarized as below:

<b>Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
Unit Price:					
65 inch TV ( <i>US\$/set</i> )	3,350	3,350	3,350	3,350	–
TV Wall ( <i>US\$/m<sup>2</sup></i> )	5,500	5,500	5,500	5,500	–
Sales Volume:					
65 inch TV ( <i>sets</i> )	28,000	23,000	23,000	23,000	97,000
TV Wall ( <i>US\$/m<sup>2</sup></i> )	23,000	20,000	20,000	20,000	83,000
Revenues ( <i>US\$'000</i> )	<b>220,300</b>	<b>187,050</b>	<b>187,050</b>	<b>187,050</b>	<b>923,200</b>

## DESCRIPTION OF THE INTANGIBLE ASSETS

The Intangible Assets are those patents in LCoS related technology of Micro-Display for the manufacture of LCoS RPTV that are exhibited to us as held by Sheenway, which include the following:

Patent No.	Patent Description	Place of Registration	Date of Patent	Date of Expiry
M167078	微型顯示元件 (Micro-Display Element)	Taiwan	27 Apr 2001	7 Apr 2012
I179417	微型顯示器之製造方法 (Manufacturing Method for Micro-Display)	Taiwan	8 Oct 2003	9 May 2020
I161595	微型顯示器之間隙柱組成方法 (Composition method of Gap Column for Micro-Display)	Taiwan	10 Dec 2002	7 Jan 2022
I220242	顯示面板之邊框及其構成方法 (Frame for Micro-Display and its constituting method)	Taiwan	11 Aug 2004	15 Dec 2023
M263517	微型顯示面板之封裝外殼 (Packaging Shell for Micro-Display Panel)	Taiwan	1 May 2005	1 July 2014
I262343	顯示面板之框膠注入裝置及其注入方法 (Frame Glue Injection Device for Display Panel and its injection method)	Taiwan	21 Sep 2006	15 Dec 2023
ZL 200310124548.9	顯示面板之框膠注入裝置及其注入方法 (Frame Glue Injection Device for Display Panel and its injection method)	PRC	17 Jan 2007	30 Dec 2023
ZL 200420065966.5	微型顯示面板之封裝外殼 (Packaging Shell for Micro-Display Panel)	PRC	17 Aug 2005	15 Jul 2014
US 6,595,647 B1	Micro-Display Element	U.S.A.	22 July 2003	10 Aug 2020
US 6,562,640 B1	Method of Manufacturing Micro-Display	U.S.A.	13 May 2003	22 Aug 2020

We further understand that the exclusive license to use the following patents, which may have to be used in connection with the production of LCoS television and enlarged display units, were granted to Sheenway:

<b>Patent Description</b>	<b>Place of Registration/ Application</b>	<b>Patent Application No.</b>	<b>Patent No.</b>
投影光機的照明和影像調整裝置 (Lighting and image adjustment device of projectors)	PRC	200520103712.2	ZL 200520103712.2
投影光機的照明和影像調整裝置 (Lighting and image adjustment device of projectors)	Taiwan	094212807	M286929
組合式背投影電視機 (Combined rear-projection television)	Taiwan	093201777	M251417
投影光源燈件更換指示裝置 (Lamp Replacement indicator for projector light source)	Taiwan	092200441	I216985
電動組合背投影電視機 (Electrical combined rear-projection television)	Taiwan	093208271	M260965
微型投影裝置 (Miniature projection device)	Taiwan	093208272	M260756

### **Product Description**

RPTV is a type of large-screen TV display technology. The actual term “rear-projection” comes from the fact that the image is projected and reflected onto the screen from behind the screen, unlike traditional video and film projection in which the projector itself is placed in front of the screen, such as in a movie theatre. Three types of projection systems are typically used in TVs. Cathode Ray Tube (“CRT”) RPTVs were the earliest, and while they were the first to exceed 40”, they were also bulky and the picture was unclear at close range. Newer technologies include Plasma Display Panel (“PDP”), Digital Light Processing (“DLP”), Liquid Crystal Display (“LCD”), Organic Light-Emitting Diode (“OLED”) and LCoS has been capable of producing high resolution.

LCoS is a micro-projection or micro-display technology typically applied in projection televisions (“TV”). It is a reflective technology similar to DLP projectors but it uses liquid crystals instead of individual mirrors. By way of comparison, LCD projectors use transmissive LCD chips, allowing light to pass through the liquid crystal. In LCoS, liquid crystals are applied directly to the surface of a silicon chip coated with an aluminized layer, with some type of passivation layer, which is highly reflective.

