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

If you have sold or transferred all your securities in **China Data Broadcasting Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHINA DATA BROADCASTING

China Data Broadcasting Holdings Limited
(中華數據廣播控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

(1) CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION
(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(3) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES
(4) APPLICATION FOR WHITEWASH WAIVER
(5) CONTINUING CONNECTED TRANSACTIONS
(6) PROPOSED CHANGE OF COMPANY NAME
(7) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
(8) PROPOSED ADOPTION OF NEW BYE-LAWS

Financial adviser to China Data Broadcasting Holdings Limited and the Sponsor to the deemed new listing application of China Data Broadcasting Holdings Limited

CMS 招商证券

Independent financial adviser to the Independent Board Committee and to the Independent Shareholders

TC Capital 天財資本

TC Capital Asia Limited

A letter from the Independent Board Committee (as defined in this circular) is set out on pages 61 to 62 of this circular, and a letter from TC Capital (as defined in this circular) containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 63 to 106 of this circular.

A notice convening the special general meeting of China Data Broadcasting Holdings Limited to be held at Gloucester Room, 2/F, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on Tuesday, 8 January 2013 at 9:30 a.m. is set out on pages SGM-1 to SGM-4 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of China Data Broadcasting Holdings Limited in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the meeting or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for at least 7 days from the date of its posting and on the website of China Broadcasting Holdings Limited at www.cdb-holdings.com.hk.

12 December 2012

* *For identification only*

CHARACTERISTICS OF GEM

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

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

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EXPECTED TIMETABLE AND TRADING ARRANGEMENTS

The following expected timetable is indicative only and is subject to change. If necessary, further announcement(s) in relation to revised timetable will be published as and when appropriate.

Latest time for lodging forms of proxy for the SGM	9:30 a.m. on Sunday, 6 January 2013
SGM	9:30 a.m. on Tuesday, 8 January 2013
Announcement of the results of the SGM to be published	Tuesday, 8 January 2013
Completion of the Acquisition and issue of the New Ordinary Shares and the New Convertible Preference Shares	on or before Thursday, 28 February 2013
Announcement of completion of the Acquisition to be published	on or before Thursday, 28 February 2013

This summary aims at giving you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision on the Acquisition and the appropriate course of action for yourself.

There are risks associated with any business. You should read the section headed "Risk factors" of this circular carefully before making a decision on the Acquisition.

BACKGROUND

The Board announced on 23 April 2012 that the Company as purchaser, Fit Generation as vendor and Changhong (Hong Kong) Trading as guarantor had entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase from Fit Generation, and Fit Generation has conditionally agreed to sell to the Company, the entire issued share capital of Target Co BVI, at a total consideration of HK$2,012,868,000, to be settled in full by the allotment and issue of the New Ordinary Shares and the New Convertible Preference Shares. Changhong (Hong Kong) Trading, being the holding company of Fit Generation, has agreed to guarantee the obligations of Fit Generation under the Acquisition Agreement.

It is a term of the New Convertible Preference Shares that if the issue of the Conversion Shares following the exercise of the conversion rights relating to any of the New Convertible Preference Shares would result in the Company not meeting the public float requirement under the GEM Listing Rules immediately after the conversion, then the number of the Conversion Shares to be issued shall be reduced to a maximum number which will not result in a breach of the public float requirement and the balance of the conversion rights attached to the New Convertible Preference Shares which the holder sought to convert shall be suspended until the Company is able to issue additional Conversion Shares whilst complying the public float requirement. The Company will seek the grant of a specific mandate from the Independent Shareholders to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares.

Assuming the New Convertible Preference Shares are fully converted and that further new Shares are issued by the Company to the public so that the minimum public float requirement of 25% is met (which scenario shall not happen as it is not the intention of the parties under the Acquisition Agreement), the corresponding pro forma earnings per Share and pro forma net asset per Share would, for illustration purposes only, be HK$0.06 and HK$0.25 respectively (based on a total of 2,972,673,787 Shares). Assuming Completion has taken place on 1 January 2011, the pro forma earnings per Ordinary Share of the Enlarged Group would become HK$0.38 per Ordinary Share (based on a total of 469,000,000 Shares after the issuance of the New Ordinary Shares following the Acquisition and assuming no New Convertible Preference Shares have been converted), and approximately HK$0.08 per Ordinary Share (based on a total of 2,346,868,000 Shares after the issuance of the New Ordinary Shares and full conversion of all New Convertible Preference Shares), as compared to the earnings per Ordinary Share of the Group of approximately HK$0.03 for the year ended 31 December 2011 (based on 334,000,000 Ordinary Shares in issue). Adjustment has been made to take into consideration of the professional fees of the Acquisition incurred. Shareholders are advised to note that the pro forma earnings per Ordinary Share of the Enlarged Group was prepared for illustrative purpose only and may not reflect the actual financial positions and results of the operation of the Group.

OVERVIEW OF THE ENLARGED GROUP'S BUSINESS AND OPERATION

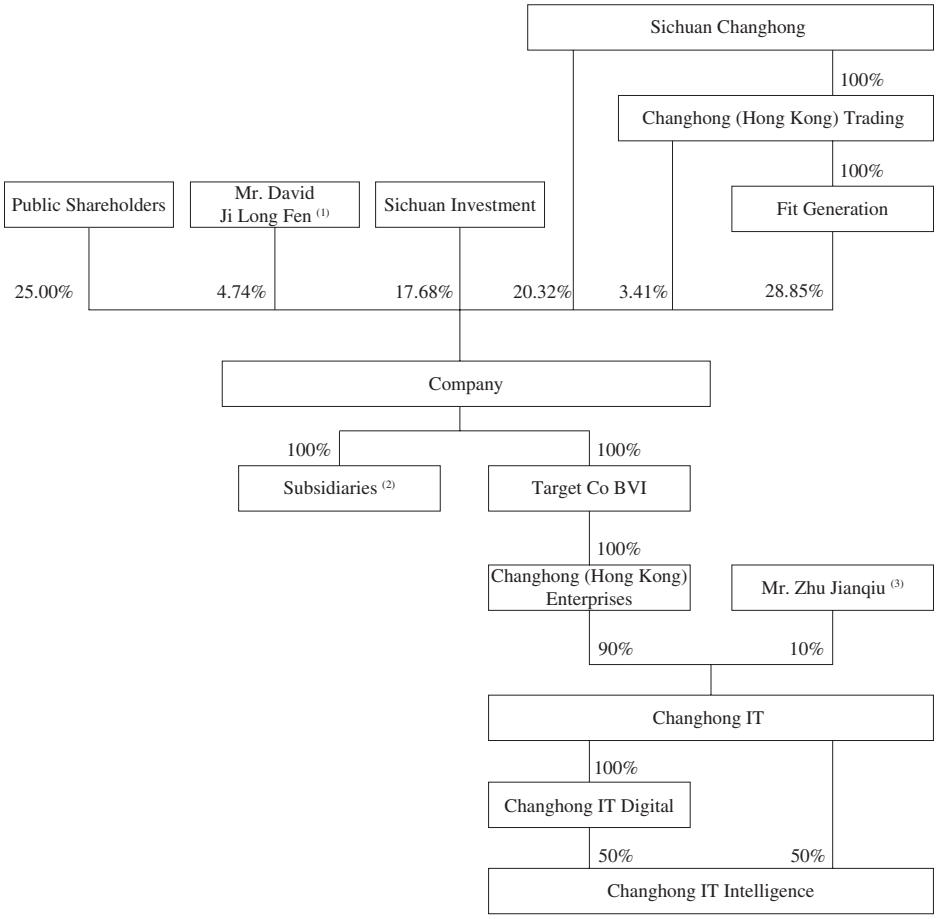
The Group is currently engaged in trading and sourcing business comprising: (i) the trading and sales of electronic parts and components such as LCD screens, PDP screens, cathode ray tubes, integrated circuits, plugs and sockets primarily in the PRC; and (ii) the trading and sales of electrical appliances and consumer electronic products in non-PRC overseas markets.

The Target Group is principally engaged in the distribution of IT consumer products (including personal computers, digital products and IT accessories) and IT corporate products (including storage products, minicomputers, networking products, PC servers, IBMS products and UC&CC products) in the PRC.

Based on the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group for the year ended 31 December 2011, the turnover generated from the Target Group and the Group during the year ended 31 December 2011 accounted for approximately 83.06% and 16.94% of the total turnover of the Enlarged Group respectively.

SHAREHOLDING STRUCTURE OF THE COMPANY AFTER COMPLETION

The corporate structure of the Company after Completion (assuming that the New Ordinary Shares have been issued and the New Convertible Preference Shares have been partially converted into the Conversion Shares with a minimum public float of 25%) is set out below:



Notes:

(1) Mr. David Ji Long Fen is an executive Director.

(2) As at the Latest Practicable Date, the subsidiaries of the Company comprise Apex Honour Resources Limited (investment holding), Apex Digital Inc. (inactive), Changhong Overseas Development Limited (trading of consumer electronic products and related parts and components), Apex Digital, LLC (inactive) and Apex Digital Inc. Limited (trading of consumer electronic products and related parts and components).

(3) Mr. Zhu Jianqiu, the managing director of Changhong IT, holds 10% of the equity interest of Changhong IT. For further details, please refer to the section headed "History and Background of the Target Group" of this circular.

Please refer to the sections headed "Letter from the Board – The Acquisition Agreement – (3) Shareholding Structure" and "Letter from the Board – Information on the New Ordinary Shares and the New Convertible Preference Shares – (3) Effects of the issue of the New Ordinary Shares and the Conversion Shares on the shareholding structure of the Company" for details of the shareholding structure of the Company before and after Completion.

INFORMATION OF THE TARGET GROUP

The Target Group is one of the top five IT distributors in the PRC, which, according to the Euromonitor Report, ranked fourth with a market share of 3.8% in 2011 in terms of its sales revenue attributed to IT Hardware Products, and is principally engaged in the distribution of IT consumer products and IT corporate products in the PRC.

The following table sets forth the turnover by product types and the percentage contribution of each product type to the total turnover of the Target Group for the years/periods indicated:

	For the year ended 31 December						For the seven months ended 31 July			
	2009		2010		2011		2011		2012	
	HK$'000	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*
							(Unaudited)			
IT Consumer Products										
Personal computers	3,003,403	57.71	4,532,413	55.85	7,142,073	53.47	3,671,279	54.30	4,331,554	51.32
Digital products	278,142	5.34	789,108	9.72	2,349,526	17.59	1,120,657	16.57	996,908	11.81
IT accessories	348,529	6.70	421,334	5.19	468,762	3.51	260,117	3.85	301,330	3.57
IT Corporate Products										
Storage products	234,588	4.51	463,230	5.71	639,710	4.79	317,831	4.70	588,634	6.98
Minicomputers	139,312	2.68	108,888	1.34	122,775	0.92	47,091	0.70	129,256	1.53
Networking products	274,591	5.28	432,689	5.33	606,937	4.54	303,371	4.49	645,551	7.65
PC servers	383,718	7.37	548,918	6.76	786,316	5.89	408,970	6.05	474,610	5.63
IBMS products	505,306	9.71	634,410	7.82	732,369	5.48	353,640	5.23	413,811	4.90
UC&CC products	2,590	0.05	140,330	1.73	195,035	1.46	95,691	1.41	105,856	1.25
Others										
LBS	8,505	0.16	1,798	0.02	143	0.00	90	0.00	1,107	0.01
Smartphones	–	0.00	10,685	0.13	276,913	2.07	168,746	2.49	434,256	5.15
IT services	25,674	0.49	31,953	0.40	37,184	0.28	14,077	0.21	16,691	0.20
Total	**5,204,358**	100.00	**8,115,756**	100.00	**13,357,743**	100.00	**6,761,560**	100.00	**8,439,564**	100.00

The table below sets out the amount and percentage of the gross profits and gross profit margins of the Target Group generated from each of its three main product segments for the years/periods indicated:

	Year ended 31 December						Seven months ended 31 July			
	2009		2010		2011		2011		2012	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000* (Unaudited)	*% of total*	*HK$'000*	*% of total*
Gross profit										
IT Consumer Products	221,076	63.91	258,109	59.38	380,162	60.55	207,636	62.11	188,687	47.98
IT Corporate Products	120,788	34.92	170,332	39.18	231,005	36.80	118,015	35.30	188,850	48.03
Others	4,054	1.17	6,261	1.44	16,652	2.65	8,649	2.59	15,672	3.99
TOTAL	345,918	100.00	434,702	100.00	627,819	100.00	334,300	100.00	393,209	100.00
Gross profit margin (%)										
IT Consumer Products	6.09%		4.49%		3.82%		4.11%		3.35%	
IT Corporate Products	7.84%		7.32%		7.49%		7.73%		8.01%	
Others	11.86%		14.09%		5.3%		4.72%		3.47%	

For the three years ended 31 December 2011 and the seven months ended 31 July 2012, turnover of the Target Group amounted to HK$5,204,358,000, HK$8,115,756,000, HK$13,357,743,000 and HK$8,439,564,000 respectively, representing a CAGR of approximately 60.2%. The increase in turnover of the Target Group during the Track Record Period was primarily due to the increase in product lines and sales volume of personal computers and digital products and increase in suppliers and sub-distributors of the Target Group. During the Track Record Period, the number of product lines of personal computers and digital products were 12, 22, 39 and 51 respectively while the number of sub-distributors of the Target Group were 4,072, 6,135, 8,243 and 7,279 respectively.

The decrease of gross profit margin of the Target Group during the Track Record Period was mainly due to (i) the decline in the gross profit margin for distribution of IT products; and (ii) the higher contribution of sales from products with lower gross profit margin (such as tablet PCs and smartphones) for the years ended 31 December 2010 and 31 December 2011 and the seven months ended 31 July 2012.

The Target Group's net profit margin during the Track Record Period was 2.6%, 1.8%, 1.6% and 1.6% respectively, which was also in a decreasing trend.

BUSINESS OUTLOOK AND COMPETITIVE MARKET

The Target Group faces challenges including fierce competition, declining pricing mark-ups and low profit margin. Further, the IT product distribution market in general is in an appreciation trend. Please refer to the sections headed "Industry Overview" and "Business of the Target Group – Business outlook and competitive market" of this circular for further information relating to the competitive market and business outlook of the Target Group.

NON-COMPLIANCE OF THE TARGET GROUP

The Target Group has not paid the social insurance contribution and housing provident fund for its contractual workers in respect of the bonuses paid by the Target Group. The following table sets out the unpaid amounts the Target Group has recognised in the statement of comprehensive income during the Track Record Period:

	For the year ended 31 December			For the seven months ended 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Social insurance	4,396	7,736	14,914	2,750
Housing provident fund	1,510	2,637	5,110	1,137

As at the Latest Practicable Date, the Target Group had not received any notice from the relevant housing provident fund or social security authorities ordering the Target Group to pay the unpaid amounts. Please refer to the section headed "Business of the Target Group – Regulatory Compliance – (a) Social Insurance and Housing Provident Fund" of this circular for further information.

COMPETITION BETWEEN THE ENLARGED GROUP AND THE SICHUAN CHANGHONG GROUP

During the three financial years ended 31 December 2011 and the six months ended 30 June 2012, the following businesses of the Sichuan Changhong Group overlapped with the businesses of the Enlarged Group:

- the sales and distribution of electrical appliances (including air-conditioners, refrigerators), and consumer electronic products (including televisions, home theater systems and other audio video products) in non-PRC overseas markets; and

- the sales and distribution of mobile phones in the PRC.

Some of the above overlapping businesses were conducted in the same non-PRC overseas countries.

The overlapped sales of electrical appliances and consumer electronic products in non-PRC overseas markets accounted for approximately 16%, 13%, 6% and 5% of the total revenue of the Enlarged Group for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively and accounted for approximately 7%, 7%, 6% and 7% of the total revenue of the Sichuan Changhong Group for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively.

The overlapped sales of mobile phones accounted for nil, nil, approximately 2% and 5% of the total revenue of the Enlarged Group for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively and accounted for approximately 6%, 4%, 3% and 2% of the total revenue of the Sichuan Changhong Group for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively.

The total sales of the Enlarged Group's Overlapping Businesses in the non-PRC overlapped countries only represented approximately 4% of the total revenue from sales of the Enlarged Group as at 30 June 2012.

After Completion,

- the Enlarged Group will focus on its existing IT consumer and corporate products distribution business, its existing smartphone distribution business in the PRC with price segment and brand delineation with that of the Sichuan Changhong Group, its existing trading business of electronic parts and components primarily in PRC and its existing trading business of electrical appliances and consumer electronic products in specific non-PRC overseas countries.

- Sichuan Changhong Group will focus on its businesses not being in competition with that of the Enlarged Group, its sales of mobile phones in PRC with price segment and brand delineation with that of the Enlarged Group, its sales and distribution business of electrical and consumer electronic products in the PRC and in specific non-PRC overseas countries.

For details, please refer to the section headed "Relationship with the Controlling Shareholders – Independence from Controlling Shareholder" of this circular.

SELECTED COMBINED STATEMENTS OF COMPREHENSIVE INCOME OF THE TARGET GROUP

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Turnover	5,204,358	8,115,756	13,357,743	6,761,560	8,439,564
Gross profit	345,918	434,702	627,819	334,300	393,209
Other income *(Note 1)*	1,775	7,780	20,053	11,789	1,574
Selling and distribution expenses *(Note 2)*	(108,687)	(160,548)	(226,500)	(114,607)	(135,692)
Administrative expenses *(Note 3)*	(42,265)	(61,236)	(93,365)	(36,144)	(38,573)
Finance costs *(Note 4)*	(11,642)	(20,554)	(31,983)	(9,421)	(31,660)
Profit for the year/period	135,091	142,600	208,634	139,577	137,545
Profit for the year/period attributable to:					
Owners of the Target Co BVI	134,186	133,206	188,033	125,619	123,790
Non-controlling interests	905	9,394	20,601	13,958	13,755

Notes:

1. The increase in other income for the years ended 31 December 2011 and 2010 was mainly due to the increase in, among other things, (i) exchange gain; (ii) government subsidies; and/or (iii) bank interest income. Other income for the seven months ended 31 July 2012 decreased, as compared to the corresponding period in 2011, mainly due to the decrease in (i) bank interest income; (ii) exchange gain; and (iii) government subsidies (grant related to expenses recognised as other gains) for the seven months ended 31 July 2012.

2. The increase in selling and distribution expenses during the Track Record Period was mainly due to the increase in, among other things, (i) salaries and benefits (for sales and marketing staff); (ii) travelling, communication and entertainment expenses; (iii) stamp duty; and (iv) storage and logistic expenses which resulted from the business expansion of the Target Group.

3. The increase in administrative expenses of the Target Group during the Track Record Period was mainly due to the increase in, among other things, salaries and benefits for staff other than sales and marketing staff which resulted from the business expansion of the Target Group.

4. The increase in finance costs of the Target Group during the Track Record Period was mainly due to the increase in, among other things, interest on borrowings. For the years ended 31 December 2010 and 2011, the increase was also due to increase in guarantee charges in respect of guarantees granted by Sichuan Changhong Electric to suppliers, bank and financial institution for the business expansion of the Target Group. Finance costs for the seven months ended 31 July 2012 increased by approximately 236.06% as compared to the corresponding period in 2011 primarily due to increase in (i) guarantee charges in respect of guarantees from Sichuan Changhong Electric to suppliers, banks and other financial institution; (ii) bank and other borrowings and overdrafts wholly repayable within five years; and (iii) amount due to Sichuan Changhong.

5. For details, please refer to the section headed "Financial Information of the Target Group" of this circular.

SELECTED COMBINED STATEMENTS OF FINANCIAL POSITION FOR THE TARGET GROUP

	The Target Group				Target Co BVI	
	As at 31 December			As at 31 July	As at 31 December	As at 31 July
	2009	2010	2011	2012	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Note)	
Non-current assets	15,515	12,982	15,661	18,828	10	190,010
Current assets	1,277,765	2,141,698	2,850,087	2,932,738	–	–
Current liabilities	885,564	1,600,459	2,274,778	2,216,936	10	10
Net current assets (liabilities)	392,201	541,239	575,309	715,802	(10)	(10)
Non-current liability	–	–	–	(16,594)	–	–
Total equity	407,716	554,221	590,970	718,036	–	190,000

Note:

The statements of financial position as at 31 December 2009 and 2010 of Target Co BVI are not presented as Target Co. BVI was incorporated in the BVI with limited liability on 28 March 2011. As at 31 December 2011, Target Co BVI had 1 ordinary share of US$1 and minimal assets on the statement of financial position.

SELECTED COMBINED STATEMENTS OF CASH FLOWS FOR THE TARGET GROUP

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net cash from (used in) operating activities	111,059	36,222	(467,946)	(349,136)	251,267
Net cash (used in) from investing activities	(19,034)	(286,964)	307,733	303,141	(7,041)
Net cash from (used in) financing activities	45,753	174,171	72,515	(54,919)	(249,565)
Cash and cash equivalents at beginning of the year/period	53,777	192,129	123,436	123,436	41,694
Effect of foreign exchange rate changes	574	7,878	5,956	2,345	(541)
Cash and cash equivalents at end of the year/period	192,129	123,436	41,694	24,867	35,814

The net operating cash outflow of the Target Group in 2011 was primarily due to the increase in (i) inventory level as a result of introducing new product lines by the Target Group in 2011, and (ii) the payments of the procurement that took place at the end of 2010. Please refer to the sections headed "Risk Factors – Risks relating to the Target Group's Business – The Target Group had negative operating cash flow for the year ended 31 December 2011 and may not be able to generate sufficient cash from its operations or obtain adequate financing to fund its operations and capital requirements" and "Financial Information of the Target Group – Liquidity and Capital Resources".

SUMMARY OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Upon Completion, the unaudited pro forma net tangible assets of the Enlarged Group per Share will be HK$1.59 (based on a total of 469,000,000 Shares after the issuance of the New Ordinary Shares following the Acquisition and assuming no New Convertible Preference Shares have been converted). Please refer to Appendix III of this circular for details.

RECENT DEVELOPMENT OF THE TARGET GROUP'S FINANCIAL PERFORMANCE

During the Track Record Period, the Target Group recorded a decline in gross profit margin, which decreased from approximately 6.65% for the year ended 31 December 2009 to approximately 4.66% for the seven months ended 31 July 2012. The decrease in gross profit margin was mainly due to (i) the decline in the gross profit margin for distribution of IT products; and (ii) the higher contribution of sales from products with lower gross profit margin (such as tablet PCs and smartphones) for the years ended 31 December 2010 and 31 December 2011 and the seven months ended 31 July 2012. It is expected that such downward trend will persist due to market saturation and lower gross profit margin for IT consumer products and smartphones.

To minimise the impact of low profit margin for IT consumer products and smartphones, the Target Group will focus on the development of IT corporate products as its key development strategy in the future in view of a relatively higher gross profit margin of IT corporate products, which was approximately 8.01% for the seven months ended 31 July 2012 as compared to that of IT consumer products of approximately 3.35% for the same period. The Target Group will also enhance its cost control and improve its marketing capabilities in the future. Please refer to the sections headed "Business of the Target Group – Business Outlook and Competitive Market", "Financial Information of the Target Group – Financial Ratios" and "Appendix I – Accountants' Report of the Target Group" of this circular for further information.

In view of the above and the implementation plans as disclosed in the section headed "Statement of Business Objectives" of this circular, the Directors and the directors of the Target Group believe that the profit margins of the Target Group can be better managed.

The Target Group's borrowings from banks and other financial institutions had increased from approximately HK$630,450,000 as at 31 July 2012 to HK$981,957,000 as at 31 October 2012. The increase during this period was mainly attributable to the Target Group enhancing its financing activities by additional borrowings mainly provided by the banks and trust companies in the PRC. It is the Target Group's seasonal practice to enter into project base sales contract during the fourth quarter of the year. Such purchases require additional financing through bank and other borrowings. The Target Group's

increase in interest expense for the ten months ended 31 October 2011 compared to the corresponding period in 2012 was mainly attributable to (i) the replacement of guarantees provided by the ultimate holding company; and (ii) the additional bank and other borrowings to finance the Target Group's purchases to support its sales during the period from August 2012 to October 2012.

Notwithstanding the downward trend of the Target Group's profit margin mentioned above, subsequent to the Track Record Period, the Target Group has shown steady development. The directors of the Target Group confirm that immediately after the end of the Track Record Period and up to the Latest Practicable Date, there had been no material adverse changes to the Target Group's business model, revenue and cost structure. For the ten months ended 31 October 2012, the Target Group's unaudited revenue was higher than that for the corresponding period in the previous year. Since 1 January 2012, and up to 31 October 2012, the Target Group had engaged six more suppliers, which has further strengthened its product varieties and sales channels. To further enhance its sales performance, the Target Group will promote its system optimisation and cloud computing services, introduce new brands and provide services along with the sales of IT products. Furthermore, to support its overseas business expansion, the Target Group plans to set up a company in Hong Kong by the end of 2012, which will be a wholly-owned subsidiary of the Target Group. As at the Latest Practicable Date, the said establishment had already been approved by 綿陽市國有資產監督管理委員會 (Mianyang Municipality State-Owned Assets Supervision and Administration Commission) and the local bureau of commerce in Mianyang.

Up to 31 October 2012, the Target Group's subsequent settlement of trade and bills receivables as at 31 July 2012 totaled approximately HK$790,009,000, representing approximately 82.04% of its outstanding balance as at 31 July 2012. Up to 31 October 2012, the Target Group's subsequent usage of prepayments as at 31 July 2012 totaled approximately HK$272,677,000, representing approximately 84.35% of prepayments as at 31 July 2012. As at 31 October 2012, approximately HK$1,195,374,000 of inventories, representing approximately 84.55% of the inventories of the Target Group as at 31 July 2012, have been subsequently utilised by the Target Group.

The Directors expect that non-recurring expenses in relation to the New Listing Application in the sum of approximately HK$23,000,000 will be incurred, of which approximately HK$13,600,000 had already been charged to the income statement of the Group during the Track Record Period, and approximately HK$9,400,000 are to be charged to the income statement of the Group subsequently after 31 July 2012. Please note that the amount of listing expenses to be incurred is an estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the then changes in variables and assumptions.

MATERIAL CHANGE AFTER TRACK RECORD PERIOD

The Directors confirm that there has not been any material changes which would adversely affect the financial, operation and trading position of the Company after the Track Record Period and up to the date of this circular.

Save as disclosed in the paragraph headed "Recent development of the Target Group's financial performance" above, the Directors and the directors of the Target Group confirm that, up to the date of this circular, there was no material developments occurring after the Track Record Period which would adversely affect the business of the Target Group.

DIVIDEND POLICY

The Board has absolute discretion in determining whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. The Company will evaluate its dividend policy from time to time in light of its financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of the Board and will be based upon the Company's earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that the Directors deem relevant. For further details of the dividend payments by the Target Group and the Company, please refer to Appendices I and II to this circular. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. According to the terms of the New Convertible Preference Shares, holders of the New Convertible Preference Shares shall have the right to receive dividend in priority to holders of any other class of shares in the capital of the Company. No assurance can be given that dividends to be distributed out of the funds of the Company available for distribution can be paid to the Shareholders.

RISK FACTORS

The Directors believe that the business of the Enlarged Group is subject to a number of risk factors. A detailed discussion of the risks factors is set forth in the section headed "Risk Factors" of this circular. The most significant risks are summarised below:

– The Acquisition constitutes an investment in a new business sector and may pose significant challenges to the Group's administrative, financial and operation resources.

– The Target Group's customers may order IT products directly from the Target Group's suppliers.

– The Target Group relies on a small number of key suppliers and products. The Target Group's failure to maintain good relationship with the suppliers may adversely affect the Target Group's revenue and profitability.

– The Target Group had negative operating cash flow for the year ended 31 December 2011 and may not be able to generate sufficient cash from its operations or obtain adequate financing to fund its operations and capital requirements.

GENERAL

The Acquisition constitutes a reverse takeover, very substantial acquisition and connected transaction for the Company under Chapters 19 and 20 of the GEM Listing Rules. On 7 December 2012, the Company entered into the Framework Agreements in relation to certain non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules with the Sichuan Changhong Group, which are subject to the approval of the Independent Shareholders.

Under Rule 26.1 of the Takeovers Code, the Sichuan Changhong Concert Party Group would be required to make an unconditional mandatory general offer for all the issued Ordinary Shares not already owned or agreed to be acquired by the Sichuan Changhong Concert Party Group, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive. An application was made to the Executive on 30 May 2012 to seek the grant of the Whitewash Waiver, and the Executive has indicated that it will grant the Whitewash Waiver subject to, amongst others, the approval of the Independent Shareholders of the Acquisition and Whitewash Waiver by way of poll.

For details, please refer to the section headed "Letter from the Board" of this circular. Please also refer to the notice of SGM in this circular for the resolutions to approve, among other things: (i) the Acquisition; (ii) the proposed grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares; (iii) the Whitewash Waiver; (iv) the Non-exempt Continuing Connected Transactions (including the related proposed annual caps); (v) the proposed increase in the authorised share capital of the Company; (vi) the proposed change of name of the Company; and (vii) the proposed adoption of the New Bye-laws.

In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Acquisition"	the conditional acquisition by the Company of the entire issued share capital of Target Co BVI from Fit Generation for a total consideration of HK$2,012,868,000, to be settled in full by the allotment and issue of a total of 135,000,000 New Ordinary Shares and 1,877,868,000 New Convertible Preference Shares
"Acquisition Agreement"	the conditional sale and purchase agreement dated 28 March 2012 made between the Company as purchaser, Fit Generation as vendor and Changhong (Hong Kong) Trading as guarantor in respect of the sale and purchase of the entire issued share capital of Target Co BVI and Changhong (Hong Kong) Trading as guarantor of the obligations of Fit Generation under the said agreement
"Announcement"	the announcement of the Company dated 23 April 2012 published on the website of the Stock Exchange in relation to, amongst others, the Acquisition
"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"BVI"	British Virgin Islands
"Bye-laws"	the bye-laws of the Company as amended from time to time
"CAGR"	compound annual growth rate
"Changhong (Hong Kong) Enterprises"	Changhong (Hong Kong) Enterprises Limited (港虹實業有限公司), a company incorporated in Hong Kong (a wholly-owned subsidiary of Target Co BVI) and which holds 90% of the equity interest of Changhong IT as at the Latest Practicable Date
"Changhong (Hong Kong) Trading"	Changhong (Hong Kong) Trading Limited (長虹(香港)貿易有限公司), a company incorporated in Hong Kong (a wholly-owned subsidiary of Sichuan Changhong) and which holds 4.79% of the existing issued ordinary share capital of the Company as at the Latest Practicable Date

"Changhong IT"	Changhong IT Information Products Co., Ltd. (四川長虹佳華信息產品有限責任公司) (formerly known as Sichuan Changhong Zarva Information Technology Products Co., Ltd. (四川長虹朝華信息產品有限責任公司)), a company established under the laws of the PRC, 90% of the equity interest of which is held by Changhong (Hong Kong) Enterprises, a wholly-owned subsidiary of Target Co BVI as at the Latest Practicable Date
"Changhong IT Digital"	Changhong IT Digital Technology Co., Ltd. (四川長虹佳華數字技術有限公司), a company established under the laws of the PRC and which is a wholly-owned subsidiary of Changhong IT as at the Latest Practicable Date
"Changhong IT Intelligence"	Beijing Changhong IT Intelligence System Co., Ltd. (北京長虹佳華智能系統有限公司), a company established under the laws of the PRC and 50% of the equity interest of which is held by Changhong IT and the remaining 50% by Changhong IT Digital as at the Latest Practicable Date
"China Merchants" or "Sponsor"	China Merchants Securities (HK) Co., Limited, the financial adviser and sponsor to the Company and a corporation licensed to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO
"COD"	Changhong Overseas Development Limited (長虹海外發展有限公司), a company incorporated in Hong Kong and 100% of its issued share capital of which is held by the Company as at the Latest Practicable Date
"Company"	China Data Broadcasting Holdings Limited (中華數據廣播控股有限公司), a company incorporated in Bermuda with limited liability whose Ordinary Shares are listed on GEM (stock code: 8016)
"Companies Act"	the Companies Act 1981 of Bermuda, as amended from time to time
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Completion"	completion of the Acquisition
"Completion Date"	the date of completion of the Acquisition under the terms of the Acquisition Agreement

"connected person"	has the meaning ascribed to it under the GEM Listing Rules
"Controlling Shareholder(s)"	Sichuan Changhong, Sichuan Changhong Electric and/or Fit Generation
"Conversion Period"	any time after the date of issue of the relevant New Convertible Preference Shares
"Conversion Shares"	the Ordinary Shares to be issued by the Company upon the conversion of the New Convertible Preference Shares which shall upon issue rank pari passu with the other existing Ordinary Shares
"Directors"	directors of the Company
"EIT"	enterprise income tax payable under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法)
"Enlarged Group"	the Group together with the Target Group
"Executive"	the executive director(s) of the Corporate Finance Division of the SFC from time to time and any delegate of such executive director(s)
"Existing Lease Agreements"	(i) the lease agreement dated 28 December 2011 between Changhong IT and Sichuan Changhong in relation to the lease of premises in Mianyang; (ii) the lease agreement dated 1 July 2011 between COD and Shenzhen Changhong in relation to the lease of premises in Shenzhen; and (iii) the lease agreement dated 16 May 2012 as supplemented by a supplemental agreement dated 6 July 2012, between Changhong IT and Beijing Changhong Electronic Science and Technology Co., Ltd. (北京長虹科技有限責任公司) (a subsidiary of Sichuan Changhong) in relation to the lease of premises in Beijing, further details of which are set out in the section headed "Connected Transactions" of this circular
"Existing Master Purchase Agreement"	the master purchase agreement dated 20 November 2009 in relation to the purchase of certain consumer electronic products by the Group from Sichuan Changhong and its subsidiaries on an ongoing basis
"Existing Master Supply Agreement"	the master supply agreement dated 20 November 2009 in relation to the supply of certain electronic components and parts by the Group to Sichuan Changhong and its subsidiaries on an ongoing basis

"Existing Tenancies"	the existing tenancies under the Existing Lease Agreements
"Fit Generation"	Fit Generation Holding Limited, an investment holding company incorporated under the laws of BVI with limited liability, which is a wholly-owned subsidiary of Changhong (Hong Kong) Trading
"Framework Agreements"	the New Master Purchase Agreement and the New Master Supply Agreement
"GEM"	The Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	Rules Governing the Listing of Securities on the GEM
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin, constituted to, among other things, make recommendations to the Independent Shareholders in respect of the Acquisition Agreement and the transaction contemplated thereunder, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver, and the Non-exempt Continuing Connected Transactions
"Independent Financial Adviser" or "TC Capital"	TC Capital Asia Limited the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO

"Independent Shareholders"	Shareholders, other than the Sichuan Changhong Concert Party Group, who are not interested nor involved in the transaction contemplated in the Acquisition Agreement, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions, and are not required to abstain from voting at the SGM to be convened to approve, amongst others, such transactions
"Independent Third Party(ies)"	party(ies) who are independent of and not connected with the Directors, chief executive or substantial shareholder(s) of the Company or any of its subsidiaries or any of their respective associates as defined under the GEM Listing Rules
"Latest Practicable Date"	7 December 2012, being the latest practicable date of the purpose of ascertaining certain information in this circular
"Lending Provisions"	Lending General Provisions (貸款通則) which were promulgated by the People's Bank of China on 28 June 1996 and came into effect on 1 August 1996
"Long Stop Date"	the date falling on the expiry of six months from the date of the Acquisition Agreement or at such later date as may be notified by the Company to Fit Generation in writing
"Memorandum"	the memorandum of association of the Company
"New Bye-laws"	the new bye-laws proposed to be adopted at the SGM in place of the existing Bye-laws
"New Convertible Preference Shares"	1,877,868,000 new non-redeemable restricted voting convertible preference shares to be allotted and issued at an issue price of HK$1.00 per non-redeemable convertible preference share to settle part of the consideration (such part being HK$1,877,868,000) for the Acquisition
"New Listing Application"	the new listing application submitted by the Company to the Stock Exchange in view of the Acquisition constituting a reverse takeover for the Company under Rule 19.06(6)(b) of the GEM Listing Rules and the Company being treated as a new listing applicant
"New Ordinary Shares"	135,000,000 new Ordinary Shares to be allotted and issued at an issue price of HK$1.00 per Ordinary Share to settle part of the consideration (such part being HK$135,000,000) for the Acquisition

"New Master Purchase Agreement"	the new master purchase agreement dated 7 December 2012 entered into between the Company and Sichuan Changhong in relation to the purchase of certain consumer electronic products by the Enlarged Group from the Sichuan Changhong Group on an ongoing basis
"New Master Supply Agreement"	the new master supply agreement dated 7 December 2012 entered into between the Company and Sichuan Changhong in relation to the supply of certain consumer electronic products, IT products and electronic parts and components by the Enlarged Group to the Sichuan Changhong Group on an ongoing basis
"Non-exempt Continuing Connected Transactions"	the transactions contemplated under the Framework Agreements
"Ordinary Shares" or "Shares"	ordinary shares of HK$0.025 each in the issued share capital of the Company
"Other Pari Passu Shares"	shares ranking pari passu as regards dividends with the New Convertible Preference Shares
"PRC" or "China"	People's Republic of China, which for the purposes of this circular excludes Hong Kong, Macao Special Administrative Region of the People's Republic of China and Taiwan
"PRC GAAP"	PRC Generally Accepted Accounting Principles
"Reference Amounts"	the issue price of the New Convertible Preference Shares
"Reorganisation"	the reorganisation exercise of the Target Group described in the sub-section headed "The Reorganisation" in the section headed "History and Background of the Target Group" of this circular
"R&D"	research and development
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Acquisition, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver, the Non-exempt Continuing Connected Transactions, the proposed increase in the authorised share capital, the proposed change of name and the proposed adoption of the New Bye-laws
"Shareholders"	holders of Ordinary Shares
"Shenzhen Changhong"	Shenzhen Changhong Technology Limited (深圳長虹科技有限責任公司), a company established under the laws of the PRC and 100% of the equity interest of which is held by Sichuan Changhong Electric as at the Latest Practicable Date
"Sichuan Changhong"	Sichuan Changhong Electric Co., Ltd. (四川長虹電器股份有限公司), a company established under the laws of the PRC and listed on the Shanghai Stock Exchange and which beneficially holds approximately 33.34% of the existing issued ordinary share capital of the Company as at the Latest Practicable Date
"Sichuan Changhong Concert Party Group"	Sichuan Changhong and parties acting in concert with it (as defined under the Takeovers Code) (which exclude Sichuan Investment)
"Sichuan Changhong Group"	Sichuan Changhong and its subsidiaries
"Sichuan Changhong Electric"	Sichuan Changhong Electronics Group Co., Ltd. (四川長虹電子集團有限公司), a company established under the laws of the PRC and which holds approximately 23.19% of the equity interest of Sichuan Changhong as at the Latest Practicable Date
"Sichuan Changhong Electric Group"	Sichuan Changhong Electric and its subsidiaries (excluding the Sichuan Changhong Group)
"Sichuan Investment"	Sichuan Investment Management Company Limited (四川川投資產管理有限責任公司), a company established under the laws of the PRC and which holds approximately 24.85% of the existing issued ordinary share capital of the Company as at the Latest Practicable Date
"sq.m."	square metres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Substantial Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rule
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers
"Target Co BVI"	Sufficient Value Group Limited, a company incorporated under the laws of BVI with limited liability and the entire issued share capital of which is held by Fit Generation
"Target Group"	Target Co BVI and its subsidiaries including Changhong (Hong Kong) Enterprises and Changhong IT and its subsidiaries
"Track Record Period"	the three financial years ended 31 December 2011 and the seven months ended 31 July 2012
"US$"	US dollars, the lawful currency of the United States
"Whitewash Waiver"	a waiver in respect of the obligation of the Sichuan Changhong Concert Party Group to make a mandatory offer to the Independent Shareholders in respect of the issued Ordinary Shares of the Company not already owned or agreed to be acquired by the Sichuan Changhong Concert Party Group as a result of the issue of the New Ordinary Shares in accordance with Note 1 on dispensation from Rule 26 of the Takeovers Code
"%"	per cent.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

This glossary contains explanations of certain terms used in this circular in connection with the Target Group and its business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"3C malls"	computer, communication and consumer electronics mall
"3C enterprises"	an enterprise that is engaged in selling computer, communication and consumer electronics (3C) products
"big data"	data sets with large sizes beyond the ability of commonly-used software tools to capture, manage, and process the data within a tolerable elapsed time
"digital product(s)"	includes tablets, E-book readers and various media players (e.g. MP3, MP4, digital frame) (e-learning & e-dictionary devices, recorder pens and digital cameras are not included)
"E-book reader(s)"	single function devices that are specially designed for e-reading, which only uses specific screen (e.g. e-ink or e-paper) optimized for text reading
"GPS"	Global Positioning System, a global navigation satellite system which provides reliable positioning, navigation, and timing services to worldwide users
"hub(s)"	a central device that connects multiple computers on a single network
"IT"	information technology
"IT accessory(ies)"	includes individual storage products (e.g. portable hard drives, flash drives), input/output products (e.g. mice, keyboards, web-cameras, speakers, microphones), various interconnection products (e.g. cables, card readers), and non-enterprise networking products (including hubs, switches, routers, modems and network interface cards) (scanners, printers, projectors, monitors which are distributed separately from desktop personal computers, as IT components are excluded)
"IT consumer product(s)"	personal computers, digital products, and IT accessories
"IT corporate product(s)"	storage products, networking products, PC servers, minicomputers, UC&CC products and IBMS products

"IT Hardware Product(s)"	IT consumer products and IT corporate products (but excluding services such as operation and maintenance service, software upgrade, etc.)
"IT product(s)"	IT consumer products and IT corporate products
"Internet data centers"	large facilities built by enterprises which provide businesses with a range of solutions for systems deployment and operation
"intelligent building management system product(s)" or "IBMS"	hardware IT products applied to a control system installed in buildings that automatically controls and monitors the building's mechanical, electrical and other equipment
"Internet of Things" or "IOT"	a dynamic global network infrastructure with self configuring capabilities based on standard and inter-operable communication protocols where physical and virtual objects have intelligent interfaces and are integrated into the information network
"LCD screen(s)"	liquid-crystal display screen(s)
"LBS"	location-based service
"low-tier regions"	low-tier cities (cities other than 1st and 2nd tier cities) and rural regions in the PRC. In general, 1st and 2nd tier cities represent mega cities (Beijing, Shanghai, Guangzhou), other municipalities (Tianjin, Chongqing); capital cities (Hangzhou, Nanjing etc.); and cities located in Yangtze River delta and Zhujiang delta regions
"minicomputer(s)"	a class of multi-user computers that are in the middle range of the computing spectrum, between the largest multi-user systems (mainframe computers) and the smallest single-user systems (microcomputers or personal computers)
"modem(s)"	a device that converts signals produced by one type of device (e.g. a computer) to a form compatible with another (e.g. a telephone)
"networking product(s)"	basic hardware connecting numerous terminals, the server, and other relevant equipment in the enterprise computer network, including hubs, switches, routers, information security products (e.g. firewalls, virtual private networks), load balancers, media converters and network interface cards
"novel technology"	technologies such as the Internet of Things (IOT), big data, internet data centers, next-generation networks (NGN), smart power grids, etc.

"OEM"	original equipment manufacturing
"personal computer(s)"	any general purpose computer whose size, capabilities, and original sales price make it useful for individuals, and which is intended to be operated directly by an end-user with no intervening computer operator
"PC server(s)"	a computer hardware system dedicated to running one or more services that serve the needs of the users of computers connected to the network
"PDP screen(s)"	plasma display panel screen(s)
"router(s)"	a system that controls message distribution between multiple optional paths in a network, which uses routing protocols to gain information about the network, routing metrics and algorithms to select the "best route"
"storage product(s)"	IT equipment intended to function as storage media for enterprises only, including storage tapes and related devices
"SAN"	storage area network, a network infrastructure of shared multi-host storage, linking all storage devices as well as interconnecting remote sites
"tablet(s)"	a mobile computer which is primarily operated by touching the screen
"urbanization rate"	the ratio of urban population to the total population
"unified communication & contact center product(s)" or "UC&CC product(s)"	IT hardware products applied as a unified communication solution and a contact center solution, involving the integration of real-time communication services with non-real-time communication services to create a set of products that provides a consistent unified user interface and user experience across multiple devices and media types such as instant messaging, IP telephony, video conferencing, data sharing, call contract and speech recognition with unified messaging (e.g. voice mail, email, and fax). Contact centers are used by companies to manage all client contact through a variety of mediums such as telephone, fax, letter, email and online live chat and services provided in relation thereto can include support or help desk services, customer service and sales and marketing activities

Registered Office	:	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business in Hong Kong	:	Unit 3701, 37/F, West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Qualified Accountant and Company Secretary	:	Mr. LEE Wing Lun, *CPA*
Audit Committee	:	Mr. Jonathan CHAN Ming Sun *(chairman)* Mr. Robert IP Chun Chung Mr. SUN Dongfeng Mr. CHENG Yuk Kin
Remuneration Committee	:	Mr. Jonathan CHAN Ming Sun *(chairman)* Mr. YU Xiao Mr. Robert IP Chun Chung Mr. SUN Dongfeng
Nomination Committee	:	Mr. YU Xiao *(chairman)* Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dongfeng
Authorised representatives	:	Mr. TANG Yun Flat C, 18/F, Block 2 Hoi Sing Building 128 Second Street Hong Kong Mr. LEE Wing Lun, *CPA* Flat 5, 25/F, Block C Tung Yuk Court Shau Kei Wan Hong Kong
Auditors and reporting accountants	:	SHINEWING (HK) CPA Limited *Certified Public Accountants* 43/F, The Lee Gardens 33 Hysan Avenue, Causeway Bay Hong Kong
Compliance officer	:	Mr. TANG Yun

Compliance adviser	:	Platinum Securities Company Limited 21/F LHT Tower 31 Queen's Road Central Hong Kong
Bermuda resident representative	:	Mr. John Charles Ross COLLIS
Bermuda deputy resident representative	:	Mr. Anthony Devon WHALEY
Principal Bankers	:	The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong
Bermuda principal share registrar and transfer office	:	HSBC Securities Services (Bermuda) Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
Hong Kong branch registrar and transfer office	:	Hong Kong Registrars Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wan Chai Hong Kong
Company website	:	www.cdb-holdings.com.hk

The following are the Directors as at the Latest Practicable Date:

Name	Address	Nationality
Existing Executive Directors		
Mr. YU Xiao	Unit 221, Block 80 5 Yuejin Road Fuchen District Mianyang, Sichuan PRC	Chinese
Mr. TANG Yun	Flat C, 18/F, Block 2 Hoi Sing Building 128 Second Street Hong Kong	Chinese
Mr. WU Xiangtao	Flat J, 22/F, Block B Chong Yip Centre 15 Whitty Street Hong Kong	Chinese
Mr. XIANG Chaoyang	No. 18, Floor 9, Unit 1, Block 2 No.3 Kehua Road Wuhou District Chengdu, Sichuan PRC	Chinese
Mr. David JI Long Fen	22818 Canyon View Road Diamond Bar California 91765 United States of America	American
Ms. SHI Ping	Unit 5, 6th Floor, Block 4 No.23 Zhimin Road Wuhou District Chengdu, Sichuan PRC	Chinese
Mr. RONG Dong	Flat J, 22/F, Block B Chong Yip Centre 11-21 Whitty Street Hong Kong	Chinese