#### **VALUATION PROCEDURES ADOPTED**

In performing the appraisal, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

To read the supplied materials and based on the content of the materials such as assets schedules, market condition, financial information and the scale of the going concern of business related to the Intangible Assets (if any) to arrive at our opinion. In the course of valuation, we will assume the information that contains in the materials is correct and we will not verify or ascertain the correctness of the information contained in the materials.

To prepare and submit a list(s) of required document and information regarding the operation of business related to the Intangible Assets during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the management of the Company or the management of Sheenway.

To hold discussions with relevant personnel of the appointed personnel of the Company and to review various accounting and financial documents in order to understand the scope of their assets and their operations.

To conduct appropriate study in order to obtain necessary industry and market information to support our opinion of value. The extent of research is at our discretion.

To value the Intangible Assets using the respective standards of value that is most appropriate.

To document our findings and conclusion in our appraisal report.

#### **SOURCE OF INFORMATION**

For the purpose of our valuation, we have been furnished with limited financial, operational data and other relevant data related to the Intangible Assets, which was provided by the senior management of the Company.

The valuation of the Intangible Assets required consideration of all pertinent factors affecting the economic benefits of the Intangible Assets and its abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to the following:

- The business nature and characteristics of the Intangible Assets including the historical background and the overall industry sector in which the Intangible Assets currently operates;
- Operational information related to the Intangible Assets;
- The specific economic environment and competition for the market in which the Intangible Assets operates;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks related to the Intangible Assets, including the continuity of income and the projected future results.

#### **SCOPE OF WORKS**

In the course of our valuation work for the Intangible Assets, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions:

- Interviewed with the senior management of the Company;
- Obtained financial and operational information of the Intangible Assets;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information related to the Intangible Assets;
- Prepared business financial model to derive the indicated value of the Intangible Assets; and
- Presented all relevant information on the background of Sheenway, a description of the Intangible Assets, source of information, scope of works, market overview & investigation, major assumptions, valuation analysis, comments and our conclusion of value in this report.

MARKET OVERVIEW

PRC TV Market

The PRC TV market is young and rapidly-developing, growing from less than 10,000 units sold in the 1980s to become today’s largest TV market across the globe. For the PRC TV market, the 1980s were a growth period, and the 1990s were a time of maturing. In 2000, the TV demand was around 33,000,000 units and still continues to grow. Growth mainly comes from rapid commercialization of the new flat screen TV display technologies, such as Plasma Display Panel (“PDP”), LCD, DLP, LCoS and OLED.

Accordingly to the China’s TV Market Report issued by DisplaySearch, PRC’s flat screen TV market is expected to maintain rapid growth because of i) the rapid urbanization of PRC; ii) the expected continual high future GDP growth of PRC; and the commencement of mass production of LCD TV by a number of PRC local production plants. It is expected that the annual production of flat screen TV shall reach 59 million units in 2014, representing a CAGR of 14% in 5 years. The penetration rate of flat screen TV is expected to reach almost 100% in 2014, which means that traditional CRT TV shall completely vanish by then.

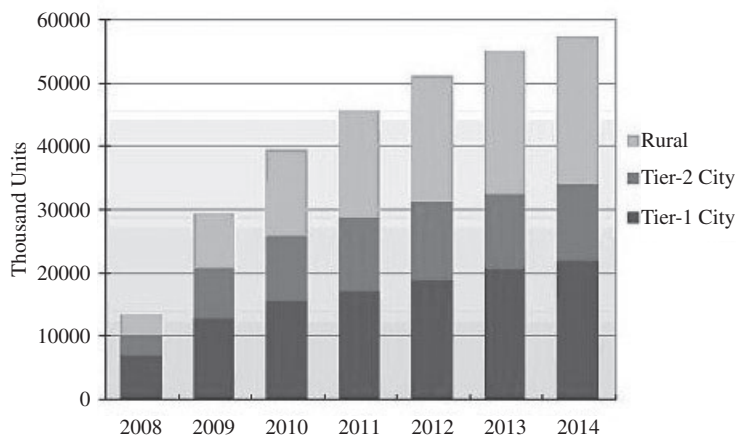


Fig. 1 PRC LCD TV market regional distribution

Source: DisplaySearch China’s TV Market Report

1990's was the actual meaningful rapid growth period for PRC colour screen TV market. Considering the average life of traditional TV of around 8-10 years, the most important TV renewal period would be from the past 10 years to the next 5-10 years. Based on the current estimated TV amount of around 500 million units in PRC, the growth potential of TV market in PRC is still much better than the global average. In 2011, PRC TV market has exceeded the North America market for the first time and became the largest TV market in the world.