Name	Address	Nationality
Existing Independent Non-executive Directors		
Mr. Jonathan CHAN Ming Sun	15C, Fu Lai Yuen Chi Fu Fa Yuen Pok Fu Lam Hong Kong	Chinese
Mr. Robert IP Chun Chung	G-2/F, House 31 12 Tung Chung Waterfront Road Coastal Skyline, Le Bleu Tung Chung, Lantau Island Hong Kong	Chinese
Mr. SUN Dongfeng	No. 2, 26/F, Unit 1, Block 4 No.18 Chang'an Middle Road Yanta District Xi'an, Shaanxi PRC	Chinese
Mr. Cheng Yuk Kin	3-2325, 12 Hung Lok Road Harbourview Horizon Hung Hom Bay, Kowloon Hong Kong	Chinese

Financial adviser and Sponsor to the Company	China Merchants Securities (HK) Co., Limited 48/F One Exchange Square Central Hong Kong
Independent financial adviser to the Independent Board Committee and to the Independent Shareholders	TC Capital Asia Limited Suite 1904, 19/F Tower 6, The Gateway, Harbour City 9 Canton Road, Tsim Sha Tsui Kowloon, Hong Kong
Principal members of the Sichuan Changhong Concert Party Group	Sichuan Changhong Electric Co., Ltd. Sichuan Changhong 35, East Mianxing Road High-Tech Park, Mianyang Sichuan, PRC Changhong (Hong Kong) Trading Limited Unit 1412, 14/F West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong Fit Generation Holding Limited Palm Grove House P.O. Box 438 Road Town, Tortola British Virgin Islands
Legal advisers to the Company	*as to Hong Kong Law:* Sidley Austin 39/F, Two International Finance Centre 8 Finance Street Central Hong Kong *as to PRC Law:* Jun He Law Offices 32/F, Shanghai Kerry Centre No. 1515 Nanjing West Road Shanghai PRC (200040)

	as to Bermuda Law: Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
Legal advisers to the Sponsor	*as to Hong Kong Law:* Loong & Yeung Suites 2001-2005, 20th Floor Jardine House 1 Connaught Place Central, Hong Kong *as to PRC Law:* Shu Jin Law Firm 24/F, Aerospace Skyscraper 4019 Shennan Road Futian District, Shenzhen PRC 518048
Reporting accountant	SHINEWING (HK) CPA Limited 43/F., The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
Property valuer and consultant	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F, Three Pacific Place 1 Queen's Road East Hong Kong

China Data Broadcasting Holdings Limited
(中華數據廣播控股有限公司)*

(incorporated in Bermuda with limited liability)

(Stock Code: 8016)

Executive Directors
Mr. Yu Xiao *(Chairman)*
Mr. Tang Yun *(Managing Director)*
Mr. Wu Xiangtao
Mr. Xiang Chaoyang
Mr. David Ji Long Fen
Ms. Shi Ping
Mr. Rong Dong

Independent Non-executive Directors
Mr. Jonathan Chan Ming Sun
Mr. Robert Ip Chun Chung
Mr. Sun Dongfeng
Mr. Cheng Yuk Kin

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business
Unit 3701, 37/F
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Date: 12 December 2012

To the Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION
(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(3) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES
(4) APPLICATION FOR WHITEWASH WAIVER
(5) CONTINUING CONNECTED TRANSACTIONS
(6) PROPOSED CHANGE OF COMPANY NAME
(7) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
(8) PROPOSED ADOPTION OF NEW BYE-LAWS

* *For identification only*

INTRODUCTION

The Board announced on 23 April 2012 that the Company as purchaser, Fit Generation as vendor and Changhong (Hong Kong) Trading as guarantor had entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase from Fit Generation, and Fit Generation has conditionally agreed to sell to the Company, the entire issued share capital of Target Co BVI, at a total consideration of HK$2,012,868,000, to be settled in full by the allotment and issue of the New Ordinary Shares and the New Convertible Preference Shares. Changhong (Hong Kong) Trading, being the holding company of Fit Generation, has agreed to guarantee the obligations of Fit Generation under the Acquisition Agreement.

Through the acquisition of the entire issued share capital of Target Co BVI, the Company will indirectly (through its 100% shareholding of Target Co BVI which in turn holds 100% of Changhong (Hong Kong) Enterprises, the parent company of Changhong IT) acquire 90% of the equity interest of Changhong IT. The Target Group is one of the top five IT distributors in the PRC, which, according to the Euromonitor Report, ranked the fourth with a market share of 3.8% in 2011 in terms of its sales revenue attributed to IT Hardware Products, and is principally engaged in the distribution of IT consumer products and IT corporate products in the PRC. The Target Group distributes a variety of enterprise and consumer hardware and software in the PRC. IT consumer products distributed by the Target Group mainly include personal computers, digital products and IT accessories while IT corporate products distributed by the Target Group mainly include storage products, minicomputers, networking products, PC servers, IBMS products and UC&CC products. The Target Group also provides ancillary services to its customers in association with the distribution of IT corporate products including IT technical support services. Apart from IT consumer and corporate products, the Target Group is also engaged in the distribution of smartphones and development of its self-developed products including but not limited to LBS products and provision of IT technical support services.

The Company will seek the grant of a specific mandate from the Independent Shareholders to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares.

The New Ordinary Shares will be issued as fully paid and will rank pari passu in all respects with the Ordinary Shares in issue at Completion. The Conversion Shares will be issued upon conversion of the New Convertible Preference Shares as fully paid and will rank pari passu in all respects with the Ordinary Shares in issue as at the date of conversion. Further, the New Convertible Preference Shares will not be subject to any lock-up arrangement. The conversion rights of Fit Generation shall only be exercised to the extent that immediately following the conversion of the New Convertible Preference Shares, the Company is able to meet the public float requirement under the GEM Listing Rules.

The New Ordinary Shares will represent approximately 40.42% of the existing issued share capital of the Company and approximately 5.75% of the issued share capital of the Company as enlarged by the allotment and issue of the New Ordinary Shares and the Conversion Shares.

Upon conversion of all the New Convertible Preference Shares, an aggregate of 1,877,868,000 Conversion Shares will be issued, representing approximately 562.24% of the existing issued share

capital of the Company and approximately 80.02% of the issued share capital of the Company as enlarged by the allotment and issue of the New Ordinary Shares and the Conversion Shares.

The transaction contemplated in the Acquisition Agreement constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules, as Fit Generation is an indirect wholly-owned subsidiary of Sichuan Changhong (which is a controlling shareholder of the Company) and hence a connected person of the Company.

The transaction contemplated in the Acquisition Agreement also constitutes a very substantial acquisition by the Company under Chapter 19 of the GEM Listing Rules, as the calculation of the assets, profits, revenue and consideration ratios (as defined in the GEM Listing Rules) are all over 100%.

The transaction contemplated in the Acquisition Agreement is therefore subject to the approval of the Independent Shareholders (by way of poll) under the GEM Listing Rules. Sichuan Changhong and its associates will abstain from voting on the resolution for approving the Acquisition at the SGM.

In addition, the transaction contemplated in the Acquisition Agreement constitutes a reverse takeover for the Company under Rule 19.06(6)(b) of the GEM Listing Rules, on the basis that such transaction constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and at the same time involve an acquisition of assets from Fit Generation (an indirect wholly-owned subsidiary of Sichuan Changhong) within 24 months of Sichuan Changhong gaining control (as defined under the Takeovers Code) of the Company.

Accordingly, under Rule 19.54 of the GEM Listing Rules, the Company will be treated as if it were a new listing applicant. Such transaction is therefore also subject to the approval by the Listing Committee of the Stock Exchange of the New Listing Application to be made by the Company. China Merchants as the sole sponsor has on behalf of the Company, submitted the New Listing Application to the Stock Exchange on 30 May 2012.

The Directors considered that based on the PRC legal opinion issued by the PRC legal advisers to the Company, the Acquisition is not subject to the approval of China Securities Regulatory Commission.

As at the Latest Practicable Date, the Sichuan Changhong Concert Party Group owns approximately 33.34% of the existing issued share capital of the Company. Immediately following the allotment and issue of the New Ordinary Shares to Fit Generation, the shareholding of the Sichuan Changhong Concert Party Group will increase from 33.34% to approximately 52.53% of the enlarged issued ordinary share capital of the Company (after issuance of the New Ordinary Shares but before the conversion of any New Convertible Preference Shares). Immediately following the partial conversion of the New Convertible Preference Shares subject to a minimum public float of 25%, the shareholding interest of the Sichuan Changhong Concert Party Group will further increase to approximately 52.58% of the issued ordinary share capital of the Company. It is not the intention of the parties under the Acquisition Agreement that the New Convertible Preference Shares shall be fully converted whilst the Company shall issue new Shares for meeting the minimum public float requirement of 25% at the same time. In the assumed scenario that the New Convertible Preference Shares are fully converted

without being subject to the minimum public float requirement, the shareholding interest of the Sichuan Changhong Concert Party Group will further increase to 90.51% of the issued ordinary share capital of the Company. As the Company shall comply with the minimum public float requirement under the GEM Listing Rules, such scenario will not happen. The Company shall use its best endeavours to ensure that not more than 50% of the issued ordinary share capital in public hands are beneficially owned by the three largest public shareholders of the Company, in compliance with Rule 11.23(8) of the GEM Listing Rules.

Under Rule 26.1 of the Takeovers Code, the Sichuan Changhong Concert Party Group would be required to make an unconditional mandatory general offer for all the issued Ordinary Shares not already owned or agreed to be acquired by the Sichuan Changhong Concert Party Group, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive.

The Executive has indicated that it will grant the Whitewash Waiver, subject to, amongst others, the approval of the Independent Shareholders of the Acquisition and Whitewash Waiver by way of poll. The Sichuan Changhong Concert Party Group and associates (as defined under the Takeovers Code) of Sichuan Changhong and the Shareholders who are involved in, or interested in the Acquisition and/or the Whitewash Waiver will abstain from voting on the resolutions for approving the Acquisition and the Whitewash Waiver.

Upon completion of the Acquisition, members of the Target Group will become subsidiaries of the Company. The Target Group has historically been involved and will continue to be involved in transactions with the Sichuan Changhong Group following completion of the Acquisition.

As Sichuan Changhong is and will continue to be a connected person of the Company upon completion of the Acquisition, and the Target Group will become part of the Enlarged Group upon completion of the Acquisition, transactions between the Sichuan Changhong Group and the Enlarged Group will constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules. For details on the Non-exempt Continuing Connected Transactions and Existing Lease Agreements entered into between the Company (on behalf of the Enlarged Group) and Sichuan Changhong which set out the basis upon which members of the Enlarged Group will, after completion of the Acquisition, continue to engage in transactions with the Sichuan Changhong Group as part of the Enlarged Group's business, please refer to the section titled "Connected Transactions" in this circular.

As certain percentage ratios under Rule 19.07 of the GEM Listing Rules in respect of the caps for the Non-exempt Continuing Connected Transactions do not fall under the exemptions in Rules 20.33 and 20.34 of the GEM Listing Rules, such Non-exempt Continuing Connected Transactions are subject to the approval of the Independent Shareholders under the GEM Listing Rules.

The purpose of this circular is to provide the Shareholders with, among other things, (i) information on the Acquisition Agreement; (ii) a letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders in respect of the terms of the Acquisition, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Non-exempt Continuing Connected Transactions and the Whitewash Waiver; (iii) a letter from the Independent Financial

Adviser to the Independent Board Committee and the Independent Shareholders containing its advice to the Independent Board Committee and the Independent Shareholders; (iv) proposed adoption of the New Bye-laws; (v) notice of the SGM; and (vi) other information as required by the GEM Listing Rules and the Takeovers Code.

THE ACQUISITION AGREEMENT

(1) The Acquisition Agreement

Date

28 March 2012 (after trading hours)

Parties

1 The Company, as purchaser;

2 Fit Generation, as vendor; and

3 Changhong (Hong Kong) Trading, as guarantor.

Subject matter

The Acquisition Agreement sets out the terms and conditions upon which the Company has conditionally agreed to purchase from Fit Generation, and Fit Generation has conditionally agreed to sell to the Company, 100% of the issued share capital of Target Co BVI, at a total consideration of HK$2,012,868,000, to be settled in full as to HK$135,000,000 by the allotment and issue of 135,000,000 New Ordinary Shares at an issue price of HK$1.00 per New Ordinary Share and as to HK$1,877,868,000 by the allotment and issue of 1,877,868,000 New Convertible Preference Shares at an issue price of HK$1.00 per New Convertible Preference Share to Fit Generation. Changhong (Hong Kong) Trading, being the holding company of Fit Generation, has agreed to guarantee the obligations of Fit Generation under the Acquisition Agreement.

The consideration has been arrived at after arms' length negotiations between the parties having regard to, amongst others, the price-to-earnings ratio of approximately 10 times (which is similar to the average price-to-earnings ratio of companies listed in Hong Kong whose principal activities are similar to the present business of the Group and the Target Group) based on the audited consolidated net profit of Changhong IT and its subsidiaries after taxation and extraordinary items for the financial year ended 31 December 2011, the financial and operational track record of the Target Group, the prospects of the industry in which the Target Group operates in, the rationale for the Acquisition, and the benefits to the Group following Completion as mentioned in the paragraph headed "Reasons for and benefits of the Acquisition" below.

(2) Conditions

Completion of the Acquisition is conditional upon the satisfaction or waived (as the case may be) of the following conditions:

(i) each of the covenants, agreements and obligations of Fit Generation to be performed and complied with on or prior to the Completion Date in accordance with the Acquisition Agreement having been duly performed or complied with in all respects on or before Completion Date;

(ii) the warranties given by Fit Generation under the Acquisition Agreement being true and accurate and not misleading in all material respects on and as of the Completion Date, as though they had been given and made on such date by reference to the facts and circumstances then subsisting;

(iii) the approval by the Independent Shareholders at the SGM by way of a poll of (1) the Acquisition; (2) the proposal for grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares; (3) the Whitewash Waiver; and (4) the Non-exempt Continuing Connected Transactions and the proposed annual caps on the value of such transactions in accordance with the requirements of the GEM Listing Rules;

(iv) if applicable, the approval of the transaction contemplated in the Acquisition Agreement being obtained from the sole shareholder of Changhong (Hong Kong) Trading in accordance with the applicable laws and the requirements of the Shanghai Stock Exchange or other supervisory or regulatory body to which Sichuan Changhong is subject;

(v) in respect of the Target Group, all necessary licences, consents, approvals, authorisations, permissions, waivers, orders, exemptions or notifications (if any) which are required and appropriate for the execution and performance of the Acquisition Agreement and the transaction contemplated under the Acquisition Agreement having been obtained or made from or to relevant third parties and/or governmental or regulatory authorities or bodies, and not having been revoked prior to completion of the Acquisition;

(vi) the approval in principle of the Listing Committee of the Stock Exchange of the New Listing Application and the grant of the Whitewash Waiver by the Executive being obtained by the Company;

(vii) the Listing Committee of the Stock Exchange agreeing to grant (subject to allotment) the listing of, and permission to deal in, the New Ordinary Shares and the Conversion Shares (and such permission and listing not subsequently being revoked);

(viii) between the date of the Acquisition Agreement and Completion Date, no event or series of events shall have occurred which has had or would reasonably be expected to have a material adverse effect (as defined in the Acquisition Agreement on the Target Group); and

(ix) no person having instituted or threatened any action or investigation to restrain, prohibit or otherwise challenge the transaction contemplated by the Acquisition Agreement.

The above conditions are required to be fulfilled (or, waived as the case may be) on or before the Long Stop Date. The Company may waive conditions (i), (ii) (in respect of the warranties given by Fit Generation only), (v) and (viii) and Fit Generation may waive condition (ii) (in respect of warranties given by the Company only). If the above conditions have not been satisfied or waived on or before such date, save as expressly provided in the Acquisition Agreement, the Acquisition Agreement shall lapse, and neither the Company nor Fit Generation shall have any claim against the other, save for any claim arising from the breach by any party of its obligation to fulfill the relevant conditions precedent.

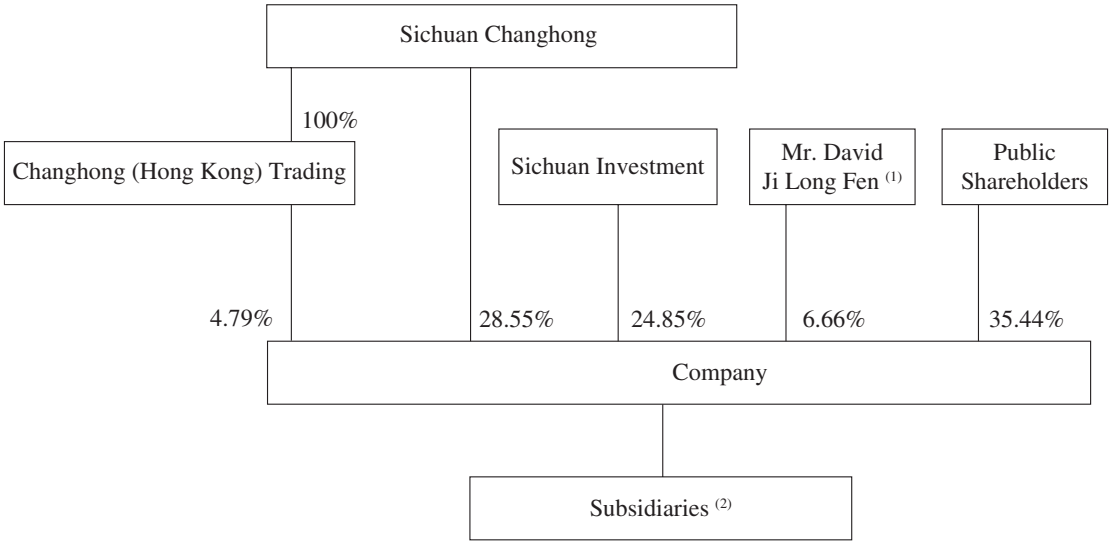
On 27 September 2012, the Company and Fit Generation signed a letter for the extension of the Long Stop Date, pursuant to which the parties mutually agreed to extend the Long Stop Date from 28 September 2012 to 31 December 2012, or at such later date as may be mutually agreed between the Company and Fit Generation in writing.

On 6 December 2012, the Company and Fit Generation signed another letter for the further extension of the Long Stop Date, pursuant to which the parties mutually agreed to further extend the Long Stop Date from 31 December 2012 to 28 February 2013, or at such later date as may be mutually agreed between the Company and Fit Generation in writing.

As at the Latest Practicable Date, none of the above conditions precedent have been satisfied, save that in relation to the condition (vi), the Listing Committee of the Stock Exchange has on 6 December 2012 given its approval in principle of the New Listing Application of the Company.

(3) Shareholding Structure

Chart 1: Shareholding structure of the Group before completion of the Acquisition



Notes:

(1) Mr. David Ji Long Fen is an executive Director.

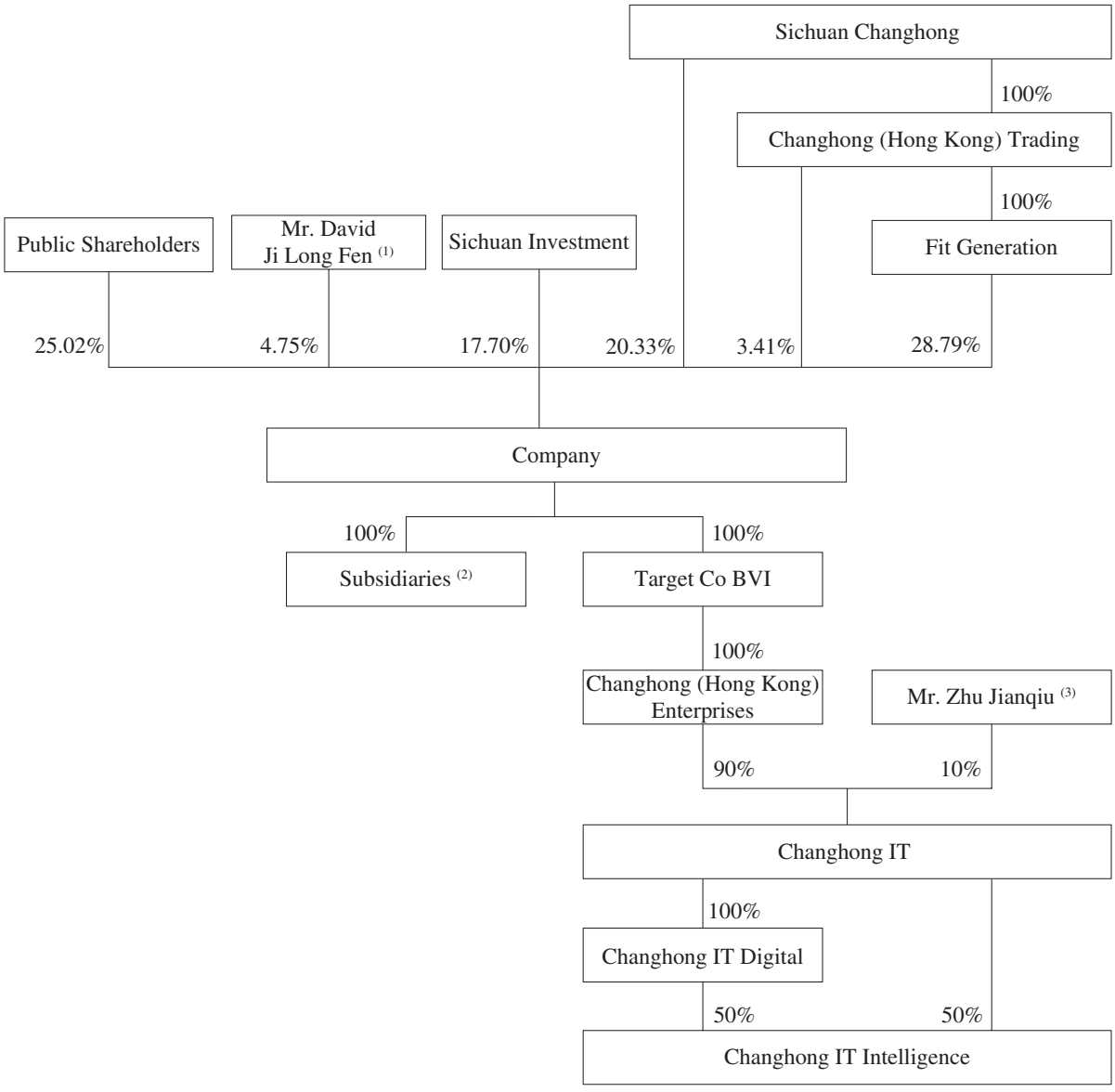
(2) As at the Latest Practicable Date, the subsidiaries of the Company comprise Apex Honour Resources Limited (investment holding), Apex Digital Inc. (inactive), Changhong Overseas Development Limited (trading of consumer electronic products and related parts and components), Apex Digital, LLC (inactive) and Apex Digital Inc. Limited (trading of consumer electronic products and related parts and components).

(4) Completion

Completion is expected to take place on the fifth day (a day other than a Saturday, a Sunday or a public holiday in Hong Kong, on which banks in Hong Kong are open for normal banking business) from and excluding the day on which the last of the conditions set out in sub-section (2) above have been satisfied or waived (as the case may be) or such time, date and place as may be mutually agreed by the Company and Fit Generation.

Following Completion, Target Co BVI will become a wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group. The shareholding structure of the Group and the Target Group immediately after Completion is illustrated below:

Chart 2: Assuming that the New Ordinary Shares have been issued but none of the New Convertible Preference Shares has been converted into the Conversion Shares



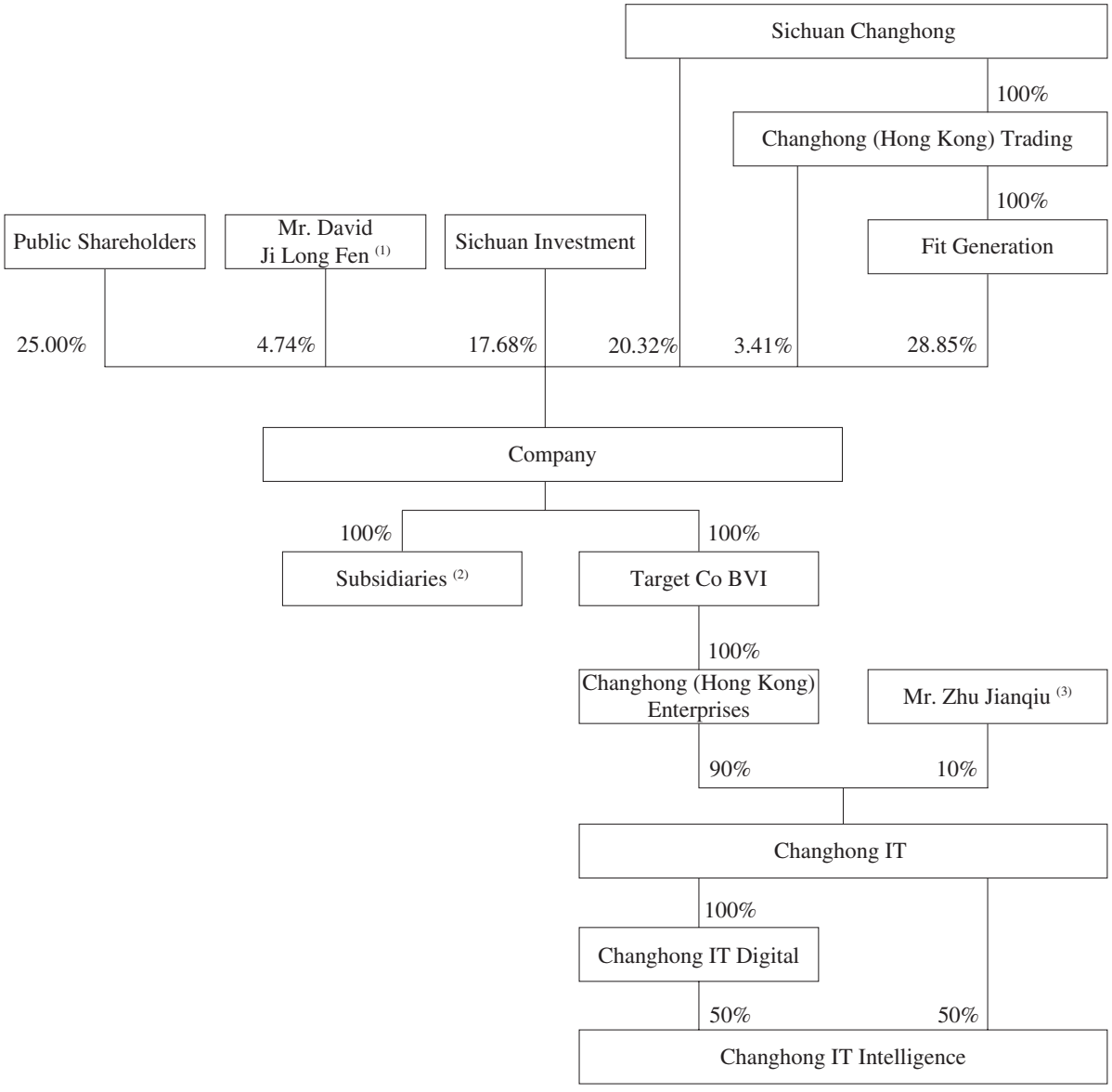
Notes:

(1) Please refer to note 1 under Chart 1 above.

(2) Please refer to note 2 under Chart 1 above.

(3) Mr. Zhu Jianqiu, the managing director of Changhang IT, holds 10% of the equity interest of Changhang IT. For further details, please refer to the section headed "History and Background of the Target Group" of this circular.

Chart 3: Assuming that the New Ordinary Shares have been issued and the New Convertible Preference Shares have been partially converted into the Conversion Shares with a minimum public float of 25%



Notes:

(1) Please refer to note 1 under Chart 1 above.

(2) Please refer to note 2 under Chart 1 above.

(3) Please refer to note 3 under Chart 2 above.

INFORMATION ON THE NEW ORDINARY SHARES AND THE NEW CONVERTIBLE PREFERENCE SHARES

(1) The New Ordinary Shares

The New Ordinary Shares will be issued as fully paid and will rank pari passu in all respects with the Ordinary Shares in issue at the date of completion of the Acquisition. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Ordinary Shares.

The price at which the New Ordinary Shares are to be issued to satisfy part of the total consideration under the Acquisition Agreement was determined after arm's length negotiations between the Company and Fit Generation with reference to, among other factors, the financial position of the Group, the historical trading volume of the Ordinary Shares on GEM, the historical trading prices of the Ordinary Shares on GEM and the consolidated net asset value of the Group per Ordinary Share as at 31 December 2011. The issue price of HK$1.00 per New Ordinary Share represents:

(i) a discount of approximately 42.53% to HK$1.74, the closing price of the Ordinary Shares on the Stock Exchange on 28 March 2012, being the last trading day immediately prior to the suspension of trading in the Ordinary Shares;

(ii) a discount of approximately 42.53% to HK$1.74, the average closing price of the Ordinary Shares on the Stock Exchange for the last 10 full trading days prior to the suspension of trading in the Ordinary Shares;

(iii) a discount of approximately 42.86% to approximately HK$1.75, the average closing price of the Ordinary Shares on the Stock Exchange for the last 30 full trading days prior to the suspension of trading in the Ordinary Shares;

(iv) a premium of approximately 614.29% over approximately HK$0.14, the audited consolidated net asset value of the Group per Ordinary Share as at 31 December 2011; and

(v) a discount of approximately 39.76% to HK$1.66, the closing price of the Ordinary Shares on the Stock Exchange on the Latest Practicable Date.

The total market value of the New Ordinary Shares is approximately HK$234,900,000 by reference to the closing price per Ordinary Share quoted on the Stock Exchange of HK$1.74 per Ordinary Share as at 28 March 2012, being the last trading day immediately prior to the suspension of trading in the Ordinary Shares.

(2) The New Convertible Preference Shares

The key terms of the New Convertible Preference Shares are as follows:

Par Value:	HK$0.025
Issue Price:	HK$1.00 per New Convertible Preference Share
Ranking:	Save as expressly provided in the Bye-laws, each New Convertible Preference Share shall have the same rights as each Ordinary Share. The Company may issue, without obtaining the consent of the holder(s) of the New Convertible Preference Shares, shares ranking senior and in priority to or pari passu with the New Convertible Preference Shares as regards order of the participation in profits or assets and carrying such rights as to rates of dividend, voting, redemption, conversion, exchange or otherwise as the Directors may determine, or as the Company may by ordinary resolution determine.
Dividend:	Each New Convertible Preference Share shall confer on the holder thereof the right to receive dividend pari passu with holders of shares of any other class in the capital of the Company which rank pari passu with the New Convertible Preference Shares in regard to the right to receive dividends but otherwise in priority to any other class of shares in the capital of the Company from time to time.
Redemption:	The New Convertible Preference Shares shall be non-redeemable.
Conversion:	The holder(s) of the New Convertible Preference Shares shall have the right to convert any New Convertible Preference Share into Conversion Shares at any time during the Conversion Period at the Conversion Price. Any holder of New Convertible Preference Shares who wishes to convert any of the New Convertible Preference Shares shall deliver to the Company a conversion notice before the Company issues any Conversion Shares.

If the issue of Conversion Shares following the exercise of the conversion rights relating to any of the New Convertible Preference Shares held by such holder would result in the Company not meeting the public float requirement under the GEM Listing Rules immediately after the conversion, then the number of Conversion Shares to be issued pursuant to such conversion shall be reduced to the maximum number of Conversion Shares issuable by the Company which would not in the reasonable opinion of the Company result in a breach of such public float requirement and the balance of the conversion rights attached to the New Convertible Preference Shares which the holder sought to convert shall be suspended until such time when the Company is able to issue additional Conversion Shares in satisfaction of the exercise of the said balance of conversion rights and at the same time comply with the public float requirement.

In the event that the foregoing shall affect the exercise of the conversion right of any holder, the Company shall use reasonable endeavours to procure that there will be a sufficient number of Ordinary Shares in public hands so that all New Convertible Preference Shares suspended from conversion may be converted to the fullest extent as soon as practicable without causing the Company to breach the public float requirement.

Each holder of the New Convertible Preference Shares exercising its conversion right thereunder shall comply with all applicable provisions of the Takeovers Code.

Conversion Period: The New Convertible Preference Shares shall be convertible any time after the date of issue of the New Convertible Preference Shares.

Conversion Price: The Conversion Price is the issue price of each New Convertible Preference Share, subject to adjustment upon the occurrence of certain prescribed events (including the consolidation, sub-division or reclassification of shares in the capital of the Company, and the capitalization of profits or reserves), but provided that the Conversion Price shall not be less than the then subsisting nominal value of the Conversion Shares into which the relevant New Convertible Preference Shares are converted. If any adjustment is required to be made to the Conversion Price, an announcement will be made by the Company.

	The holder of the New Convertible Preference Shares is not required to pay any additional consideration for the conversion of the New Convertible Preference Shares on top of the issue price of HK$1.00.
Transferability:	The New Convertible Preference Shares may be assigned or transferred by the holder thereof provided that the holder thereof shall give prior written notice to the Company and the Stock Exchange in accordance with applicable rules and regulations where the assignee or transferee is a connected person of the Company.
Voting rights:	The holder(s) of the New Convertible Preference Shares will not be entitled to attend or vote at any general meeting of the Company by reason only of his/her being the holder(s) of New Convertible Preference Shares, unless a resolution is to be proposed at a general meeting for winding-up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the New Convertible Preference Shares.

The Company will, subject to Shareholders' approval, adopt the New Bye-laws to, amongst others, incorporate the terms of the New Convertible Preference Shares. The New Bye-laws will be in compliance with the relevant laws of Bermuda, and the New Bye-laws will also comply with the requirements under Appendix 3 and Appendix 11 to the GEM Listing Rules.

The price at which the New Convertible Preference Shares are to be issued was determined after arm's length negotiations between the Company and Fit Generation with reference to, among other factors, the financial position of the Group, the historical trading volume of the Ordinary Shares on GEM, the historical trading prices of the Ordinary Shares on GEM and the consolidated net asset value of the Group per Ordinary Share as at 31 December 2011. The issue price of HK$1.00 per New Convertible Preference Share represents:

(i) a discount of approximately 42.53% to HK$1.74, the closing price of the Ordinary Shares on the Stock Exchange on 28 March 2012, being the last trading day immediately prior to the suspension of trading in the Ordinary Shares;

(ii) a discount of approximately 42.53% to approximately HK$1.74, the average closing price of the Ordinary Shares on the Stock Exchange for the last 10 full trading days prior to the suspension of trading in the Ordinary Shares;

(iii) a discount of approximately 42.86% to approximately HK$1.75, the average closing price of the Ordinary Shares on the Stock Exchange for the last 30 full trading days prior to the suspension of trading in the Ordinary Shares;

(iv) a premium of approximately 614.29% over approximately HK$0.14, the audited consolidated net asset value of the Group per Ordinary Share as at 31 December 2011; and

(v) a discount of approximately 39.76% to HK$1.66, the closing price of the Ordinary Shares on the Stock Exchange on the Latest Practicable Date.

The total market value of the New Convertible Preference Shares is HK$3,267,490,320 by reference to the closing price per Ordinary Share quoted on the Stock Exchange of HK$1.74 per Ordinary Share as at 28 March 2012, being the last trading day before the Announcement was published.

No application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of the New Convertible Preference Shares. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

(3) Effects of the issue of the New Ordinary Shares and the Conversion Shares on the shareholding structure of the Company

Details of the shareholding structure of the Company under different scenarios before and after completion of the Acquisition are set out below (assuming that the issued share capital of the Company will remain unchanged before Completion):

	As at the Latest Practicable Date		Immediately after the allotment and issue of the New Ordinary Shares but before conversion of any New Convertible Preference Shares		Immediately after the allotment and issue of the New Ordinary Shares and after the conversion of the New Convertible Preference Shares with a minimum public float of 25% *(Note 3)*		Immediately after full conversion of the New Convertible Preference Shares (This scenario will not happen because of the minimum public float requirement of 25% and this column is set out for illustration purpose only) *(Note 3)*		Immediately after full conversion of the New Convertible Preference Shares with a minimum public float of 25% (This scenario is for illustration purpose only and is not a term under the Acquisition Agreement) *(Note 3)*	
	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital
Sichuan Changhong *(Note 5)*	95,368,000	28.55%	95,368,000	20.33%	95,368,000	20.32%	95,368,000	4.06%	95,368,000	3.21%
Changhong (Hong Kong) Trading	16,000,000	4.79%	16,000,000	3.41%	16,000,000	3.41%	16,000,000	0.68%	16,000,000	0.54%
Fit Generation	–	–	135,000,000	28.79%	135,450,640	28.85%	2,012,868,000	85.77%	2,012,868,000	67.71%

	As at the Latest Practicable Date		Immediately after the allotment and issue of the New Ordinary Shares but before conversion of any New Convertible Preference Shares		Immediately after the allotment and issue of the New Ordinary Shares and after the conversion of the New Convertible Preference Shares with a minimum public float of 25% *(Note 3)*		Immediately after full conversion of the New Convertible Preference Shares (This scenario will not happen because of the minimum public float requirement of 25% and this column is set out for illustration purpose only) *(Note 3)*		Immediately after full conversion of the New Convertible Preference Shares with a minimum public float of 25% (This scenario is for illustration purpose only and is not a term under the Acquisition Agreement) *(Note 3)*	
	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital
Subtotal for Sichuan Changhong Concert Party Group (including Fit Generation) *(Note 4)*	111,368,000	33.34%	246,368,000	52.53%	246,818,640	52.58%	2,124,236,000	90.51%	2,124,236,000	71.46%
Sichuan Investment *(Note 6)*	83,009,340	24.85%	83,009,340	17.70%	83,009,340	17.68%	83,009,340	3.54%	83,009,340	2.79%
Mr. David Ji Long Fen *(Notes 1 and 2)*	22,260,000	6.66%	22,260,000	4.75%	22,260,000	4.74%	22,260,000	0.95%	22,260,000	0.75%
Public	117,362,660	35.15%	117,362,660	25.02%	117,362,660	25.00%	117,362,660	5.00%	743,168,447	25.00%
Total	334,000,000	100%	469,000,000	100%	469,450,640	100%	2,346,868,000	100%	2,972,673,787	100%

Notes:

1. Mr. David Ji Long Fen is an executive Director.

2. Ms. Liu Ru Ying is the spouse of Mr. David Ji Long Fen and is therefore deemed interested in all the 22,260,000 Ordinary Shares in which Mr. David Ji Long Fen is interested under Section 316 of the SFO.

3. The holder(s) of the New Convertible Preference Shares shall have the right to convert any New Convertible Preference Shares into Conversion Shares at any time during the Conversion Period at the Conversion Price. If the Company shall issue Conversion Shares fully converted from the New Convertible Preference Shares and at the same time having a 25% of public float to meet the minimum public float requirement under the GEM Listing Rules, the shareholding interest of the Sichuan Changhong Concert Party Group will be 71.46%. For illustration purpose only, if the Company shall issue Conversion Shares fully converted from the New Convertible Preferences Shares and at the same time meeting the minimum public float requirement of 25% under the GEM Listing Rules, the Company shall issue a minimum number of 625,805,787 New Shares to the public and the pro forma earnings per Share will be HK$0.06 and the pro forma net asset per Share will be HK$0.25.

4. In view of the concert party presumption between Sichuan Changhong and Sichuan Investment, an application was made to the SFC and on 17 April 2012, the SFC confirmed that the ruling issued on 18 March 2011 regarding the successful rebuttal of the presumption under the Takeovers Code that Sichuan Investment is a party acting in concert with Sichuan Changhong remain unchanged.

5. Sichuan Changhong, the issued A-shares of which are listed on the Shanghai Stock Exchange (stock code: 600839.SH), was held as to approximately 23.19% by Sichuan Changhong Electric. The entire interest in Sichuan Changhong Electric in turn is held by 綿陽市國有資產監督管理委員會 (Mianyang Municipality State-owned Assets Supervision and Administration Commission) which is also the administrative authority for Sichuan Changhong Electric. The members of the Mianyang Municipality State-owned Assets Supervision and Administration Commission are appointed by the Mianyang Municipality People's Government.

   Sichuan Changhong has confirmed that there has not been any business dealings, financial or otherwise, between itself and Sichuan Investment.

   Each of the Company and Sichuan Changhong has also confirmed that Sichuan Investment was not involved nor consulted in the negotiations in relation to or in connection with the Acquisition save that Sichuan Investment is aware of the Acquisition through Ms. Shi Ping, its nominee on the Board. Ms. Shi Ping is an executive Director.

   Save as disclosed in this Note 5, there is no relationship between Sichuan Changhong, Sichuan Investment and their respective ultimate beneficial owners.

6. Sichuan Investment is an asset management company and is principally engaged in investment in technology-related business. As at the Latest Practicable Date, Sichuan Investment is wholly owned by 四川省投資集團有限公司 (Sichuan Provincial Investment Group Co., Ltd) ("SPIG"). The entire interest in SPIG is owned by 四川省國有資產監督管理委員會 (Sichuan Province State-owned Assets Supervision and Administration Commission) which is also the administrative authority for SPIG. The members of the Sichuan Province State-owned Assets Supervision and Administration Commission are appointed by the Sichuan Province People's Government.

   Sichuan Investment has also confirmed that there has not been any business dealings, financial or otherwise, between itself and Sichuan Changhong.

   Save as disclosed in this Note 6, there is no relationship between Sichuan Changhong, Sichuan Investment and their respective ultimate beneficial owners.

INFORMATION ON THE TARGET GROUP

Fit Generation is an investment holding company incorporated with limited liability in the BVI on 28 March 2011. As at the Latest Practicable Date, Fit Generation has an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1.00 each and an issued share capital of US$2.00 comprising two ordinary shares of US$1.00 each.

Target Co BVI is an investment holding company incorporated with limited liability in the BVI on 28 March 2011. As at the Latest Practicable Date, Target Co BVI has an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1.00 each and an issued share capital of US$2.00 comprising two ordinary shares of US$1.00 each.

As at the Latest Practicable Date, Target Co BVI owns the entire issued share capital of Changhong (Hong Kong) Enterprises which is an investment holding company incorporated in Hong Kong on 1 June 2011. As at the Latest Practicable Date, Changhong (Hong Kong) Enterprises has an authorised share capital of HK$20,000 divided into 20,000 ordinary shares of HK$1.00 each and an issued share capital of HK$10,001 comprising 10,001 ordinary shares of HK$1.00 each.

As at the Latest Practicable Date, Changhong (Hong Kong) Enterprises holds 90% of the equity interest of Changhong IT with the remaining 10% held by Mr. Zhu Jianqiu, the managing director of Changhong IT.

Save as disclosed in the section "Information in the Target Group" above, none of Target Co BVI and Changhong (Hong Kong) Enterprises have any other material assets or business.

The 10% equity interest of Changhong IT held by Mr. Zhu Jianqiu is subject to an employee dividend incentive plan that was approved by 綿陽市國有資產監督管理委員會 (Mianyang Municipality State-Owned Assets Supervision and Administration Commission) and was implemented by Changhong IT in 2004 (the "**Incentive Plan**") pursuant to which the rights to subscribe 10% of the registered capital of Changhong IT amounting RMB20,000,000 at their par value (the "**Registered Capital**") were granted on 13 October 2004 (date of establishment of Changhong IT) to Mr. Zhu Jianqiu, the chief executive officer of Changhong IT, to subscribe for the Registered Capital for the eligible management team and certain members of the management team and employees of Changhong IT approved by the board of Changhong IT and entitled to receive dividends and distributions, declared, paid or made, if any, on such 10% of the equity interest of Changhong IT (the "**Management and Employees' Interest**"). The Target Group implemented the Incentive Plan with an aim to combine the long term interest of the relevant members of the management team and employees with the long term development of the Target Group, to maintain the stability of the Target Group's management team, and to promote the sustainable, healthy and steady development of the Target Group.

The dividend declaration procedures with respect to the Incentive Plan are as follows: the internal approval authority of the Target Group (the board of directors) adopted the resolutions to approve the dividend declaration plan of the Target Group, then dividends were paid to the relevant members of the management team and employees who have participated the Incentive Plan by the Target Group.

As at 31 December 2011, there were 298 beneficiaries (including Mr. Zhu Jianqiu) under the Incentive Plan, who were entitled to receive dividends declared, paid or made, if any, on 9.8055%. of the equity interest of Changhong IT. Mr. Zhu Jianqiu has reserved the right to use the dividends declared, paid or made on the remaining 0.1945% equity interest for future use under the Incentive Plan.

Under the terms of the Incentive Plan, Mr. Zhu Jianqiu has undertaken that: in the event of (a) the initial public offering or listing of Changhong IT on any stock exchange in the PRC or overseas, and (b) the Management and Employees' Interest is permitted to be transferred without limitations by the applicable laws and regulations, he shall transfer such equity interest of Changhong IT to the relevant members of the management team and employees of Changhong IT, in accordance with the then applicable PRC laws and regulations.

As advised by the PRC legal advisers to the Company, the Incentive Plan does not violate any compulsory PRC laws and regulations, and will not have any effect on Changhong (Hong Kong) Enterprises' ownership of the 90% equity interest of the Target Group.

Mr. Zhu Jianqiu is a director of Sichuan Changhong Electric, which has an approximate 23.19% equity interest in Sichuan Changhong as at the Latest Practicable Date. Other than Mr. Zhu Jianqiu, the beneficiaries under the Incentive Plan do not have any prior business or other relationship with the Company and its connected persons.

Changhong IT (formerly known as Sichuan Changhong Zarva Information Technology Products Co., Ltd. (四川長虹朝華信息產品有限責任公司) is a company established under the laws of the PRC on 13 October 2004 with limited liability and its paid-up registered capital as at the Latest Practicable Date is RMB200,000,000.

Changhong IT holds two subsidiaries, namely Changhong IT Digital and Changhong IT Intelligence. Changhong IT Digital is a company established under the laws of the PRC with limited liability on 12 August 2008 and its paid-up registered capital as at the Latest Practicable Date is RMB50,000,000. Changhong IT Intelligence is a company established under the laws of the PRC with limited liability on 3 November 2010 and its paid-up registered capital as at the Latest Practicable Date is RMB50,000,000 which was contributed by Changhong IT and Changhong IT Digital in equal proportion.

Further information on the Target Group and its business is set out in the sections headed "History and Background of the Target Group" and "Business of the Target Group" of this circular. Please refer to the section headed "Financial Information of the Target Group" of this circular for financial information of the Target Group. Please also refer to the section headed "Relationship with the Controlling Shareholders" of this circular for information relating to the relationship between the Sichuan Changhong Group and the Target Group.

FINANCIAL INFORMATION OF THE TARGET GROUP

Please refer to the section headed "Financial Information of the Target Group" and Appendix I to this circular for financial information on the Target Group.

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information of the Enlarged Group is illustrated in Appendix III to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Group is a key player in the IT products distribution business in the PRC, principally engaged in the distribution of IT consumer products and IT corporate products. The Target Group is an authorised distributor of IT consumer and corporate products for certain renowned brands suppliers in the PRC. These authorized distributorship enables the Target Group to have a stable supply of IT products for its distribution to sub-distribution and end-user customers.