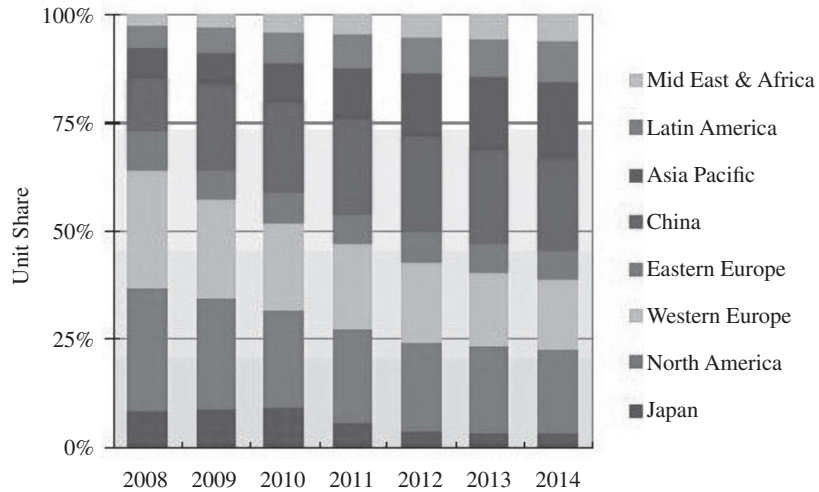


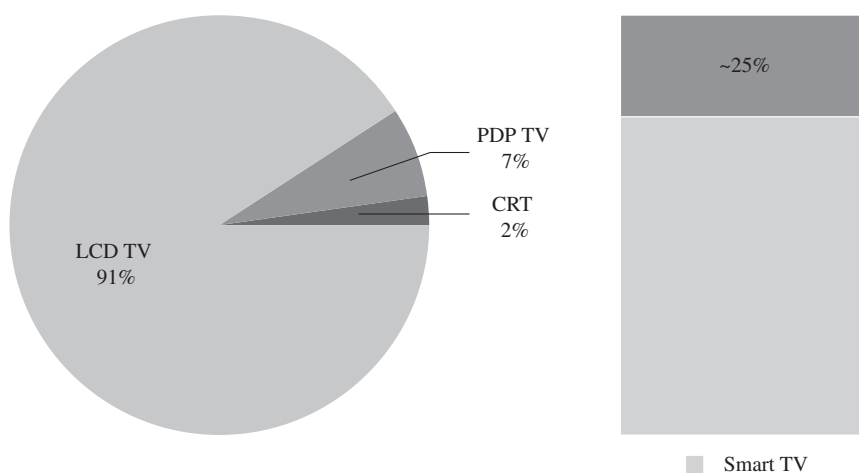
Fig. 2 – Market size of PRC TV market in comparison to the global market

Source: DisplaySearch China's TV Market Report



**PRC LCoS RPTV Market**

RPTV has been commercially available since the 1970s, but at that time could not match the image sharpness of the CRT. Later on, the technology vastly improved and offered a relatively cost-effective high resolution large-screen display. Among all new TV display technologies that support high resolution, RPTV was rather popular in the early-2000s as an alternative to more expensive LCD and PDP. Up until the mid-2000s, most of the relatively affordable consumer of large screen TVs used rear projection technology, particularly in the PRC market. Since Changhong led in development RPTV, the RPTV market has once grown to 1,000,000 units in PRC. However, several major problems have restricted the growth of RPTV’s market share. According to China Video Industry Association, the RPTV market in PRC is almost negligible in 2012.



**Fig. 3 – Market share of various TV technology in PRC in 2012**

Source: China Video Industry Association, AVC

**VALUATION ASSUMPTIONS**

Due to the changing environment in which the Intangible Assets is operating, a number of assumptions had to be established in order to sufficiently support our concluded opinion of value of the Intangible Assets. The major assumptions adopted in our valuation were:

- There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where the Intangible Assets currently operates or will operate, which will materially affect the revenue attributable to the Intangible Assets;
- There will be no major changes in the current taxation law in the jurisdiction where the Intangible Assets currently operates or will operate, which will materially affect the revenue attributable to the Intangible Assets, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- Exchange rates and interest rates will not differ materially from those presently prevailing;
- The financial projections in respect of the Intangible Assets were prepared on a reasonable basis; and
- Economic conditions will not deviate significantly from economic forecasts.

Although Sheenway is planning to sell the Intangible Assets, it is assumed that Sheenway shall continue to own the Intangible Assets for the purpose of our estimation on the fair value of the Intangible Assets in the Company's perspective.