The Group is expected to benefit from the Acquisition in the following principal aspects:

(i) increase the scale of operations and strengthen its business and financial strength, thereby better positioning the Group for future business development and operations;

(ii) expand the business segments and products distributed by the Group to reach more diversified markets, in order to reduce its business fluctuations; and

(iii) increase the Group's competitiveness in the IT industry.

For the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms under the Acquisition Agreement are on normal commercial terms which has been arrived at arm's length negotiations between the parties, having taken account (i) a net assets value of Changhong IT of HK$590,970,000 as at 31 December 2011; (ii) the growth in the IT industry in recent years; (iii) the prospects of the distributorship business of Changhong IT, prevailing market conditions and economic environment are fair and reasonable and in the interests of the Shareholders as a whole.

Immediately after Completion, (i) Sichuan Changhong will remain the controlling shareholder of the Company; (ii) members of the Target Group will continue to be subsidiaries of Sichuan Changhong through Sichuan Changhong's holding in the Company; and (iii) the assets, liabilities and results of the Company and the Target Group will continue to be consolidated into the financial statements of Sichuan Changhong. As such, the Acquisition will be treated by Sichuan Changhong as an intra group transaction between Sichuan Changhong and the Company, and Sichuan Changhong is expected to record no gain or loss from the Acquisition, without taking into account the estimated expenses and taxation in relation to the Acquisition.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Enlarged Group intends to develop business segments such as to provide IT services in the PRC and expand IT product offerings and procurement networks, to widen the sales networks and coverage and to explore expansion opportunities in Southeast Asia.

The Enlarged Group also plans to enhance the results of operations of the Target Group's business through continued technological improvements and to increase revenue from sales of its existing products through securing new customers and increasing sales to existing customers.

The Directors believe that upon Completion, the Enlarged Group will continue to enhance its core competitiveness, and to realise operational efficiency and the optimisation of the value of the Enlarged Group and returns to Shareholders.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE COMPANY

The financial impact of the Acquisition (including its effect on the earnings, assets and liabilities) is illustrated by way of unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular.

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2011, the profit attributable to equity shareholders of the Company amounted to approximately HK$10,471,000. Assuming that the Company had acquired the Target Group on 1 January 2011, the Enlarged Group would have unaudited pro forma profit attributable to equity shareholders for the year ended 31 December 2011 amounting to approximately HK$179,553,000, representing an increase of approximately 1,615% from the amount set out in the audited consolidated financial statements of the Group for the year ended 31 December 2011.

INTENTIONS OF SICHUAN CHANGHONG REGARDING THE ENLARGED GROUP

Upon completion of the Acquisition, Sichuan Changhong will remain a controlling shareholder of the Company. Sichuan Changhong intends to continue the principal businesses of the Enlarged Group after completion of the Acquisition and to maintain the listing status of the Company on GEM.

Upon completion of the Acquisition, Sichuan Changhong will conduct a review on the business operations and financial position of the Enlarged Group for the purpose of formulating business plans and strategies for the future business development of the Enlarged Group. Subject to the results of the review and should suitable investment or business opportunities arise, Sichuan Changhong may consider diversifying the business of the Enlarged Group with the objectives of broadening its income source. As at the Latest Practicable Date, Sichuan Changhong does not have any plan or target for the diversification of the business of the Enlarged Group nor has it or any of its subsidiaries entered into any agreement or fixed any terms with the Enlarged Group in relation to any possible diversification of the Enlarged Group's businesses.

Neither Fit Generation (the vendor) nor Sichuan Changhong has any intention to appoint any new Directors to the Company or change the board composition upon Completion. As at the Latest Practicable Date, Sichuan Changhong has no intention to re-deploy the employees or the fixed assets of the Enlarged Group and the Company has no intention of nor has it entered into any agreement, undertaking or arrangement to dispose of or discontinue its existing business. None of the members of the Sichuan Changhong Concert Party Group intend to discontinue the employment of any of the existing employees of the Enlarged Group, following Completion. Sichuan Changhong and the Company will comply with the relevant requirements under the GEM Listing Rules and the Takeovers Code in the event any possible diversification of the Enlarged Group's business operations materializes after Completion.

LISTING RULES IMPLICATIONS

(1) Connected transaction and very substantial acquisition

The transaction contemplated in the Acquisition Agreement constitute a connected transaction for the Company under Chapter 20 of the GEM Listing Rules, on the basis that Fit Generation is an indirect wholly-owned subsidiary of Sichuan Changhong (which is a controlling shareholder of the Company) and hence a connected person of the Company.

The transaction contemplated in the Acquisition Agreement also constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules, on the basis that the calculations of the assets, profits, revenue and consideration ratios (as defined under the GEM Listing Rules) are all over 100%.

The transaction contemplated in the Acquisition Agreement is therefore subject to the approval of the Independent Shareholders (by way of poll) under the GEM Listing Rules. Sichuan Changhong and its associates will abstain from voting on the resolution for approving the Acquisition.

(2) Reverse takeover and New Listing Application

In addition, the transaction contemplated in the Acquisition Agreement constitutes a reverse takeover for the Company under Rule 19.06(6)(b) of the GEM Listing Rules, as such transaction constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and at the same time involve an acquisition of assets from Fit Generation (an indirect wholly-owned subsidiary of Sichuan Changhong) within 24 months of Sichuan Changhong gaining control (as defined under the Takeovers Code) of the Company.

The entire issued share capital of Target Co BVI is held by Fit Generation whose entire issued share capital is held by Changhong (Hong Kong) Trading. The entire issued share capital of Changhong (Hong Kong) Trading is in turn held by Sichuan Changhong. On 12 May 2011, Sichuan Changhong (through its wholly-owned subsidiary Changhong (Hong Kong) Trading) increased its shareholding in the Company from 29.99% to 33.34% following Changhong (Hong Kong) Trading's subscription of 16,000,000 Ordinary Shares in the Company and would for purposes of the Takeovers Code be taken to have gained control of the Company following such subscription.

Accordingly, under Rule 19.54 of the GEM Listing Rules, the Company will be treated as if it were a new listing applicant. The Acquisition is therefore also subject to the approval by the Listing Committee of the Stock Exchange in view of the New Listing Application being made by the Company. The New Listing Application is required to comply with all the requirements under the GEM Listing Rules, in particular, the requirements under Chapters 11 and 12 of the GEM Listing Rules.

China Merchants has been appointed as the sole sponsor in respect of the New Listing Application of the Company.

The New Listing Application was submitted to the Stock Exchange on 30 May 2012 and on 6 December 2012, the Listing Committee of the Stock Exchange has given its approval in principle of the New Listing Application of the Company.

As at the Latest Practicable Date, the Company does not have intention to transfer its listing from GEM to the Main Board of the Stock Exchange.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, the Sichuan Changhong Concert Party Group owns approximately 33.34% of the existing issued share capital of the Company.

Immediately following the allotment and issue of New Ordinary Shares to Fit Generation (an indirect wholly-owned subsidiary of Sichuan Changhong), the shareholding of the Sichuan Changhong Concert Party Group will increase from 33.34% to approximately 52.53% of the enlarged issued share capital of the Company (after issuance of the New Ordinary Shares but before conversion of the New Convertible Preference Shares) and further to 90.51% of the enlarged issued share capital of the Company (upon full conversion of the New Convertible Preference Shares and issuance of the Conversion Shares without issuing new Shares to meet the minimum public float requirement at the same time).

Under Rule 26.1 of the Takeovers Code, the Sichuan Changhong Concert Party Group would be required to make an unconditional mandatory general offer for all the issued Ordinary Shares not already owned or agreed to be acquired by the Sichuan Changhong Concert Party Group, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code has been obtained from the Executive.

An application was made to the Executive on 30 May 2012 to seek the grant of the Whitewash Waiver, and the Executive has indicated that it will grant the Whitewash Waiver subject to, amongst others, the approval of the Independent Shareholders of the Acquisition and Whitewash Waiver by way of poll. The Sichuan Changhong Concert Party Group and associates (as defined under the Takeovers Code) of Sichuan Changhong and the Shareholders who are interested in or involved in the Acquisition and/or the Whitewash Waiver will abstain from voting on the resolutions for approving the Acquisition and the Whitewash Waiver.

Since the Sichuan Changhong Concert Party Group will hold more than 50% of the issued share capital of the Company immediately after completion of the Acquisition, it would be able to acquire further Ordinary Shares without triggering an obligation to make a mandatory general offer under the Takeovers Code if the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the SGM.

Sichuan Changhong has confirmed that as at the Latest Practicable Date:

(a) neither itself nor persons acting in concert with it has dealt for value in any Ordinary Shares, options, warrants or convertible securities of the Company or any derivatives in respect of such securities in the six months prior to the date of the Announcement, and up to and including the Latest Practicable Date;

(b) neither itself nor persons acting in concert with it has entered into any outstanding derivative in respect of securities in the Company;

(c) neither itself nor persons acting in concert with it has entered into any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the Ordinary Shares or shares of any of the members of the Sichuan Changhong Concert Party Group which might be material to the Acquisition or the Whitewash Waiver;

(d) neither itself nor persons acting in concert with it has entered into any agreements or arrangements which relate to the circumstances in which it or persons acting in concert with it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition or the Whitewash Waiver (other than conditions precedent to completion contained in the Acquisition Agreement);

(e) neither itself nor persons acting in concert with it has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(f) save for its 33.34% interest in the issued share capital of the Company as at the Latest Practicable Date (held as to 28.55% directly and as to 4.79% indirectly, through Changhong (Hong Kong) Trading), neither itself nor persons acting in concert with it owns, controls or directs the voting rights and rights over any Ordinary Shares nor holds any convertible securities, warrants or options in the Company;

(g) neither itself nor persons acting in concert with it has received any irrevocable commitment from any Independent Shareholders that they will vote in favour of the resolutions approving the Acquisition and the Whitewash Waiver at the SGM;

(h) no benefit had been given or will be given to any Directors as compensation for loss of office or otherwise in connection with the Acquisition and/or the Whitewash Waiver;

(i) other than the Acquisition, there was no agreement, arrangement or understanding (including any compensation arrangement) between itself or any party acting in concert with it and any of the Directors, recent directors of the Company, shareholders or recent shareholders of the Company having any connection with or dependence upon the outcome of the Acquisition and/or the Whitewash Waiver; and

(j) there was no material contract entered into by Sichuan Changhong or any party acting in concert with it in which any Director had a material personal interest.

PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES

Under the Acquisition Agreement, the Company will issue the New Ordinary Shares and the New Convertible Preference Shares to Fit Generation as full settlement of the total consideration of the purchase of the entire issued share capital of Target Co BVI.

The Company will seek the grant of a specific mandate from the Independent Shareholders to allot and issue new Ordinary Shares to satisfy the allotment and issue of the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares.

CONTINUING CONNECTED TRANSACTIONS

It was announced on 7 December 2012 that the Company has entered into the Framework Agreements in relation to certain non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules with the Sichuan Changhong Group, which are subject to the approval of the Independent Shareholders. Sichuan Changhong and its associates will abstain from voting on the resolution for approving such non-exempt continuing connected transactions. Please refer to the section headed "Connected Transactions" of this circular for further information relating to such non-exempt continuing connected transactions.

PROPOSED CHANGE OF COMPANY NAME

The Directors propose that conditional upon completion of the Acquisition, the English name of the Company be changed to "Changhong Jiahua Holding Limited" and the Chinese name of the Company (adopted for identification only) be changed to "長虹佳華控股有限公司". Upon the change of name becoming effective, the Company will cease to use its Chinese name "中華數據廣播控股有限公司" (for identification purposes only). The Company will issue a further announcement in relation to the change of the stock short name. The proposed change of the Company's name is subject to, among others, passing of the special resolution by the Shareholders at the SGM and the issue of the relevant certificate of change of name with regard to the above by the Registrar of Companies in Bermuda to the Company approving such change.

The change of the Company's name will not affect any rights of the holders of securities of the Company. All the existing certificates of securities in issue bearing the present name of the Company shall, after the proposed change of the Company's name becoming effective, continue to be evidence of title to such securities and the existing share certificates will continue to be valid for trading, settlement, registration and delivery purposes. Accordingly, there will not be any arrangement for free exchange of existing Ordinary Share certificates for new Ordinary Share certificates under the Company's new name. Once the change of the Company's name becomes effective, new share certificates will be issued only in the new name of the Company.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The authorised share capital of the Company is HK$30,000,000, consisting of 1,200,000,000 Ordinary Shares of HK$0.025 each, of which 334,000,000 Ordinary Shares are in issue, as at Latest Practicable Date. The Board proposes to increase the authorised share capital of the Company to HK$200,000,000, comprising 5,000,000,000 Ordinary Shares of HK$0.025 each and 3,000,000,000 New Convertible Preference Shares of HK$0.025 each.

BOARD LOT OF THE SHARES

Upon Completion, the Shares will be traded in board lots of 2,000 Shares each.

PROPOSED ADOPTION OF NEW BYE-LAWS

The Bye-laws have not been amended since 2004. In order to incorporate the terms of the New Convertible Preference Shares, bring the existing Bye-laws in line with the latest amendments to the GEM Listing Rules which became effective on 1 January 2012 and 1 April 2012 as well as certain changes to the Companies Act 1981 of Bermuda, as well as to modernise and update the existing Bye-laws, certain amendments are proposed to be made. Accordingly, the Board would like to take this opportunity to propose that the New Bye-laws be adopted to replace the existing Bye-laws. The New Bye-laws would include provisions to address, inter alia, the following matters:

(i) to incorporate the terms of the New Convertible Preference Shares, which are summarised in the paragraph headed "The New Convertible Preference Shares" in the sub-section headed "Information on the New Ordinary Shares and the New Convertible Preference Shares" in this letter;

(ii) to specify that an annual general meeting shall be called by written notice of not less than 21 clear days and not less than 20 clear business days and any special general meeting called for the passing of a special resolution shall be called by written notice of not less than 21 clear days and not less than 10 clear business days. All other special general meetings called for the passing of an ordinary resolution shall be called by written notice of not less than 14 clear days and not less than 10 clear business days;

(iii) to specify that all resolutions at general meetings of the Company shall be decided by poll, save that the chairman of the meeting may, in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands;

(iv) to align with the latest changes to the GEM Listing Rules on the Directors' requirement of not voting on any resolution of the Board approving any contract or arrangement in which the Director or any of his associates is materially interested;

(v) to align with the requirements of the GEM Listing Rules that matter in which a substantial shareholder or a Director has a conflict of interest which is considered to be material by the Board should be dealt with by a physical Board meeting rather than a written resolution; and

(vi) to amend the solvency test which the Company has to satisfy before it may make a distribution out of contributed surplus.

A summary of the principal provisions of the New Bye-laws is set out in Appendix IV to this circular.

The proposed adoption of the New Bye-laws will be subject to the approval by the Shareholders by way of a special resolution at the SGM.

Shareholders are advised that the New Bye-laws are written in English only and there is no official Chinese translation. The Chinese translation of the New Bye-laws is for reference purpose only. In case of any inconsistency, the English version shall prevail.

EQUITY RAISING ACTIVITIES OF THE COMPANY FOR THE PAST 12 MONTHS

The Company did not conduct any equity fund raising activities in the past 12 months immediately before the Latest Practicable Date.

SPECIAL GENERAL MEETING

Your attention is hereby drawn to pages SGM-1 to SGM-4 of this circular where you will find a notice of the SGM to be held at 9:30 a.m. on Tuesday, 8 January 2013 at Gloucester Room, 2/F, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong. At the SGM, resolutions will be proposed to approve, among other things: (i) the Acquisition; (ii) the proposed grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares; (iii) the Whitewash Waiver; (iv) the Non-exempt Continuing Connected Transactions (including the related proposed annual caps); (v) the proposed increase in the authorised share capital of the Company; (vi) the proposed change of name of the Company; and (vii) the proposed adoption of the New Bye-laws.

As at the Latest Practicable Date, the Sichuan Changhong Concert Party Group owns approximately 33.34% of the existing issued share capital of the Company.

As such, Sichuan Changhong is a controlling shareholder of the Company under the GEM Listing Rules and a party interested or taken to be interested in the Acquisition, the Non-exempt Continuing Connected Transactions (including the related proposed annual caps), and the Whitewash Waiver.

Sichuan Changhong Concert Party Group (which together beneficially owned approximately 33.34% of the existing issued share capital of the Company as at the Latest Practicable Date) and those who are interested in or involved in the Acquisition Agreement will abstain from voting on resolutions for the Acquisition, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps) to be proposed at the SGM for the approval of the Independent Shareholders.

No voting trust or other agreement or arrangement or understanding has been entered into by or was binding upon Sichuan Changhong and its associates as well as the Sichuan Changhong Concert Party Group and its associates (as defined under the Takeovers Code) of Sichuan Changhong as at the Latest Practicable Date, whereby Sichuan Changhong and its associates as well as the Sichuan Changhong Concert Party Group and its associates (as defined under the Takeovers Code) might temporarily or permanently pass control over the exercise of the voting rights in respect of their Ordinary Shares to a third party, either generally or on a case-by-case basis.

The form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed on it and return it to the branch share registrar of the Company in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by way of poll. Accordingly, the resolutions to be considered and, if thought fit, to be passed at the SGM will be conducted by way of poll.

GENERAL

China Merchants has been appointed as the sole sponsor in respect of the New Listing Application of the Company.

The Independent Board Committee (comprising all independent non-executive Directors, namely Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin) has been constituted to consider the terms of the Acquisition Agreement, the proposal for grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions, and to make recommendations on these matters to the Independent Shareholders.

TC Capital has been appointed as Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the terms of the Acquisition Agreement, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps).

RECOMMENDATIONS

The Independent Board Committee, having considered the terms of the Acquisition Agreement, the proposed grant of the specific mandate to allot and issue New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps), as well as the advice and

recommendations of TC Capital set out in the section headed "Letter from TC Capital" of this circular, considers that the terms of the Acquisition Agreement, the proposed grant of the specific mandate to allot and issue New Ordinary Shares, the New Convertible Preference Shares, and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the SGM to approve, among other things, the Acquisition Agreement, the proposed grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps).

The "Letter from the Independent Board Committee" is set out on pages 61 to 62 of this circular and the "Letter from TC Capital" is set out on pages 63 to 106 of this circular.

On the basis of the information set out in this circular, the Directors (including the independent non-executive Directors) consider that the passing of the resolutions for (i) the Acquisition, (ii) the proposed grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, (iii) the Whitewash Waiver, (iv) the Non-exempt Continuing Connected Transactions (including the related proposed annual caps), (v) the proposed increase in the authorised share capital of the Company, (vi) the proposed change of name of the Company, and (vii) the proposed adoption of New Bye-laws are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend that the Shareholders vote in favour of the resolutions set out in the notice of SGM at the end of this circular.

FURTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information on the Target Group and other information required to be disclosed under the Takeovers Code and the GEM Listing Rules.

Yours faithfully,
For and on behalf of the Board of
China Data Broadcasting Holdings Limited
Yu Xiao
Chairman

China Data Broadcasting Holdings Limited
(中華數據廣播控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

Executive Directors
Mr. Yu Xiao *(Chairman)*
Mr. Tang Yun *(Managing Director)*
Mr. Wu Xiangtao
Mr. Xiang Chaoyang
Mr. David Ji Long Fen
Ms. Shi Ping
Mr. Rong Dong

Independent Non-executive Directors
Mr. Jonathan Chan Ming Sun
Mr. Robert Ip Chun Chung
Mr. Sun Dongfeng
Mr. Cheng Yuk Kin

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business
Unit 3701, 37/F
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Date: 12 December 2012

To the Independent Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION
(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION
(3) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES
(4) APPLICATION FOR WHITEWASH WAIVER; AND
(5) CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to Shareholders dated 12 December 2012 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

The Independent Board Committee has been constituted to, among other things, give a recommendation to the Independent Shareholders in respect of the terms of the Acquisition, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible

* *For identification only*

Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps). TC Capital has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the terms of the Acquisition, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver, and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps). Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out in its letter on pages 63 to 106 of this circular.

Having considered the terms of the Acquisition, the proposed grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps), as well as the advice and recommendations of TC Capital as set out in its letter of advice, we consider that the terms of the Acquisition, the proposed grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps), are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the Non-exempt Continuing Connected Transactions are on normal commercial terms and in the usual and ordinary course of business of the Enlarged Group.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions to be proposed at the SGM to approve, among other things, the Acquisition, the proposed grant of the specific mandate to issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps).

Yours faithfully,
Independent Board Committee
China Data Broadcasting Holdings Limited
Jonathan Chan Ming Sun
Robert Ip Chun Chung
Sun Dongfeng
Cheng Yuk Kin
Independent non-executive Directors

TC Capital Asia Limited
天財資本亞洲有限公司

12 December 2012

The Independent Board Committee and the Independent Shareholders
China Data Broadcasting Holdings Limited

Dear Sirs,

(1) CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION;
(2) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION;
(3) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE SHARES;
(4) APPLICATION FOR WHITEWASH WAIVER; AND
(5) CONTINUING CONNECTED TRANSACTIONS

(I) INTRODUCTION

We refer to our appointment to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, relating to the Acquisition Agreement including the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the application for the Whitewash Waiver and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps). Details of the Acquisition Agreement, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions are contained in the letter from the Board (the "**Board Letter**") in the circular to Shareholders dated 12 December 2012 (the "**Circular**"). Our letter is made for incorporation into the Circular. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the announcement dated 23 April 2012 published by the Company. On 28 March 2012, the Company as a purchaser, Fit Generation as vendor and Changhong (Hong Kong) Trading as guarantor entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase from Fit Generation, and Fit Generation has conditionally agreed to sell to the Company, the entire issued share capital of Target Co BVI, at a total consideration (the "**Consideration**") of HK$2,012,868,000, to be settled in full by (i) as to HK$135,000,000 by the allotment and issue of New Ordinary Shares at an issue price of HK$1.00 per New Ordinary Share; and (ii) as to HK$1,877,868,000 by allotment and issue of New Convertible Preference Shares at an issue price of HK$1.00 per New Convertible Preference Share upon Completion. Changhong (Hong Kong) Trading, being the holding company of Fit Generation, has agreed to guarantee the obligations of Fit Generation under the Acquisition Agreement.

The transaction contemplated in the Acquisition Agreement constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules, as Fit Generation is an indirect wholly-owned subsidiary of Sichuan Changhong (which is a controlling shareholder of the Company) and hence a connected person of the Company.

The transaction contemplated in the Acquisition Agreement also constitutes a very substantial acquisition by the Company under Chapter 19 of the GEM Listing Rules, as the calculation of the assets, profits, revenue and consideration ratios (as defined in the GEM Listing Rules) are all over 100%.

In addition, the transaction contemplated in the Acquisition Agreement constitutes a reverse takeover for the Company under Rule 19.06(6)(b) of the GEM Listing Rules, on the basis that such transaction constitutes a very substantial acquisition for the Company under Chapter 19 of the GEM Listing Rules and at the same time involve an acquisition of assets from Fit Generation (an indirect wholly-owned subsidiary of Sichuan Changhong) within 24 months of Sichuan Changhong gaining control (as defined under the Takeovers Code) of the Company.

Immediately following the allotment and issuance of the New Ordinary Shares to Fit Generation, the interest of Sichuan Changhong Concert Party Group in the Company will increase to approximately 52.53% of the enlarged issued ordinary share capital of the Company (after issuance of the New Ordinary Shares but before the conversion of any New Convertible Preference Shares).