**VALUATION AND ANALYSIS****Overall Market Potential**

Due to the downturn in economic situation, the 2011 TV market demand was lower than expected. The situation has started to improve at the end of the year. According to estimates from analysts, the annual global production of TV sets may achieve 254 million units in 2012, representing a growth rate of 2%.

Emerging markets such as PRC, Pan-Asia, Latin America, Eastern Europe, Middle East and Africa shall remain the highest growth regions in TV sales unit in the next 4 years, with expected CAGR of 11%. Developed markets, on the other hand, shall suffer from around 1% sales unit drop.

**LCoS RPTV Market Potential**

LCoS technology was once considered as the brightest future technology in TV industry. Its advantages include higher resolution, brighter images, unrestricted screen size, lower cost potential, low-power consumption and non-radiation.

Over the years, however, most international companies and analysts do not seem to agree with the above. Intel and Phillips have exited their LCoS display business, mainly due to low expected economic efficiency for further research and development. Brillian, which used to be one of the major LCoS RPTV producers, suffered huge losses in consecutive years and finally filed for bankruptcy in 2008. Up to now, only Sony, JVC and several Taiwan & PRC local companies are still continuing their LCoS display business. The major problems of LCoS are believed to be the following:

**Technology Requirement** – Obtaining commercial viability and desired performance levels for LCoS have been a major difficulty. Yields have been low due to problems of achieving consistent performance. In addition, heat and time dependent problems have compromised long-term reliability. The exits of Intel and Phillips have clearly shown the difficulty in getting over the related technological obstacles.

**Lamp Replacement** – Lamp replacement can be expensive. Most rear projection owners will have to replace a lamp every several years. Replacement of those lamps can be even more expensive because a professional technician is likely needed to install and calibrate the lamps.

**Overall Size** – LCoS TVs are big, which is why some people call them big screens. They are generally large, heavy and occupy a lot of floor space. If they don't fit on the floor then they'll need to sit on a table of some sort, which will take up floor space. This can be an issue when trying to change cables, rearrange furniture or fit in small spaces.

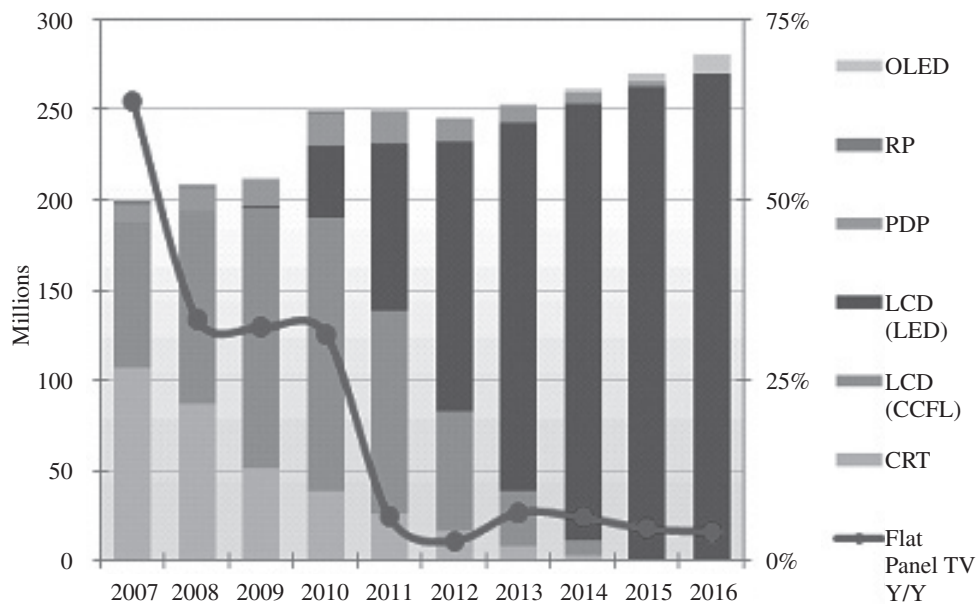
**Competition** – The bulk of RPTVs meant that they cannot be wall-mounted, and while most consumers of flat-panels do not hang up their sets, the ability to do so is considered a key selling point. Furthermore, the falling price and improvements to resolution have also greatly improved the attractiveness of LCD and PDP. The future competition from newly developed technologies such as OLED and 3D TV technology will also impose great pressure on LCoS TV technology.

Due to the above reasons, RPTV (including DLP and LCoS) withered very quickly recently. According to the latest statics made by DisplaySearch, the sales unit of RPTV suffered from continuous severe drop in the past few years and recorded a 44% YoY drop in the 1st quarter of 2012. The current market share of RPTV is less than 0.1% amongst all the other TV technologies in the global market. Analysts in the market had been expecting since 2007 that the RPTV market has passed its best days and shall shrank rapidly ever since.

<b>Technology</b>	<b>Q1 2012</b> <i>(Units)</i>	<b>Q1 2012</b> <i>(Unit Share)</i>
LCD TV	43,131	84.2%
PDP TV	2,982	5.8%
OLED TV	0	0.0%
	(non-commercial yet)	
CRT TV	5,084	9.9%
RPTV	25	0.0%
Total	<u>51,222</u>	<u>100%</u>

**Fig. 4 – Market share of TV technologies in global market**

*Source: DisplaySearch China's TV Market Report*



**Fig. 5 – Worldwide TV Forecast by Technology**

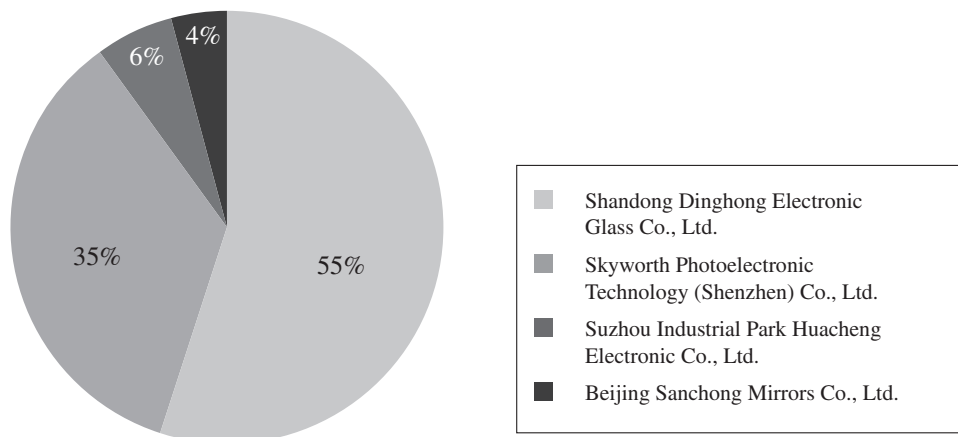
*Source: DisplaySearch Quarterly Global TV Shipment and Forecast Report*

Due to the unique advantage of the LCoS technology, however, most companies are now concentrating the application of this technology into engineering, movie, business or household use projectors, mini-projectors and pico-projectors.

**LCoS RPTV Market Competition**

LCoS RPTV is a highly concentrated market. Amongst all reputable international brands, only Sony and JVC are still selling this type of TV sets.

In PRC, 4 major producers govern the LCoS RPTV production market. Accordingly to Market Survey and Research Center of China, the larger 2 players almost contributed to 90% of the local production market.



**Fig. 6 – Market Share of LCoS RPTV production in PRC**

*Source: Market Survey and Research Center of China*

#### **Fair Value of the Intangible Assets**

The value of the Intangible Assets during acquisition was largely derived based on the existence of the Sales Contract. Pursuant to the Sales Contract, the Pacific Choice was assured to be able to obtain a total sales volume of 180,000 TV sets in 2009 to 2012. This contract alone was expected to generate total revenue of US\$923,200,000 for Pacific Choice.

However, we are advised by the senior management of the Company that it faced certain practical difficulties after the acquisition. The machinery, equipment and technology for the production of LCoS TV have never been delivered to Pacific Choice for further development. Also, the management notice that they had not obtained all necessary knowledge for the production of LCoS TV. Thus, the original production plan has not been able to realize and the company has not made any material progress on commercial production of TV sets up to now. The management of Pacific Choice is unable to solve the problems by now and thus is not able to provide a reasonable and reliable new production plan for our reference.

In order for Pacific Choice to commence its LCoS TV production, it would need further investments in:

- Research and development to solve the remaining technical difficulties
- Plants, machineries and equipments for production purpose as there is no existing production capacity at all
- Marketing to gain production orders as there is no existing clients or contracts

We have made the following considerations in estimating the value of the Intangible Assets:

First, the RPTV market (which is obviously larger than that of the LCoS RPTV market alone) is extremely small.