Sichuan Changhong Concert Party Group has made an application to the Executive for and the Executive has indicated that it will grant the Whitewash Waiver from an obligation to make a general offer under Note 1 on the dispensations from Rule 26.1 of the Takeovers Code in respect of the Ordinary Shares of the Company not already owned or agreed to be acquired by Sichuan Changhong Concert Party Group. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM on a vote taken by poll.

Upon Completion, members of the Target Group will become subsidiaries of the Company. The Target Group has historically been involved and will continue to be involved in transactions with the Sichuan Changhong Group, which transactions after Completion will constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules, as Sichuan Changhong will continue to be a connected person of the Company upon completion of the Acquisition. As certain percentage ratios under Rule 19.07 of the GEM Listing Rules in respect of the caps for the Non-exempt Continuing Connected Transactions do not fall under the exemptions in Rules 20.33 and 20.34 of the GEM Listing Rules, such Non-exempt Continuing Connected Transactions are subject to the approval of the Independent Shareholders under the GEM Listing Rules.

The Independent Board Committee, comprising all the Company's independent non-executive Directors, namely Mr. Chan Ming Sun, Jonathan, Mr. Ip Chun Chung, Robert, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin, has been established to advise the Independent Shareholders on whether the terms of the Acquisition Agreement, the proposed grant of specific mandate to issue and allot the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions, are fair and reasonable so far as the Independent Shareholders are concerned, and whether the entering into of the Acquisition Agreement and the Non-exempt Continuing Connected Transactions (including the related proposed annual caps) are in the interests of the Company and the Shareholders as a whole.

In putting forth our opinion and recommendation, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and its senior management. We have assumed that all such information, opinions, facts and representations, which have been provided by the Directors or representatives of the Company, for which they are fully responsible, are true, accurate and complete in all respects at the time they were made and given and continue to be true and valid as at the Latest Practicable Date. The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or is misleading. We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation or audit into the businesses or affairs of the Group and Sichuan Changhong Concert Party Group nor have we carried out any independent verification of the information supplied.

We are not associated or connected with the Company, Sichuan Changhong Concert Party Group, Changhong IT, Fit Generation and their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give an independent advice on the terms of the Acquisition Agreement, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Whitewash Waiver, the Non-exempt Continuing Connected Transactions and the transactions contemplated thereunder.

(II) THE ACQUISITION

Principal factors and reasons considered

In arriving at our opinion on the terms of the Acquisition, we have taken into consideration the following factors and reasons:

Background on the Group

Listed on the GEM of the Stock Exchange in January 2000, the Company is an investment holding company incorporated under the laws of Bermuda as an exempted company with limited liability on 22 September 1999. The principal business activities of the Group are (i) the trading and sales of electronic parts and components such as LCD screens, PDP screens, cathode ray tubes, integrated circuits, plugs and sockets primarily in the PRC; and (ii) the trading and sales of electrical appliances and consumer electronic products in non-PRC overseas markets.

As set out in the Company's 2011 annual report, the management of the Company will put more efforts to explore further business opportunities in related industries and will look for suitable investment opportunities to broaden the Group's business.

Set out below is a summary of the financial results of the Group for each of the three years ended 31 December 2011 and for the nine months ended 30 September 2011 and 2012, and financial position of the Group as at 31 December 2009, 2010 and 2011 and as at 30 June 2012 extracted from "Appendix II – Financial Information of the Group" to the Circular and the Company's 2012 third quarterly report.

Summary of financial results of the Group

	Year ended 31 December			For the nine months ended 30 September	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Turnover	2,575,279	2,614,184	2,724,330	1,994,146	2,172,007
Gross profit	62,564	41,090	43,791	33,370	29,376
Profit/(loss) for the year/period	21,467	17,201	10,471	7,693	(4,364)
Profit/(loss) attributable to the owners of the Company	21,467	17,201	10,471	7,693	(4,364)
Earning/(losses) per share basic and diluted	6.75 cents	5.41 cents	3.19 cents	2.30 cents	(1.31) cents

From the above table, the turnover of the Group increased from approximately HK$2,575 million in 2009 to approximately HK$2,724 million in 2011, which represented an annual growth rate of approximately 1.5% and 4.2%, respectively. The turnover increased from approximately HK$1,994 million for the nine months ended 30 September 2011 to approximately HK$2,172 million for the nine months ended 30 September 2012, which represented a growth rate of approximately 8.9%.

For each of the three years ended 31 December 2011, the overall gross margin of the Group was 2.4%, 1.6% and 1.6%, respectively. For the nine months ended 30 September 2012, the overall gross margin was approximately 1.4%, which was dropped by approximately 0.3% comparing the corresponding period in 2011. As advised by the Company, the decrease in gross margin was mainly due to the fierce competitive in the industry as the results of global economy and politics' instability.

The profit attributable to the owners of the Company has decreased by approximately 19.9% from approximately HK$21.5 million in 2009 to approximately HK$17.2 million in 2010. It was further decreased by 39.1% from approximately HK$17.2 million in 2010 to approximately HK$10.5 million in 2011. The profit attributable to the owners of the Company has decreased significantly from approximately HK$7.7 million for the nine months ended 30 September 2011 to a loss of approximately HK$4.4 million for the nine months ended 30 September 2012. Such decrease was mainly due to the payment of the professional fee for the acquisition project.

Summary of financial positions of the Group

	As at 31 December			As at 30 June
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)
Total assets	803,376	566,370	516,615	509,581
Total liabilities	789,312	535,105	468,524	463,809
Total equity	14,064	31,265	48,091	45,772

As at 31 December 2010, the Group recorded total assets of approximately HK$566.4 million (2009: HK$803.4 million) and total liabilities of approximately HK$535.1 million (2009: HK$789.3 million). Total equity attributable to owners of the Company was approximately HK$31.3 million (2009: HK$14.1 million). Total equity amounted to approximately HK$31.3 million (2009: HK$14.1 million) which was attributable to the profit for the year of approximately HK$17.2 million recorded for the year ended 31 December 2010.

As at 31 December 2011, the Group recorded total assets of approximately HK$516.6 million (2010: HK$566.4 million) and total liabilities of approximately HK$468.5 million (2010: HK$535.1 million). Total equity amounted to approximately HK$48.1 million (2010: HK$31.3 million) which was attributable to the profit for the year of approximately HK$10.5 million recorded for the year ended 31 December 2011 and the increase in the share capital and share premium as a result of the issue and allotment of new Ordinary Shares to a subscriber in May 2011.

As at 30 June 2012, the Group recorded total assets of approximately HK$509.6 million and total liabilities of approximately HK$463.8 million. Total equity amounted to approximately HK$45.8 million which was attributable to the loss of approximately HK$2.3 million recorded for the six months ended 30 June 2012.

Background on the Target Group

As disclosed in the Board Letter, the Target Group is one of the top five IT distributors in the PRC, and ranked the fourth with a market share of 3.8% in terms of its sales revenue attributed to IT Hardware Products in 2011 according to the Euromonitor Report. It is principally engaged in the distribution of IT consumer products and IT corporate products in the PRC. The Target Group distributes a variety of enterprise and consumer hardware and software products in the PRC. IT consumer products distributed by the Target Group mainly include personal computers, digital products and IT accessories, while IT corporate products distributed by the Target Group mainly include storage products, minicomputers, networking products, PC servers, IBMS products, and UC & CC products. The Target Group also provides ancillary services in

association with the distribution of IT corporate products to its customers including IT technical support services. Apart from IT consumer products and IT corporate products, it is also engaged in the distribution of smartphones and development of its self-developed products including but not limited to LBS products and provision of IT technical support services.

The Target Group has been in a relationship with renowned brand suppliers as their authorised distributor of IT consumer products and IT corporate products in the PRC ranging from four months to eight years. As of 31 July 2012, the Target Group had 33 authorized distributorships of IT products in the PRC, mainly on a non-exclusive basis. These authorized distributorships enabled the Target Group to have a stable supply of IT products for its distribution to its customers.

The Target Group maintains a network of customers with business relationships ranging from five months to eight years. It distributes IT products to various types of customers. The Target Group's major customers are mainly sub-distributors, some of which are also engaged in system integration business during the Track Record Period. It also sells its IT products to end-users. The end-users of the IT corporate products sold by the Target Group include, enterprises, government authorities, financial institutions, health authorities, education institutions, railway companies, construction companies and electricity companies in the PRC.

Set out below is a summary of the financial results of the Target Group for the Track Record Period, as well as the financial position of the Target Group as at 31 December 2009, 2010 and 2011 and as at 31 July 2012 extracted from "Appendix I – Accountants' Report on the Target Group" to the Circular.

Summary of the financial results of the Target Group

	Year ended 31 December			**For the seven months ended 31 July**	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Turnover	5,204,358	8,115,756	13,357,743	6,761,560	8,439,564
Gross profit	345,918	434,702	627,819	334,300	393,209
Profit for the year/period	135,091	142,600	208,634	139,577	137,545
Profit for the year/period attributable to the owners of the Target Co BVI	134,186	133,206	188,033	125,619	123,790

From the above table, the turnover of the Target Group increased from approximately HK$5,204 million for the year ended 31 December 2009 to approximately HK$13,358 million for the year ended 31 December 2011, which represented an annual growth rate of approximately 55.9% and 64.6%, respectively. The turnover increased from approximately HK$6,762 million for the seven months ended 31 July 2011 to approximately HK$8,440 million for the seven months ended 31 July 2012, which represented a growth rate of approximately 24.8%. The significant increases in the total turnover were mainly due to the increase in product lines and sales volume of personal computers and digital products, and the increase in suppliers and sub-distributors of the Target Group.

For each of the three years ended 31 December 2011, the overall gross margin of the Target Group was approximately 6.6%, 5.4% and 4.7% respectively. The gross margins for the seven months ended 31 July 2011 and 2012 were 4.9% and 4.7% respectively. The decrease in gross margin for the year ended 31 December 2010 and the year ended 31 December 2011 was due to higher contribution of sales from products with lower gross profit margin for the year ended 31 December 2010 and the year ended 31 December 2011.

The profit attributable to the owners of the Target Co BVI slightly decreased by approximately 0.7% from approximately HK$134.2 million in 2009 to approximately HK$133.2 million in 2010, and increased by 41.1% from approximately HK$133.2 million in 2010 to approximately HK$188.0 million in 2011. The profit for the period attributable to the owners of the Target Co BVI decreased by approximately 1.5% from approximately HK$125.6 million for the seven months ended 31 July 2011 to approximately HK$123.8 million for the seven months ended 31 July 2012.

Summary of financial positions of the Target Group

	The Target Group			
	As at 31 December			**As at 31 July**
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Total assets	1,293,280	2,154,680	2,865,748	2,951,566
Total liabilities	885,564	1,600,459	2,274,778	2,233,530
Total equity	407,716	554,221	590,970	718,036

As at 31 December 2010, the Target Group recorded total assets of approximately HK$2,154.7 million (2009: HK$1,293.3 million) and total liabilities of approximately HK$1,600.5 million (2009: HK$885.6 million). Total equity was approximately HK$554.2 million (2009: HK$407.7 million).

As at 31 December 2011, the Target Group recorded total assets of approximately HK$2,865.7 million (2010: HK$2,154.7 million) and total liabilities of approximately HK$2,274.8 million (2010: HK$1,600.5 million). Total equity was approximately HK$591.0 million (2010: HK$554.2 million).

PRC electronic information industry

Year	**Sale revenue from the main businesses of the electronic information industry** *(in RMB billion)*	**Annual Growth** *(%)*	**Sale revenue from the business of the sector of computer** *(in RMB billion)*	**Annual Growth** *(%)*
2011	7,490.9	17.7%	2,167.6	15.2%
2010	6,364.5	24.1%	1,881.6	20.5%
2009	5,130.5	0.1%	1,561.7	–8.9%
2008	5,125.3	12.9%	1,713.4	7.3%
2007	4,540.0		1,596.9	

*Source: The website of The Ministry of Industry and Information Technology (the "**MIIT**") of the PRC (www.miit.gov.cn)*

Based on the information from the MIIT, we have calculated the compound annual growth rate (the "**CAGR**") of the sales revenue from the main businesses of the electronic information industry, which is approximately 13.3% between 2007 and 2011. According to the twelfth "Five-year plan", the PRC government has targeted to maintain the annual growth rate of the sales revenue from the main businesses of the electronic information industry at around 10% and such sales revenue will exceed RMB10 trillion by 2015. As illustrated in the above table, the sales revenue from the main businesses of the electronic information industry has maintained double-digit annual growth rates between 2007 and 2011, except during the global recession period in 2009.

The MIIT has further categorized the aforesaid PRC electronic information industry into 11 sub-sectors. Among these sub-sectors, there is a sub-sector, known as the "Computer", which is directly related to the principal businesses of both the Group and Target Group. We have also calculated the CAGR of the sales revenue from this sub-sector, which is approximately 7.9% between 2007 and 2011.

The twelfth "Five-year plan" also outlines that the PRC government has categorized the information industry as one of the strategic emerging industries for innovative development (戰略性產業創新發展工程). As forecasted by the Euromonitor Report as detailed in the section headed "Industry Overview" in the Circular, the IT product market in the PRC is expected to have a modest growth, to reach RMB421,313 million in terms of retail values in 2017, with a CAGR of 5.1% from 2012 to 2017, which will be mainly driven by the favourite PRC government's policy, the expanding market of sub-urban area and technology development.

Although there is only a modest growth in the IT product market in the PRC as predicted by MIIT and Euromonitor, having considered the fierce competition in the industry and the Acquisition enables the Company to substantially increase its operating scale, we consider it is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Potential conflict of interest

We note that the Company, Sichuan Changhong and Sichuan Changhong Electric (the controlling shareholders of the Company) have been engaging in the similar trading and distribution business before the Acquisition. As a result, potential business competition amongst the parties had existed. As stated in the paragraph "Non-compete Undertakings", under the section headed "Relationship with the Controlling Shareholders" in the Circular, in order to address any future competition between the respective trading and distribution business of Sichuan Changhong Group and the Enlarged Group, Sichuan Changhong, Sichuan Changhong Electric and Fit Generation, the controlling shareholders of the Company have entered into the Deed of Non-Competition in favour of the Company for itself and on behalf of its subsidiaries.

Under the Deed of Non-Competition, Sichuan Changhong Group will undertake that it shall not, directly or indirectly (whether as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise) carry on, engage, invest or be interested or otherwise involved in the Restricted Business with the exceptions as stated in the paragraph "Non-compete Undertakings" under the section headed "Relationship with the Controlling Shareholders".

Furthermore, as disclosed in the paragraphs "Independence from Controlling Shareholders" under the section headed "Relationship with Controlling Shareholders" in the Circular, with a view to further addressing the potential competition issues with the businesses among Sichuan Changhong Group, Sichuan Changhong Electric Group and the Enlarged Group, upon completion of the Acquisition, the Company and Sichuan Changhong Group will enter into arrangements such that, among other things:

(1) Delineation of business – the principal businesses of the Enlarged Group will include the Group's existing business comprising the CDB Component Business and the CDB Electronic Business, as well as the Target Group's Target Existing Business comprising Target IT Business and the Target Mobile Business;

(2) Geographical delineation – it has been agreed between the Company and Sichuan Changhong that they will segregate the current overlapping non-PRC overseas markets for the sales and distribution of electrical appliances and consumer electronic products. The Company will focus its CDB Electronic Business in CDB's Markets. For the non-PRC overseas markets of the Changhong Electronic Business, the Sichuan Changhong Group will focus in Changhong's Markets;

Furthermore, pursuant to the Deed of Non-Competition, Sichuan Changhong has undertaken that it will cease its Changhong Electronic Business in CDB's Markets within 18 months upon Completion. The Company will also cease its CDB Electronics Business in Changhong's Markets within 18 months upon Completion. For the Market Opportunity, it has been agreed that the Enlarged Group shall have the right of first refusal to pursue such Market Opportunity. In deciding whether to pursue the Market Opportunity, the Company will seek approval from its independent non-executive Directors. The material terms relating to the Market Opportunity will be reviewed by the independent non-executive Directors.

(3) Price segment and brand delineation – it has been agreed that any competition between the Changhong Mobile Business and the Target Mobile Business will be minimized upon Completion through price segment and brand delineation in mobile phones, pursuant to which the Sichuan Changhong Group and the Enlarged Group will focus on mobile products in different price segments. The Sichuan Changhong Group will continue to focus in own-branded products while the Enlarged Group will focus in smartphones of other brands.

Pursuant to the Deed of Non-Competition, after Completion, the Enlarged Group will focus in the distribution of smartphones with the unit retail price equal to or above RMB2,500 and the Sichuan Changhong Group (excluding the Enlarged Group) will focus in the distribution of mobile phones with the unit retail price equal to or below RMB1,500.

Sichuan Changhong Group's obligations under these arrangements are in addition to their obligation and reinforcement under the Deed of Non-Competition, and Sichuan Changhong Group will not interfere with any decision to be made by the Company under these arrangements. In addition to the above, as part of the Company's corporate governance measures, the Group has established its corporate governance practice manual that the Enlarged Group will adopt, review and update from time to time and pursuant to which an independent board committee will be established to deal with matters involving conflict of interests.

Given the above, we concur with the Director's view that the above arrangements would effectively reduce the potential competition issues between the Enlarged Group and Sichuan Changhong Group.

While the Deed of Non-Competition is in place, we believe that the interest of the Enlarged Group will be well protected even when the overlapping of directors and senior management exists between the two groups. In view of the adequate safeguard measures that are in place to protect the interests of the Enlarged Group, we are of the opinion that the Acquisition is fair and reasonable and in the interests of the Company and Shareholders as a whole.

Reasons for and benefits of the Acquisition

According to the Board Letter contained in the Circular, the Target Group is a key player in the IT products distribution business in the PRC, principally engaged in the distribution of IT consumer products and IT corporate products. The Group is expected to benefit from the Acquisition in the following principal aspects:

1. The Acquisition will benefit from the sustainable growth of the IT products industry in considering the following factors:

   (i) the historical CAGR of approximately 13.3% of sales revenue from the main businesses of the electronic information industry in the PRC between 2007 and 2011 based on the MIIT information;

   (ii) the twelfth "Five-year plan" in encouraging and supporting the development of electronic information industry with the target of around 10% annual growth rate;

   (iii) the historical CAGR of approximately 7.9% of sales revenue from the sub-sector of computer in the PRC between 2007 and 2011 based on the MIIT information; and

   (iv) the forecasted CAGR of 5.1% for the IT product market by Euromonitor Report between 2012 and 2017.

2. The Acquisition will create synergy to the Group's existing business as it facilities the Group to penetrate into the IT products industry. The overall competitiveness of the Group will also be strengthened as the Acquisition will:

   (i) increase the scale of operations and strengthen its business and financial strength, thereby better positioning the Group for future business development and operations;

   (ii) expand the business segments and products distributed by the Group to reach more diversified markets, in order to reduce its business fluctuations;

   (iii) increase the Group's competitiveness in the IT industry; and

   (iv) share the expertise in the management team of the Target Group for the Enlarged Group's IT products business.

3. Upon Completion, the Company's operation scale will significantly increase. As reported in the unaudited pro forma financial information of the Enlarged Group contained in Appendix III to the Circular, assuming Completion has taken place on 1 January 2011, the turnover of the Group as an Enlarged Group for the year ended 31 December 2011 will be increased from HK$2,724.3 million to HK$16,082.1 million, representing approximately 4.9 times increase in the operation scale in term of the turnover.

The Consideration will be fully settled by the issue of New Ordinary Shares and New Convertible Preference Shares, and will not result in any reduction in the Group's bank deposit and cash equivalent. Though there is a dilution effect to the existing public Shareholders brought about by the Acquisition, the Acquisition will create synergy for the Group's existing IT product industry as discussed above. The Group's income base will also be broadened through the Acquisition. As such, we are of the view that the dilution effect on the shareholdings of the public Shareholders is acceptable. The Directors also believe that the Acquisition will generate greater future income for the Enlarged Group that may compensate the dilution impact to the existing public Shareholders.

The details of the dilution effect will be further discussed under the section headed "Dilution effect of the issue of the New Ordinary Shares and Conversion Shares on the shareholding structure of the Company" below.

Having considered the above reasons and benefits, we are of the view that the Acquisition is in line with the Company's strategy to explore further business opportunities and broaden its business through participating in suitable investment opportunities in related industries as discussed above under the paragraph headed "Background on the Group". We concur with the Directors' view that the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and its Shareholders as a whole.

Principal terms of the Acquisition Agreement

Set out below is a summary of the salient terms of the Acquisition Agreement:

Date	:	28 March 2012
Parties	:	1. The Company, as purchaser; 2. Fit Generation, as vendor; and 3. Changhong (Hong Kong) Trading, as guarantor.
Subject matter	:	The Company has conditionally agreed to purchase from Fit Generation, and Fit Generation has conditionally agreed to sell to the Company, the entire issued share capital of Target Co BVI.
Guarantor	:	Changhong (Hong Kong) Trading, being the holding company of Fit Generation, has agreed to guarantee the obligations of Fit Generation under the Acquisition Agreement.
Consideration	:	The total Consideration is approximately HK$2,012,868,000, which is to be settled in full (i) as to HK$135,000,000 by the allotment and issue of New Ordinary Shares at an issue price of HK$1.00 per New Ordinary Share; and (ii) as to HK$1,877,868,000 by the allotment and issue of New Convertible Preference Shares at an issue price of HK$1.00 per New Convertible Preference Share to Fit Generation upon Completion.

Conditions precedent : Completion of the Acquisition is conditional upon the satisfaction or waived (as the case may be) of the following conditions:

(i) each of the covenants, agreements and obligations of Fit Generation to be performed and complied with on or prior to the Completion Date in accordance with the Acquisition Agreement having been duly performed or complied with in all respects on or before Completion Date;

(ii) the warranties given by Fit Generation under the Acquisition Agreement being true and accurate and not misleading in all material respects on and as of the Completion Date, as though they had been given and made on such date by reference to the facts and circumstances then subsisting;

(iii) the approval by the Independent Shareholders at the SGM by way of a poll of (i) the Acquisition; (ii) the proposal for grant of the specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares; (iii) the Whitewash Waiver; and (iv) the Non-exempt Continuing Connected Transactions and the proposed annual caps on the value of such transactions in accordance with the requirements of the GEM Listing Rules;

(iv) if applicable, the approval of the transaction contemplated in the Acquisition Agreement being obtained from the sole shareholder of Changhong (Hong Kong) Trading in accordance with the applicable laws and the requirements of the Shanghai Stock Exchange or other supervisory or regulatory body to which Sichuan Changhong is subject;

(v) in respect of the Target Group, all necessary licences, consents, approvals, authorisations, permissions, waivers, orders, exemptions or notifications (if any) which are required and appropriate for the execution and performance of the Acquisition Agreement and the transaction contemplated under the Acquisition Agreement having been obtained or made from or to relevant third parties and/or governmental or regulatory authorities or bodies, and not having been revoked prior to completion of the Acquisition;

(vi) the approval in principle of the Listing Committee of the Stock Exchange of the New Listing Application and the grant of the Whitewash Waiver by the Executive being obtained by the Company;

(vii) the Listing Committee of the Stock Exchange agreeing to grant (subject to allotment) the listing of, and permission to deal in, the New Ordinary Shares and the Conversion Shares (and such permission and listing not subsequently being revoked);

(viii) between the date of the Acquisition Agreement and Completion Date, no event or series of events shall have occurred which has had or would reasonably be expected to have a material adverse effect (as defined in the Acquisition Agreement on the Target Group); and

(ix) no person having instituted or threatened any action or investigation to restrain, prohibit or otherwise challenge the transaction contemplated by the Acquisition Agreement.

The above conditions are required to be fulfilled (or, waived as the case may be) on or before the Long Stop Date. The Company may waive conditions (i), (ii) (in respect of the warranties given by Fit Generation only), (v) and (viii) and Fit Generation may waive condition (ii) (in respect of warranties given by the Company only). If the above conditions have not been satisfied or waived on or before such date, save as expressly provided in the Acquisition Agreement, the Acquisition Agreement shall lapse, and neither the Company nor Fit Generation shall have any claim against the other, save for any claim arising from the breach by any party of its obligation to fulfill the relevant conditions precedent.

On 27 September 2012, the Company and Fit Generation signed a letter for the extension of the Long Stop Date, pursuant to which the parties mutually agreed to extend the Long Stop Date from 28 September 2012 to 31 December 2012, or at such later date as may be mutually agreed between the Company and Fit Generation in writing.

On 6 December 2012, the Company and Fit Generation signed another letter for the further extension of the Long Stop Date, pursuant to which the parties mutually agreed to further extend the Long Stop Date from 31 December 2012 to 28 February 2013, or at such later date as may be mutually agreed between the Company and Fit Generation in writing.

As at the Latest Practicable Date, none of the above conditions precedent have been satisfied.

Completion	:	Completion of the Acquisition is expected to take place on the fifth Business Day from and excluding the day set out in the condition precedents abovementioned have been satisfied or waived (as the case may be) or such time, date and place as may be mutually agreed by the Company and Fit Generation.

Evaluation of the Consideration

As disclosed in the Board Letter, the Consideration of approximately HK$2,012,868,000 has been arrived at after arms' length negotiations between the parties having regard to, amongst others, the price-to-earnings ratio (the "**P/E Ratio**") of the average P/E Ratio of companies listed in Hong Kong whose principal activities are similar to the present business of the Group and the Target Group, based on the audited consolidated net profit of Changhong IT and its subsidiaries after taxation and extraordinary items for the financial year ended 31 December 2011, the financial and operational track record of the Target Group, the prospects of the industry in which the Target Group operates in, the rationale for the Acquisition, and the benefits to the Group following Completion.

In forming our opinion on the fairness and reasonableness of the Consideration, we have considered the commonly adopted comparable approaches used in determining a company's value, namely the P/E Ratio, price-to-book ratio (the "**P/B Ratio**") and price-to-sales ratio (the "**P/S Ratio**"). While P/E Ratio is a more accurate measurement and one of the most commonly used valuation ratio, it is unable to price loss–making companies, or companies experiencing unusually low profit which create exaggerated ratios. Therefore, P/B Ratio and P/S Ratio, while not as accurate as pricing mechanisms as they are meant for asset–heavy industries or start-ups respectively, they do provide a useful reference point to ensure the accuracy and reliability of the P/E Ratio. We have reviewed and compared the P/E Ratios, P/B Ratios and P/S Ratios of companies listed on the Stock Exchange, which the turnover generated from the distribution of electronic products and IT products in the PRC and Hong Kong representing more than half of their respective total turnover as reported in their respective latest annual reports.

On a best effort basis, we have identified 11 listed companies (including the Company) on the Stock Exchange (the "**Comparable Companies**"), being an exhaustive list, as at 28 March 2012, being the last trading day immediately prior to the suspension of trading in the Ordinary Shares (the "**Last Trading Day**") with their respective principal business of trading and distribution of electronic products and IT products in the PRC and Hong Kong. Although the Comparable Companies may have differences including principal business activities, stage of development, geological location, market segment, operation scale and market capitalization as compared to the Target Group, we consider that the Comparable Companies, in general, serve as fair and representative samples. The business of trading and distribution of electronic products and IT products in the PRC and Hong Kong are somewhat similar in nature regardless of their individual uniqueness as this business activity is represented by low margins high volume, where distribution cost represents a major cost component aside from the cost of each products. Therefore, having a similar business structure, the Comparable Companies are able to provide a general landscape for evaluating the Target Group. We have excluded one company which has its share suspended for trading for more than two years and up to the Latest Practicable Date,

as its prolonged suspended share price does not reflect the current market price. In calculating the average P/E Ratio, P/B Ratio and P/S Ratio, we have excluded the highest and lowest values of the P/E Ratio, P/B Ratio and P/S Ratio among the Comparable Companies, as these extreme values may be caused by the share price fluctuation, business cycle and/or accounting adjustment, which will distort the calculation. The following table sets forth certain details of the Comparable Companies.

Company	**Stock code**	**Principal business**	**Market capitalisation** *(HK$ million) (Note 1)*	**P/E Ratio** *(Note 2)*	**P/B Ratio** *(Note 3)*	**P/S Ratio** *(Note 4)*
China Data Broadcasting Holdings Ltd.	8016	Trading of consumer electronic products and the related parts and components	581	54.5	12.1	0.2
Futong Technology Development Holdings Ltd.	465	Provision of IT solutions, distribution of enterprise IT products and provision of IT technical support services in the PRC	361	4.1	0.6	0.1
CIL Holdings Ltd.	479	Providing comprehensive solutions and distribution of server storage, multi-media and communication products	362	NA *(Note 5)*	21.4	1.3
SiS International Holdings Ltd.	529	Distribution of IT products; and property investment	936	1.4	0.5	0.7
EC-Founder (Holdings) Co. Ltd.	618	Distribution of information products	299	NA *(Note 6)*	0.9	0.1
Automated Systems Holdings Ltd.	771	IT products and information technology services	349	7.8	0.7	0.2
VST Holdings Ltd.	856	Distribution of information technology products and provider of enterprise systems and IT services	2,306	5.1	0.8	0.1
Digital China Holdings Ltd.	861	Sale and distribution of general information technology products and systems products; and provision of supply chain services and information technology services	16,719	15.9	2.5	0.3

Company	Stock code	Principal business	Market capitalisation *(HK$ million)* *(Note 1)*	P/E Ratio *(Note 2)*	P/B Ratio *(Note 3)*	P/S Ratio *(Note 4)*
Artel Solutions Group Holdings Ltd.	931	Distribution of computer components and information technology products and trading of securities	867	102.7	3.6	140.6
Mobicon Group Ltd.	1213	Trading and distribution of electronic parts, components and equipment, and computer products and accessories	138	11.9	0.7	0.2
Average				16.5	2.7	0.4
Median				9.8	0.9	0.2
Maximum				102.7	21.4	140.6
Minimum				1.4	0.5	0.1
Target Group at the Consideration *(Note 7)*			2,013	9.6	3.3	0.2

Sources: Bloomberg, www.hkex.com.hk and latest annual reports of the respective Comparable Companies

Notes:–

1. The market capitalisation of the Comparable Companies is calculated based on the respective Comparable Companies' closing price sourced from the Bloomberg and number of issued shares of the respective Comparable Companies available from the website of the Stock Exchange as at the Last Trading Day.

2. P/E Ratio is based on the market capitalisation of the respective Comparable Companies as at the Last Trading Day divided by the net profit of the respective Comparable Companies in their respective latest annual reports.

3. P/B Ratio is based on the market capitalisation of the respective Comparable Companies as at the Last Trading Day divided by the latest published book value of the respective Comparable Companies in their respective latest annual reports.

4. P/S Ratio is based on the market capitalisation of the respective Comparable Companies as at the Last Trading Day divided by the turnover of the respective Comparable Companies in their respective latest annual reports.

5. CIL Holdings Ltd. has recorded net loss for the year ended 31 December 2011 and therefore the P/E Ratio is not available.

6. EC-Founder (Holdings) Co. Ltd. has recorded net loss for the year ended 31 December 2011 and therefore the P/E Ratio is not available.

7. The amount represents the valuation of the Target Group based on the Consideration of HK$2,012,868,000.

Based on the respective closing prices of the shares of the Comparable Companies as at the Last Trading Day, the P/E Ratios of the Comparable Companies range from approximately 1.4 times to approximately 102.7 times, with an average of approximately 16.5 times and a median of approximately 9.8 times. The implied P/E Ratio of the Acquisition of approximately 9.6 times is lower than the average as well as the median of the P/E Ratios of the Comparable Companies calculated based on the closing price of shares of the Comparable Companies as at the Last Trading Day.

Based on the respective closing prices of the shares of the Comparable Companies as at the Last Trading Day, the P/S Ratios of the Comparable Companies range from approximately 0.1 times to approximately 140.6 times with an average of approximately 0.4 times and a median of approximately 0.2 times. The implied P/S Ratio of the Acquisition is approximately 0.2 times which is lower than the average of the P/S Ratios of the Comparable Companies calculated based on the closing price of shares as at the Last Trading Day, while it is the same as the median of the P/S Ratios of the Comparable Companies.

As the ranges of the P/E Ratios and the P/S Ratios of the Comparable Companies are wide, main consideration has been given to the average P/E Ratio and P/S Ratio for our comparison and evaluation purposes. The medians of the P/E Ratio and P/S Ratio are also adopted such that the effect of the wide spread of discount and premium amongst the Comparable Companies would be minimized.

Accordingly, in light of (1) comparing with the P/E Ratios of the Comparable Companies, the P/E Ratio implied by the Consideration is lower than both of the average and median values; and (2) comparing with the P/S Ratios of the Comparable Companies, the P/S Ratio implied by the Consideration is lower than the corresponding average value and equal to the median value, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

The issue price of the New Ordinary Shares and the New Convertible Preference Shares

Pursuant to the Acquisition Agreement, the total Consideration is approximately HK$2,012,868,000, which is to be settled in full (i) as to HK$135,000,000 by the allotment and issue of New Ordinary Shares at an issue price of HK$1.00 per New Ordinary Share; and (ii) as to HK$1,877,868,000 by the allotment and issue of New Convertible Preference Shares at an issue price of HK$1.00 per New Convertible Preference Share to Fit Generation upon Completion. The issue price of HK$1.00 per both the New Ordinary Share and New Convertible Preference Share represent:

(i) a discount of approximately 42.53% to HK$1.74, the closing price of the Ordinary Shares on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 42.53% to approximately HK$1.74, the average closing price of the Ordinary Shares on the Stock Exchange for the last 10 full trading days prior to the suspension of trading in the Ordinary Shares;

(iii) a discount of approximately 42.86% to approximately HK$1.75, the average closing price of the Ordinary Shares on the Stock Exchange for the last 30 full trading days prior to the suspension of trading in the Ordinary Shares;

(iv) a premium of approximately 614.29% over approximately HK$0.14, the audited consolidated net asset value of the Group per Ordinary Share as at 31 December 2011; and

(v) a discount of approximately 39.76% to HK$1.66, the closing price of the Ordinary Shares on the Stock Exchange on the Latest Practicable Date.

The price at which the New Ordinary Shares and the New Convertible Preference Shares to be issued was determined after arm's length negotiations between the Company and Fit Generation with reference to, among other factors, the financial position of the Group, the historical trading volume of the Ordinary Shares on GEM, the historical trading prices of the Ordinary Shares on GEM and the consolidated net asset value of the Group per Ordinary Share as at 31 December 2011. Based on the closing price of HK$1.66 per Ordinary Share as at the Latest Practicable Date, the total market values of the New Ordinary Shares and the New Convertible Preference Shares are approximately HK$224,100,000 and HK$3,117,260,880, respectively.

The New Ordinary Shares will be issued as fully paid and will rank pari passu in all respects with the Ordinary Shares in issue at the Completion Date. The Conversion Shares will be issued upon conversion of the New Convertible Preference Shares as fully paid and will rank pari passu in all respects with the Ordinary Shares in issue as at the date of conversion.

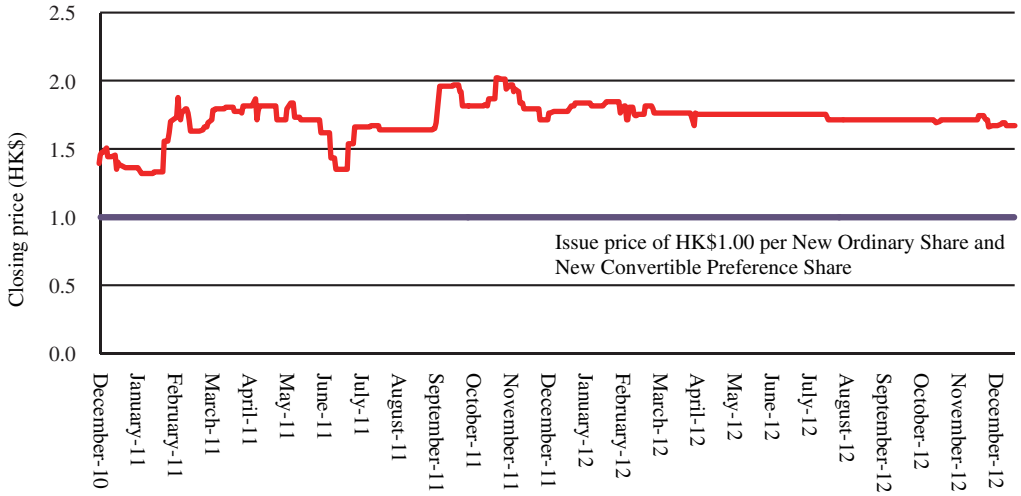
In assessing the fairness and reasonableness of the issue price of both the New Ordinary Shares and New Convertible Preference Shares, we have conducted the analyses on the historical trading performance of the Ordinary Shares and compared the issue prices of the comparable transactions. Details of which are set forth below:

(a) Share price performance and comparison with the issue price of the New Ordinary Shares and New Convertible Preference Shares

The chart sets up below illustrates the movement of the closing price for the Ordinary Shares during the period from December 2010, up to and including the Latest Practicable Date (the "**Review Period**"). We consider such 24-month Review Period to be reasonable as it should be able to cover at least one fiscal year or the existence of any

12-month cyclical cycle. The Review Period can also capture the market price trend of the Ordinary Shares given the volatility of the general stock market during the Review Period:

Shares price performance of the Company



Source: Bloomberg

The trading in the Ordinary Shares has been suspended since 29 March 2012 and had resumed in the trading on 24 April 2012. The closing price of the Ordinary Shares has remained most of the time at HK$1.74 after resumption, which was above the issue price of the New Ordinary Shares and the New Convertible Preference Shares with a few actual tradings in the Ordinary Shares during the period from 24 April 2012 (the first trading day after the publication of the Announcement dated 28 March 2012) to the Latest Practicable Date. The price of the Ordinary Share has remained relatively stable since 24 April 2012 up to the Latest Practicable Date. We are of the view that this relatively stable price is due to low trading volume of the Ordinary Shares since 24 April 2012.

During the Review Period, the Ordinary Shares were traded within the range of HK$1.32 and HK$2.00 per Ordinary Share, which compared to the issue price of both the New Ordinary Shares and New Convertible Preference Shares represent a discount of 24.24% to 50.00%. When compared to the closing price of the Ordinary Share as at the Latest Practicable Date, the discount is approximately 39.76%. We are of the view that the issue price of both the New Ordinary Shares and New Convertible Preference Shares represents a significant discount to the price of the Ordinary Shares.

(b) Analysis of the trading volume

The following table shows the highest and lowest daily trading volume, the average daily trading volume, the number of trading days with volume higher than 100,000 Ordinary Shares and the percentage of average daily trading volume over the total number of the Ordinary Shares in issue during the Review Period:

Month	**Highest daily trading volume** *(in number of Ordinary Shares)*	**Lowest daily trading volume** *(in number of Ordinary Shares)*	**Average daily trading volume** *(in number of Ordinary Shares)*	**Number of trading days in a month with trading higher than 100,000 Ordinary Shares** *(in days)*	**Percentage of average daily trading volume over total number of Ordinary Shares in issue** *(note 1)* *(%)*
2012					
December (up to the Latest Practicable Date)	10,000	0	2,000	0	0.001%
November	170,000	0	13,455	1	0.004%
October	37,000	0	3,450	0	0.001%
September	0	0	0	0	0.000%
August	0	0	0	0	0.000%
July	6,000	0	345	0	0.000%
June	0	0	0	0	0.000%
May	0	0	0	0	0.000%
April	0	0	0	0	0.000%
March	10,000	0	1,818	0	0.001%
February	81,000	0	23,381	0	0.007%
January	22,260,000	0	1,243,760	1	0.372%
2011					
December	12,000	0	1,600	0	0.000%
November	226,000	0	33,500	1	0.010%
October	30,000	0	6,500	0	0.002%
September	68,000	0	17,950	0	0.005%
August	8,000	0	348	0	0.000%
July	44,000	0	2,500	0	0.001%
June	16,000	0	1,905	0	0.001%
May	128,000	0	11,900	1	0.004%
April	22,000	0	4,833	0	0.001%
March	80,000	0	11,130	0	0.003%
February	232,000	0	54,556	2	0.016%
January	408,000	0	22,238	1	0.007%

Month	Highest daily trading volume *(in number of Ordinary Shares)*	Lowest daily trading volume *(in number of Ordinary Shares)*	Average daily trading volume *(in number of Ordinary Shares)*	Number of trading days in a month with trading higher than 100,000 Ordinary Shares *(in days)*	Percentage of average daily trading volume over total number of Ordinary Shares in issue *(note 1)* *(%)*
2010					
December	62,000	0	8,111	0	0.002%
Average			58,611		0.018%

Source: Bloomberg

Note:

1. Based on the total number of 334,000,000 Ordinary Shares as at the Latest Practicable Date.

As shown in the above table, the Ordinary Shares were thinly traded during the Review Period. The average daily trading volume was approximately 58,611 Ordinary Shares, representing approximately 0.018% of the issued share capital of the Company as at the Latest Practicable Date. In January 2012, the daily trading volume was significantly higher when comparing to other months during the Review Period. As disclosed in the announcement dated 20 January 2012, Mr. Ji Long Fen, a Director of the Company, traded 22,260,000 Ordinary Shares in the open market to a third party and therefore, resulted in the exceptional high average daily trading volume during the month within the Review Period.

We noted that that average daily trading volume by month of the Ordinary Shares during the Review Period accounted for only a small portion of the issued share capital of the Company, ranging from nil to approximately 1,243,760 Ordinary Shares. With January 2012 excluded, the average daily trading volume range from nil to 54,556. This average daily highest trading volume of Ordinary Shares represents only 0.016% of the issued share capital of the Company as at the Latest Practicable Date. Hence, liquidity issue will arise for anyone attempting to dispose of a large quantity of Ordinary Shares. This poor liquidity nature the Ordinary Shares represents a huge risk, particularly to owners of large quantity of Ordinary Shares, as any attempt to realise the value of the Ordinary Shares may drive down the Ordinary Share price significantly.

Therefore, in accepting the New Ordinary Shares and the New Convertible Preference Shares as consideration, Fit Generation has been given a discount on the issue price by the Company. We are of the view that providing a discount due to illiquid shares is fair and reasonable, as it is a common approach taken by the market. While providing a discount due to poor liquidity is a common practice, we are unable to ascertain if the amount of discount is fair and reasonable as explained in our analysis below.

(c) Comparison with the listed companies which issued new shares and/or convertible preference shares

The following summary table illustrates an exhaustive list of 7 comparable companies listed on the Stock Exchange, which (i) issued circular regarding very substantial acquisition under the Listing Rules; (ii) the transaction involved application for the Whitewash Waiver; (iii) shareholders' approval has been obtained at the shareholders' meeting; and (iv) issued new shares and/or convertible preference shares as consideration (the "**Comparable Shares**"), during the Review Period with the issue price of new shares and/or convertible preference shares, compared to their respective closing price on the last trading day. We consider such Review Period to be reasonably long and any extended period over the Review Period may include older data which may not reflect on the current market conditions. As the Consideration involves the issuance of both the New Ordinary Shares and New Convertible Preference Shares, we believe that the Comparable Shares would provide a benchmarking comparison for our analysis in determining the issue price of the New Ordinary Shares and New Convertible Preference Shares. Although each of the Comparable Shares may be subjected to different principal activities, transaction terms, financial standings, business performance, issuance scale and dilution impact, we consider that the premium or discount of the Comparable Shares, serve as fair and representative samples because these approved transactions involve the issuance of shares or convertible securities under a very substantial acquisition and a Whitewash Waiver, which raise liquidity issues for the venders of the transactions for each of the Comparable Shares. These reasons, coupled with the approval of shareholders, make the transactions of the Comparable Shares representative of the market in general.

Date of circular	**Company**	**Stock code**	**Premium over/ (discount to) the closing share price on the last trading day** *(Note 1)* *(%)*	**Liquidity** *(Note 2)* *(%)*
16 November 2012	EC-Founder (Holdings) Company Limited	618	(0.0)%	0.6%
29 December 2011	China Daye Non-Ferrous Metals Mining Limited	661	(15.3)%	6.1%
31 October 2011	Shanghai Industrial Urban Development Group Limited	563	(3.8)%	2.3%
25 May 2011	Madax International (Holdings) Limited	231	1.9%	3.3%
25 February 2011	Golden Resorts Group Limited *(Note 3)*	1031	(3.6)%	2.4%
31 December 2010	Tianjin Tianlian Public Utilities Company Limited *(Note 4)*	8290	(15.0)%	1.9%
14 December 2010	Lumena Resources Corporation *(Note 5)*	67	7.5%	27.3%
Average			(4.0)%	6.3%
Median			(3.6)%	2.4%
Maximum			7.5%	27.3%
Minimum			(15.3)%	0.6%
12 December 2012	**The Company**	**8016**	**(42.5)%**	0.3%

Sources: www.hkex.com.hk and Bloomberg

Notes:

1. Last trading day refers to the respective last trading day for the Comparable Shares specified in their respective circulars.

2. The liquidity is calculated by the average monthly trading volume during the Review Period divided by the total number of issue shares as at the respective latest practicable dates of each Comparable Shares.

3. Golden Resorts Group Limited has changed its company name to Kingston Financial Group Limited with effect from 6 May 2011 and its stock code remains unchanged.

4. Tianjin Tianlian Public Utilities Company Limited had transferred the listing of its shares from the GEM to the Main Board of the Stock Exchange on 18 October 2011 under the stock code of 01265. Tianjin Tianlian Public Utilities Company Limited has changed its company name to Tianjin Jinran Public Utilities Company Limited with effect from 21 September 2012 and its stock code remains unchanged.

5. Lumena Resources Corporation has changed its company name to China Lumena New Materials Corporation will effect from 8 December 2010 and its stock code remains unchanged.

6. Companies in distress and suspended for prolonged period of time have been excluded from the table.

As indicated from the table above, we note that the issue price of the Comparable Shares have an average discount of approximately 4.0% and a median of approximately 3.6%. When compared to the discount of the New Ordinary Shares and the New Convertible Preference Shares, the discounts of Comparable Shares are much lower, implying that the discount on the New Ordinary Shares and the New Convertible Preference Shares is higher than usual. While the discount on the New Ordinary Shares and the New Convertible Preference Shares is on the high end, it should also be noted that the liquidity of the Shares is at the extreme low end. Liquidity of the Comparable Shares average is about 6.3% with the lowest being 0.6% and the highest being 27.3%. These low and high percentages represent approximately 6,300,000 and 529,000,000 shares of the Comparable Shares traded on a monthly basis, respectively. The Company's liquidity, on the other hand, average about 0.32% with approximately 1,000,000 Ordinary Shares traded per month. If the trade of 22,260,000 Shares executed by Mr. Ji Long Fen to an independent third party is to be excluded from the calculation, the liquidity of the Company would drop to 0.05% with average monthly volume of approximately 183,000. This is equivalent to daily trading volume of approximately 9,145 Shares or 0.003% of the Ordinary Shares issued in total. Trading of the Shares is so low that there are many days in a month where the Ordinary Shares were never traded.

Given the analysis of the comparison set out above, the issue prices of the New Ordinary Shares and New Convertible Preference Shares, which is at a discount of 42.5% to the closing price of the Ordinary Shares on the Last Trading Day, is not fair and reasonable compared to the Comparable Shares when taken solely on a pricing discount basis. However, in considering the liquidity of the Ordinary Shares, which is unusually

low and the size of the issue of the New Ordinary Shares and the New Convertible Preference Shares, which could result in 2,012,868,000 Shares to be issued, we are of the opinion that on the basis of low liquidity and the sheer size of the New Ordinary Shares and the New Convertible Preference Shares, a discount should be given to compensate the party accepting the New Ordinary Shares and the New Convertible Preference Shares as a consideration. While the pricing discount on the New Ordinary Shares and the New Convertible Preference Shares is substantial, we could not confirm or deny if such discount is within market standard.