- According to information disclosed in figure 4, the RPTV market is only around 25,000 units (i.e. 0.05% of the overall TV market) as at Q1 of 2012.
- Thus, the global market size of RPTV would be less than HK\$1,000,000,000 ( $4 \times 25,000 \times 1,200 \times 7.8$ ) based the retail prices of less than US\$1,200 for some of the most popular international brand LCoS RPTV models.
- The market size related to the Company is much smaller as i) the Company is only involved in LCoS RPTV instead of any RPTV; ii) the Company is not involved in retail sales and wholesale price is much lower than that of the retail price; and iii) the market has been shrinking further since Q1 of 2012.

Second, and most importantly, the global RPTV market had been shrinking very rapidly. It is the market consensus that this will continue and RPTV market will eventually disappear soon.

- The analysts of the most representable research institutes in this market, including Display Search and International Data Corporation (IDC), had been expecting since 2007 that the RPTV market had passed its best days and shall shrank rapidly ever since. Please refer figure 5.
- In fact, the analysts' estimates had been correct. The global RPTV market had shrunk from an annual total sale of around 2.5 million units in 2006 to only 25,000 units in Q1 of 2012.

- According to the latest information, the recorded sales of global RPTV was 65,000 units in Q4 of 2010, 32,000 units in Q4 of 2011 and 9,000 units in Q3 of 2012. This represents a cumulative annual growth rate (CAGR) of nearly –70%.

In view of the fact that the Intangible Asset could not assist the Company to generate cash flow immediately because:

- i) the ability and time required for the Company to solve the outstanding technical problems are uncertain; and
- ii) huge further investments would be required to commence the operation.

We are of the opinion that it would be a rational decision for the Company to choose NOT to make further additional investments in order to enter into a new business with:

- existing keen competition and high market concentration
- an already small global market
- a market with CAGR of –70% and is expected to diminish soon

Thus, we are of the opinion that the Intangible Assets have no commercial value in the Company's perspective as the commercial viability of the LCoS RPTV manufacturing business for the Company cannot be reasonably justified.

#### **ESTABLISHMENT OF TITLES**

Due to the fair value basis of valuation, the management of the Company provided us the necessary documents to support that the legally interested parties in the Intangible Assets have free and uninterrupted rights to assign portion or the whole of the Intangible Assets free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed. However, our procedures to value as agreed with the management of the Company did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested parties obtained the Intangible Assets. We agreed with the management of the Company that this should be the responsibility of the legal advisor to the management of the Company. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the Intangible Assets.



**VALUATION COMMENTS**

For the purpose of our valuation and in arriving at our opinion of value, we referred to the information provided by the management of the Company to estimate the value of the Intangible Assets. We have also sought and received confirmation from the Company that no material facts were omitted from the information supplied. The Company confirms that in carrying out its work, we may rely on the accuracy and completeness of all information provided to it by the Company's directors, staff and advisers and that we shall not be required to verify any such information.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

For the purpose of our valuation and in arriving at our opinion of value, we referred to the information provided by the senior management of the Company to estimate the value of the Intangible Assets. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

**REMARKS**

Neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

Finally and in accordance with our standard practice, we must state that this report is for the exclusive use of the addressee and for the purpose stated herein. No responsibility is accepted to any third party for the whole or any part of its contents.

Unless otherwise stated, all money amounts stated are in United States Dollars (USD).

**CONCLUSION OF VALUE**

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, Pacific Choice, Sheenway or us.

Based on the analysis, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that the Fair Value of the Intangible Assets as at 31 August 2012 is reasonably estimated to have no commercial value.

We hereby certify that we have neither present nor prospective interest in the Company, Pacific Choice, Sheenway or the value reported.

This report is subject to the limiting conditions attached.

Yours faithfully,

For and on behalf of

**STIRLING APPRAISALS LIMITED**

**Lo Kin Chung**

*MBA BBA FCCA FCPA (Practising)*

*Director*

**LIMITING CONDITIONS**

1. As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, project documentation and other pertinent data concerning the project as has been made available to us. We have assumed the accuracy of, and have relied on, such information. We have relied to a considerable extent on such information provided in arriving at our opinion of value.
2. Stirling Appraisals Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation, with reference to the project described herein, unless prior arrangements have been made.
3. No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond that customarily employed by valuers.
4. Our conclusions assume continuation of prudent management policies over whatever period of time is reasonable and necessary to maintain the character and integrity of the assets valued.
5. We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions, which may require an adjustment in the valuation.
6. No investigation has been made on the legal title or any further liabilities attached. All legal documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any). We have not verified the original documents furnished to us, any responsibility for our misinterpretation of the legal documents, therefore, cannot be accepted. Besides, no advice and comment on the title and encumbrances will be given.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTEREST

### Interests of Directors and chief executives

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive (if any) had, or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which are (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they have taken or deemed to have under such provisions of the SFO); or (b) required to be recorded in the register kept by the Company pursuant to section 352 of the SFO; or (c) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

### *Long position in the Shares of the Company*

Director	Capacity	Number of Shares interested	% of issued share capital
Sun Ying Chung	Beneficial owner	23,000,000	3.27%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

**Interests of Substantial Shareholders**

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following parties, other than a Director or chief executive of the Company, had interests in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

**(a) Interests in the Shares**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Shares interested</b>	<b>Approximate shareholding percentage</b>
Golden Mount Limited ( <i>Note 1</i> )	Beneficial owner	198,944,000	28.33%

*Note:*

- Golden Mount Limited is wholly-owned by Mr. Chim Pui Chung, who does not hold any position in the Company. As the entire issued share capital of Golden Mount Limited is held by Mr. Chim Pui Chung, Mr. Chim Pui Chung is deemed to be interested in the Shares in which Golden Mount Limited is interested by virtue of the SFO.

**(b) Interests in the underlying Shares**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Shares interested</b>	<b>Approximate shareholding percentage</b>
First Vendor ( <i>Note 1</i> )	Beneficial owner	4,669,500,000	664.83%
Second Vendor ( <i>Note 2</i> )	Beneficial owner	612,500,000	87.21%
TMDC	Beneficial owner	468,000,000	66.63%

*Note:*

1. First Vendor was owned as to 51% by Pacific Zone Enterprises Limited and as to 49% by Goldsino Development Limited. Pacific Zone Enterprises Limited and Goldsino Development Limited were wholly-owned by Lam Suk Fong and Hsu Ming Shan respectively. Lam Suk Fong and Hsu Ming Shan are deemed to be interested in the underlying Shares in which First Vendor is interested by virtue of the SFO.
2. Second Vendor was wholly-owned by Chan Shun Yuen. Chan Shun Yuen is deemed to be interested in the underlying Shares in which Second Vendor is interested by virtue of the SFO.

Save as disclosed above, the Directors or chief executive of the Company are not aware of any party who, as at the Latest Practicable Date, had an interest or a short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such share capital.

### **3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2011 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group.

### **4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and any of their associates had interest in a business which competes or may compete with the business of the Group, or may have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

**5. LITIGATION**

On 12 September, 2012, the Group has issued legal proceedings against the Vendors in the High Court of Hong Kong Special Administrative Region in regard to the claim of restitution for total failure of consideration and rescission in connection with the Acquisition Agreement (the "Action"). For details of the Action, please refer to the announcement of the Company dated 12 September 2012.

The Writ of Summons was served on the Vendors on 13 September 2012. The Vendors had not filed acknowledgment of service or defence before the deadlines. The Group intends to apply to the High Court for judgment by way of summons. The preparation of the court documents is now underway for such an application.

The Group will continue to work closely with its legal advisers and take all steps as it considers appropriate to pursue its claims in the legal proceedings. Given that the litigation is still at an early stage, further announcements will be made by the Company if there is any significant impact with respect to the legal proceedings.

Since no judgment has been obtained prior to 31 December 2012, the outstanding convertible bonds of HK\$112.8 million and the promissory notes of HK\$87.5 million would not be cancelled in the Company's 2012 annual results.

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

**6. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**7. EXPERTS AND CONSENTS**

The qualifications of the experts who have provided opinion or advices contained in this circular are as follows:

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu	certified public accountants
Stirling Appraisals Limited	Professional valuer

Deloitte Touche Tohmatsu and Stirling Appraisals Limited have given and have not withdrawn their written consents dated 8 February 2013 and 6 February 2013, respectively, to the issue of this circular with the inclusion of their statements and/or letters and the references to their names in the form and context in which they appear.

#### **8. EXPERTS' INTERESTS IN ASSET AND SHAREHOLDING**

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Stirling Appraisals Limited did not have any direct or indirect interests in any assets which have been, since 31 December 2011 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Stirling Appraisals Limited did not have any shareholding in any member of the Group or the rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

#### **9. MISCELLANEOUS**

- a. The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong is Suite 3404, 34th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- b. The Company's Hong Kong branch share registrar and transfer office is Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- c. The secretary of the Company is Mr. Cheng Mei Chau, who is a Certified Public Accountant of The Hong Kong Institute of Certified Public Accountants and CPA Australia. He holds a Bachelor's Degree in Management & Marketing from Curtin University of Technology and a Master's Degree in Accounting from Monash University in Australia.
- d. The English text of this circular shall prevail over their respective Chinese text in the case of inconsistency.



**10. MATERIAL CONTRACTS**

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date:

- (a) the sale and purchase agreement dated 25 January 2011 (the “**SPA**”) entered between the Company as the vendor and Good Choice Development Ltd. as the purchaser in relation to sale of the entire issued share capital in, and shareholder’s loan extended to Sourcestar Profits Limited;
- (b) the cancellation agreement dated 24th August 2011 entered between the Company and Good Choice Development Ltd. in relation to the cancellation of the SPA;
- (c) the Deed of Termination dated 28 December 2011 entered among Tak Mining (Chromium) Company Limited as the Vendor, Max Dynasty Limited as the Purchaser and the Company in relation to the termination of the sale and purchase agreement date 22 September 2010 entered among the same parties relating to the sale and purchase of the entire issued share capital in, and shareholder’s loan extended to, Malagasy Chromium Resources Company Limited;
- (d) the Agreement of Termination dated 11 April 2012 entered between the Company and Luen Fat Securities Company Limited as the Underwriter (the “**Underwriter**”) in relation to the termination of an underwriting agreement dated 17 May 2010 entered into between the same parties, in which the Company appointed the Underwriter to underwrite up to 351,178,000 offer shares which have not been taken up by the qualifying shareholders who are entitled to take up the at offer shares under the proposed open offer. Details of the proposed open offer can be referred to announcement of the Company dated 17 May 2010;
- (e) Termination Deeds; and
- (f) Patents Transfer Agreement.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the Company's head office and principal place of business in Hong Kong at Suite 3404, 34th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during normal business hours in any weekday (excluding Saturdays, Sundays and public holidays) from the date of this circular up to and including the date of the SGM:

- a. the memorandum of association and the bye-laws of the Company;
- b. the annual reports of the Company for each of the two financial years ended 31 December 2010 and 2011;
- c. the interim report of the Company for the six months ended 30 June 2012;
- d. the report from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix II to this circular;
- e. the report from Stirling Appraisals Limited in respect of the valuation report of the Patents, the text of which is set out in Appendix IV to this circular;
- f. the written consents referred to under the paragraph headed "Expert and consent" in this appendix;
- g. the material contract referred to under the paragraph headed "Material Contract" in this appendix; and
- h. this circular.

---

## NOTICE OF SPECIAL GENERAL MEETING

---



### KARCE INTERNATIONAL HOLDINGS COMPANY LIMITED

泰盛實業集團有限公司\*

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1159)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of Karce International Holdings Company Limited (the “**Company**”) will be held at Empire Room III, 1/F, Empire Hotel Hong Kong • Wan Chai, 33 Hennessy Road, Wan Chai, Hong Kong on Thursday, 28 February 2013 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT**

- (a) the Patents Transfer Agreement (a copy of which is marked “**A**” and tabled at the SGM and signed by the chairman of the SGM for the purpose of identification) and the Termination Deeds (copies of which are marked “**B**” and tabled at the SGM and signed by the chairman of the SGM for the purpose of identification) (collectively known as the “Disposal”), upon and subject to the terms and conditions contained therein, and the transactions and agreements contemplated thereunder be and are hereby approved, confirmed and/or ratified. The Patents Transfer Agreement and the Termination Deeds are more particularly described in the Circular;
- (b) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Disposal and the transactions contemplated thereunder.”

By order of the Board  
**Karce International Holdings Company Limited**  
**Sun Ying Chung**  
*Chairman*

Hong Kong, 8 February 2013

\* *For identification purposes only*

---

## NOTICE OF SPECIAL GENERAL MEETING

---

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head office and principal place  
of business:*

Suite 3404, 34th Floor  
Bank of America Tower  
12 Harcourt Road, Central  
Hong Kong

*Notes:*

1. Any shareholder of the Company (the “Shareholder(s)”) entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a Shareholder.
2. The form of proxy shall be in writing under the hand of the appointer or of his attorney duly authorized in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
3. Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the SGM and in such event, the form of proxy shall be deemed to be revoked.
4. Where there are joint Shareholders any one of such joint Shareholder may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint Shareholders be present at the SGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint Shareholders, and for this purpose seniority shall be determined by the order in which the names stand in the register of Shareholders of the Company in respect of the joint holding.
5. The form of proxy and (if required by the board of directors) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof at which the person named in the form of proxy proposes to vote or, in the case of a poll taken subsequently to the date of the SGM or any adjournment thereof, not less than 48 hours before the time appointed for the taking of the poll and in default the form of proxy shall not be treated as valid.