Based on the Comparable Shares table above, there is no precedent case whereby a company whose shares have minimal to no liquidity, issues substantial number of shares or instruments convertible in to shares as consideration for acquisition. Therefore, the Comparable Shares are only useful as a reference and not a comparable, and there is no direct comparable that could be used to determine the fairness and reasonableness of the discount of the New Ordinary Shares and the New Convertible Preference Shares. We have, for the purpose of determining this fairness and reasonableness, discussed the discount and its determination with the Company. According to the Company, the discount was determined after arm's length negotiations between the Company and Sichuan Changhong, taking into account various factors, including but not limited to liquidity and size of the transaction. Having considered (i) the poor liquidity of the Ordinary Shares; (ii) the large number of Ordinary Shares to be issued or convertible relative to its trading volume; and (iii) there is a lack of comparable market information for shares with low liquidity, we are unable to form an opinion if the price and the discount on the price determined based on an arm's length negotiation, after taking into consideration the aforementioned factors, is fair and reasonable, and in the interests of the Company and Shareholders as a whole. However, having considered that upon Completion, the pro forma earnings per Ordinary Share and the pro forma net asset value per Ordinary Share will be significantly improved as discussed in the section headed "Financial effects of the Acquisition on the Group" below, we are of the view that the discount on the New Ordinary Shares and New Convertible Preference Shares is fair and reasonable, and in the interests of the Company and Shareholders as a whole.

Settlement of Consideration

The Consideration for the Acquisition will be satisfied by the allotment and issuance of New Ordinary Shares and New Convertible Preference Shares to Fit Generation, details of which is contained within the Board Letter. While settling the Consideration in other forms, such as cash or borrowings, would provide no dilution impact to the Company, it will not be easy for the Company to raise HK$2,012,868,000 in cash. As disclosed in the 2012 interim report, the cash and bank balance of the Group is HK$176,196,000, which is unable to settle the full Consideration, as a result, utilising internally generated cash would on the other hand put significant stress onto the operating cashflow of the Company. As such, settlement of the Consideration by way of issuing the New Ordinary Share and the New Convertible Preference Shares is fair and reasonable and in the interests of the Company and Shareholders as a whole.

Dilution effect of the issue of the New Ordinary Shares and Conversion Shares on the shareholding structure of the Company

The interests of the existing Independent Shareholders will be diluted from approximately 35.15% to approximately 25.02% upon issue of the New Ordinary Shares but before conversion of any of the 1,877,868,000 New Convertible Preference Shares. As the full conversion of the New Convertible Preference Shares will bring the Company's public float down to 5% and result in the Company failing to meet the minimum public float requirement of the GEM Listing Rules, Fit Generation has undertaken to the Company that they will only exercise the conversion rights as to such number of New Convertible Preference Shares if, upon conversion, the percentage of the Ordinary Shares held by the public will still meet the minimum public float requirement of the GEM Listing Rules of 25%. We consider the level of dilution to the existing Independent Shareholders (i) upon issue of the New Ordinary Shares but before conversion of any New Convertible Preference Shares; and (ii) upon issue of the New Ordinary Shares and full conversion of the New Conversion Preference Shares significant and not in the interests of Independent Shareholders.

However, in consideration of the following reasons:

(a) Opportunity to participate in a much larger business

Given the proven track record and the historical growth in profitability of the Target Group, the Independent Shareholders will be able to participate in a much larger business with significantly greater revenue base, improved earnings capability and growth prospects.

(b) Synergistic growth opportunities of the Group and Target Group

With the merger of the Group and the Target Group, the Enlarged Group can obtain the assistance from the each other in strategically expanding (i) the current sales network and coverage; (ii) the supply and procurement networks for the consumer electronic products, IT products and electronic parts and components in order to increase its bargaining power and competitive advantage; and (iii) the product range and scope of business, which will not only broaden the revenue bases of the Group, but will also allow the Group to strength and further widen its offering of consumer electronic products, IT products and related business and consequently its reputation in the PRC.

(c) Ease of funding for the Acquisition

The allotment and issue of the New Ordinary Shares and the New Convertible Preference Shares to satisfy the Consideration is an easier way to fund the Acquisition. This method is favourable to the Company as it enables the Group to make an acquisition of a very significant size without a large outlay of cash, but involves the issue of a substantial number of New Ordinary Shares and New Convertible Preference Shares with dilution consequence to the Independent Shareholders.

(d) Difficulty in raising cash for the Acquisition

Dilution to the Independent Shareholders could be avoided if a rights issue or an open offer is conducted to raise capital for the Acquisition. However, having considered the extremely low trading volume and the size of the offer needed to fully settle the Consideration, it is unlikely that arm's length underwriters and the Independent Shareholders would be attracted to participate in a rights issue or an open offer on the same quantum and terms as the New Ordinary Shares and New Convertible Preference Shares based on our experience and discussions with various independent brokerage firms.

(e) Cheaper alternative to raise cash

In view of the difficulty in raising cash to settle the Acquisition as mentioned above, the cost of funds from any attempts to raise cash would be prohibitively high, hence rendering the Acquisition impossible or very costly.

Based on the above reasons, we are of the view that it is inevitable but acceptable for the Company to issue the New Ordinary Shares and New Convertible Preference Shares as the Consideration. Upon considering the benefits of an Enlarged Group from all perspectives, we are of the opinion that the Acquisition and the dilution effect to the existing Independent Shareholders (i) upon issue of the New Ordinary Shares but before conversion of any New Convertible Preference Shares; and (ii) upon issue of the New Ordinary Shares and full conversion of the New Conversion Preference Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Financial effects of the Acquisition on the Group

(a) Net profit

Following Completion, the Target Co BVI will become a directly wholly-owned subsidiary of the Company, and the assets, liabilities and financial results of the Target Co BVI will be consolidated into the financial statements of the Group. Based on the unaudited pro forma financial information of the Enlarged Group contained in the Appendix III to the Circular prepared based on the income statement of the Group and the Target Group for the year ended 31 December 2011, the Enlarged Group's consolidated total comprehensive income attributable to the Shareholders would be substantially increased from approximately HK$10.5 million to approximately HK$201.8 million, representing an increase of approximately 18 times, as if the completion of the Acquisition has taken place on 1 January 2011.

Independent Shareholders should note that the aforesaid pro forma statement is prepared based on the historical financial figures of the Target Group. Therefore, there is no assurance that the future performance of the Target Group will be similar to those historical figures as reported in the unaudited pro forma financial information of the Enlarged Group contained in Appendix III to the Circular. Shareholders are advised to read the section headed "Risk Factors" contained in the Circular which describes the risks relating to the Acquisition, the Enlarged Group, the Target Group's business and the industry in which the Target Group operates.

(b) Earnings per share

Assuming Completion has taken place on 1 January 2011, the pro forma earnings per Ordinary Share of the Enlarged Group would become HK$0.38 per Ordinary Share (based on a total of 469,000,000 Shares after the issuance of the New Ordinary Shares following the Acquisition and assuming no New Convertible Preference Shares have been converted), and approximately HK$0.08 per Ordinary Share (based on a total of 2,346,868,000 Shares after the issue of the New Ordinary Shares and full conversion of all New Convertible Preference Shares), as compared to the earnings per Ordinary Share of the Group of approximately HK$0.03 for the year ended 31 December 2011 (based on 334,000,000 Ordinary Shares in issue). Adjustment has been made to take into consideration of the professional fees of the Acquisition incurred. Shareholders are advised to note that the pro forma earnings per Ordinary Share of the Enlarged Group was prepared for illustrative purpose and may not reflect the actual financial positions and results of the operation of the Group.

(c) Net assets

Upon Completion, the financial results of the Target Group will be consolidated into the Group's account. As shown in the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, assuming the Completion had taken place on 30 June 2012, the net asset value attributable to the Shareholders will be substantially increased from approximately HK$45.8 million to approximately HK$744.9 million. The pro forma net asset value per Ordinary Share will be increased from approximately HK$0.14 to approximately HK$0.32 as at 30 June 2012 (based on a total of 2,346,868,000 Shares after the issuance of the New Ordinary Shares and full conversion of all New Convertible Preference Shares). The above shows that the Acquisition is likely to have a positive impact on the Group's net assets base per Ordinary Share, as if Completion has taken place on 30 June 2012.

(d) Gearing and working capital

Upon Completion, the Enlarged Group's equity base would be enlarged by the issuance of the New Ordinary Shares and the New Convertible Preference Shares. According to the unaudited pro forma financial information of the Enlarged Group as set up in Appendix III to the Circular, the Group's total assets would increase from HK$509.6 million to HK$3,442.2 million, while the total liabilities would increase from HK$463.8 million to HK$2,697.3 million. Gearing ratio as at 30 June 2012, calculated as the total liabilities divided by the total assets, would decrease from approximately 91.0% to approximately 78.4% as if the Completion has taken place on 30 June 2012.

(III) WHITEWASH WAIVER

Immediately upon Completion, the interest of Sichuan Changhong Concert Party Group in the Company will increase from approximately 33.34% to approximately 52.53% of the enlarged issued share capital of the Company (excluding the Conversion Shares to be issued by the Company upon the conversion of the New Convertible Preference Shares) and approximately 90.51% of the enlarged issued ordinary share capital of the Company (including the Conversion Shares to be issued by the Company upon the full conversion of the New Convertible Preference Shares). Accordingly, Sichuan Changhong Concert Party Group will be obligated to make an unconditional mandatory general offer for all the issued Shares of the Company not already owned by them and persons acting in concert with them under Rule 26.1 of the Takeovers Code. An application has been made to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM on a vote taken by poll.

As discussed in the paragraph headed "Principal terms of the Acquisition Agreement" above, the Acquisition is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM. If the Whitewash Waiver is not approved, the Acquisition will not proceed and no general offer obligation will be triggered. In the event the Acquisition cannot proceed, the Group and the Shareholders will not be able to enjoy the benefits that would arise from the Acquisition and the possible enhancement in the Group's net asset value and earnings capability as discussed above.

Given the aforementioned potential benefits of the Acquisition to the Group and the terms of the Acquisition being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Acquisition, is in the interests of the Company and the Shareholders as a whole.

Shareholders should note that upon Completion, Sichuan Changhong Concert Party Group will hold more than 50% of the enlarged issued share capital of the Company. Accordingly, Sichuan Changhong Concert Party Group may increase its shareholdings in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

(IV) CONTINUING CONNECTED TRANSACTIONS

(a) Beijing Lease

Introduction

According to the Circular, on 16 May 2012, Changhong IT entered into the Beijing Lease, which was supplemented by a supplement agreement on 6 July 2012 with Beijing Changhong, pursuant to which Beijing Changhong has leased the Beijing Property to Changhong IT for a term of five years, with an option to terminate by Changhong IT upon three years after its commencement on 1 June 2012. Upon Completion, the above lease arrangement will constitute a continuing connected transaction of the Company.

Pursuant to Rule 20.35 of the GEM Listing Rules, the duration of the agreement must not exceed three years, except in special circumstances which are limited to cases where the nature of the transactions requires the agreement to be of duration longer than three years. We are required to explain on why leasing longer period for the Beijing Lease is required to exceeding three years, and to confirm that it is normal business practice for these types of leasing contracts to be of such duration.

Reasons for The Beijing Lease with a Duration Exceeding Three Years

As set out in the Circular, the Beijing Property will be used as Changhong IT's headquarters office in Beijing. We have discussed with the management of Changhong IT the rationale for the duration of the Beijing Lease, and were given to understand the following factors and reasons for such duration as follows:

(1) the five-year duration of Beijing Lease for the office premise will enable the Changhong IT to prevent the frequent recurrence of expensive initial set-up costs such as renovation and interior decoration, which the Enlarged Group will invest on the Beijing Property in order to occupy the said premises;

(2) the supplement agreement entered on 6 July 2012 provides an option for Changhong IT to terminate the Beijing Lease upon three years after its commencement on 1 June 2012. This option may allow greater flexibility for the Enlarged Group to choose other offices if better opportunities arisen in the future; and

(3) the ability for Changhong IT to lock in the rental rates of the Beijing Property for a period of five years is in the interest of the Company and Shareholders a whole, as the rental rates within the city of Beijing and the vicinity of the Beijing Property has been rising in the last few years. Based on the information presented within the "Global Market Perspective – First Quarter 2012", a quarterly publication by Jones Lang LaSalle, the rental price for office property in Beijing is in a rising trend and is expected to continue growing over the next few years. Furthermore, availability ratio of grade A office space is expected to drop, due to the limited supply, and will lead to an increase in rent and shifting some of the demand into secondary locations. In view of the demand of office space in Beijing and the potential increase in rent, we are of the view that the entering into of a long-term leasing agreement will allow the Changhong IT to lock in the current rental rates and prevent further increase in rental rates over the next five years.

In considering whether it is normal business practice for the leasing agreements of office to have duration longer than three years, we have reviewed a comparable transaction involving the lease of office space in the same building as the Beijing Property. We noted that the lease under the aforesaid comparable transaction was also for a term of five years. We have also confirmed with the building management office of the Beijing Property that it is their normal business practice to enter into tenancy agreement with tenure exceeding 3 years.

The following table illustrates the comparisons between the Beijing Lease and the comparable lease we have reviewed:

	Beijing Lease	Comparable lease
Duration of the leasing (years)	5	5
Leasing area (sq.m.)	6,348	550
Leasing price (RMB/sq.m.)	828	1,008
Leasing floor	7-12	5

Save for the above, the remaining terms of the leasing agreement under the aforesaid comparable transaction is about the same to the Beijing Lease.

Having considered the principal factors and reasons referred in the above, we are of the view that the Beijing Lease with duration of more than three years is required, and is normal business practice for these types of leasing contracts to be of such duration, and the entering into of the Beijing Lease is fair and reasonable so far as the Independent Shareholders are concerned, and is in interests of the Company and Shareholders as a whole.

(b) Framework Agreements

Introduction

The Group and the Target Group have historically been involved and will continue to be involved in transactions with the Sichuan Changhong Group. Upon Completion, members of the Target Group will become subsidiaries of the Company and the Enlarged Group will continue to have certain transactions that constitute connected transactions within the meaning of the GEM Listing Rules.

On 7 December 2012, the Company (on behalf of the Enlarged Group) has entered into the Framework Agreements with Sichuan Changhong for a term from Completion to 31 December 2015, in order to set out the basis upon which members of the Enlarged Group will, after Completion, continue to engage in transactions with the Sichuan Changhong Group as part of the Enlarged Group's business.

Based on the applicable percentage ratios (under Rule 19.07 of the GEM Listing Rules), the transactions contemplated under the Framework Agreements for a term ending 31 December 2015 constitute continuing connected transactions of the Company under the Rules 20.45 to 20.54 of the GEM Listing Rules, which are subject to reporting, announcement and Independent Shareholders' approval requirements.

Principal factors and reasons considered

In arriving at our opinion and recommendations to the Independent Board Committee and Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions under the Framework Agreements, we have taken into consideration the following factors and reasons:

Background of the Framework Agreements

(i) Background of the relevant parties

a. Sichuan Changhong Group

As set out in the Circular, the Sichuan Changhong Group is currently one of the largest PRC consumer electronics products providers specialising in research & development, manufacturing and marketing of consumer electronic products.

b. The Group

Please refer to the section headed "Background on the Group" above within the letter of TC Capital.

c. The Target Group

Please refer to the section headed "Background on the Target Group" above within the letter of TC Capital.

(ii) Background of and reasons for entering into the Framework Agreements

The Group has been carrying out transactions with the Sichuan Changhong Group under the Framework Agreements and previous supply and purchase agreements since 2007. On 20 November 2009, the Company entered into the Existing Master Supply Agreement with Sichuan Changhong in respect of the supply of the Group Supply Products to certain members of the Sichuan Changhong Group. On the same date, the Company had entered into the Existing Master Purchase Agreement in relation to the purchase of the Group Purchase Products from certain members of the Sichuan Changhong Group on an ongoing basis, which the agreements will expire on 31 December 2012.

Under the Existing Master Purchase Agreement, the Group has purchased certain consumer electronic products such as televisions, air-conditioners and fridges from the Sichuan Changhong Group. As discussed with the Group, the Group is the preferential agent for Sichuan Changhong Group's Changhong Electronic Business in overseas markets and all the consumer electronic products purchased were used for re-selling purpose as the Group is in the business of trading of consumer electronic products. The Group is able to use its own bankable assets, such as developed overseas networks, to become the preferential agent of Sichuan Changhong Group for overseas markets, which is in line with the interests of the Company and Shareholders.

Under the Existing Master Supply Agreement, the Group has supplied electronic products and components such as LCD screens, PDP screens, integrated circuits, cathode ray tubes, voltage regulators, plugs and sockets to the Sichuan Changhong Group.

The Existing Master Purchase Agreement, the Existing Master Supply Agreement and the relevant annual caps for the period from 1 January 2010 to 31 December 2012 were approved by the Independent Shareholders at SGM that held on 29 December 2009. Further details of the Existing Master Purchase Agreement, the Existing Master Supply Agreement as contemplated thereunder are set out in the circular of the Company dated 10 December 2009.

The Target Group has supplied various consumer electronic products and IT products such as servers, notebooks, storage devices and network equipment to certain members of the Sichuan Changhong Group, who are in the businesses of trading of consumer electronic and IT products. On the other hand, the Target Group has purchased from the Sichuan Changhong Group consumer electronic products such as LBS Products manufactured at its specific request from time to time as part of its own-brand products division of its business for sales in the PRC. As the Target Group does not manufacture these products, the Target Group has to purchase them from Sichuan Changhong Group. As disclosed by the Target Group, approximately 80.4% of products purchased from Sichuan Changhong Group were used for re-selling and the remaining 19.6% were for self-use as of 2011.

As discussed with the Target Group, the followings are the reasons and benefits of the Target Group in the sales and purchases with the Sichuan Changhong Group:

(1) in light of the long-established and close working relationship between the Target Group and the Sichuan Changhong Group, and the understanding of each other's operations and practices, it lowers the counter-party risk in supplying and purchasing materials and services to and from any independent third parties;

(2) the Target Group is able to obtain a favorable pricing condition with satisfied quality of products from the Sichuan Changhong Group; and

(3) the reliability of the supply of products to and from the Sichuan Changhong Group has been established. Accordingly, the New Master Supply Agreement ensures the continuity and stability of the Company's production and operation, which has a positive impact in terms of operational integration and geographical convenience.

To conclude, with reference to the reasons and benefits mentioned above, we are of the view that the necessity for the counter-parties sales and purchases between the Target Group and the Sichuan Changhong Group is fair and reasonable and in the best interests of the Shareholders.

Upon Completion, members of the Target Group will become subsidiaries of the Company. In order to regulate the relationship between the Enlarged Group and the Sichuan Changhong Group with respect to the supply of products by the Enlarged Group to the Sichuan Changhong Group and the purchase of products by members of the Enlarged Group from members of the Sichuan Changhong Group in the future after Completion, the Company and Sichuan Changhong have entered into the New Master Supply Agreement and the New Master Purchase Agreement, collectively known as Framework Agreements, on 7 December 2012.

The New Master Supply Agreement shall replace the Existing Master Supply Agreement (with effect from the Completion Date) and prescribes the framework terms upon which the Company shall and shall procure the relevant members of the Enlarged Group to provide, and Sichuan Changhong shall and shall procure the relevant members of the Sichuan Changhong Group to purchase the Enlarged Group Supply Products and such other products as the Company and Sichuan Changhong may agree from time to time commencing on the Completion Date and ending on 31 December 2015.

The New Master Purchase Agreement shall replace the Existing Master Purchase Agreement (with effect from the Completion Date) and prescribes the framework terms upon which Sichuan Changhong shall and shall procure the relevant members of the Sichuan Changhong Group to provide, and the Company shall and shall procure the relevant members of the Enlarged Group (which includes Changhong IT) to purchase the Enlarged Group Purchase Products and such other products as the Company and Sichuan Changhong may agree from time to time commencing on the Completion Date and ending on 31 December 2015.

In arriving at our view, we have considered the following factors in regard of entering into the Framework Agreements:

a. Major customer and supplier of the Group

As disclosed in the Company's 2011 annual report, during the year ended 31 December 2011, the five largest customers were Sichuan Changhong and its subsidiaries accounted for approximately 67.47% of the total sales, while two of the five largest suppliers were the Sichuan Changhong and its subsidiaries which accounted for 32.22% of the total purchases.

b. Lower counter-party risk

The Group has been carrying out transactions with the Sichuan Changhong Group under the Existing Master Supply Agreement and previous supply agreement since 2007. In light of the long-term established and solid relationship between the Enlarged Group and various suppliers of products that are required by the Sichuan Changhong Group, and the understanding of each other's operations and practices, it lowers the counter-party risk in supplying to and from any Independent Third Parties.

As advised by the Company, based on the previous experiences under the Existing Master Purchase Agreement, the Sichuan Changhong Group is able to deliver quality products in a timely manner. Having reliable and cooperative suppliers through the New Master Purchase Agreement will enable the Enlarged Group to be able to source for more customer orders, improve its sales orders and expand its business.

c. Established network by the Enlarged Group

As of 31 December 2011, the Sichuan Changhong Group imported more than US$1 billion worth of electronic parts and components from overseas via independent agents, and purchased more than HK$20 million worth of IT products such as computers, servers, notebooks, storage devices and network equipment etc. from other independent suppliers. The Enlarged Group has established long term and solid relationships with various suppliers of products that are required by the Sichuan Changhong Group, and therefore, the Enlarged Group will be able to capitalize on such established relationships to procure the products required by the Sichuan Changhong Group and in turn increase the income of the Enlarged Group with a committed source of purchase orders from the Sichuan Changhong Group through the New Master Supply Agreement.

d. Risk associated with the reliance on few customers

Although the Sichuan Changhong Group is the largest customer and one of the major suppliers of the Group, the Group will continue to source its products from other suppliers and distribute its products to various customers to avoid over-reliance on the Sichuan Changhong Group. As the Group will from time to time consider further acquisitions of companies should suitable opportunities arise, such acquisitions will further increase the Target Group's customer and supplier bases and hence reduce the risk of reliance on few customers and suppliers.

For further details of the risks faced by the Target Group, please refer to the section headed "Risk Factors" in the Circular.

Having considered the aforesaid factors and the business nature of the Company and the Sichuan Changhong Group, we are of the view that the Framework Agreements are entered in the ordinary and usual course of business of the Company, and in the interests of the Company and its Shareholders as a whole.

(1) Supply of consumer electronic products, IT products and electronic parts and components by the Enlarged Group to the Sichuan Changhong Group

Principal terms of the New Master Supply Agreement

Pursuant to the terms of the New Master Supply Agreement, the Enlarged Group will supply the Enlarged Group Supply Products between the Enlarged Group and Sichuan Changhong. Details of the principal terms of the New Master Supply Agreement are set out in the Circular.

Pricing

As advised by the Company that the prices of the Enlarged Group Supply Products under the New Master Supply Agreement shall be determined and negotiated based on normal commercial terms and with reference to the prevailing fair market prices of comparable products, and such prices shall be no less favourable to the Enlarged Group than that available from Independent Third Parties. There should be no minimum orders and it is not necessary for the Enlarged Group to supply the Sichuan Changhong Group products unless orders are made by members of the Sichuan Changhong Group.

Payment terms

Pursuant to the New Master Supply Agreement, payment by Sichuan Changhong depends on the products to be supplied and volume, and the time of delivery for each transaction. It is generally expected to be made by telegraphic transfer payable within 35 to 45 days from the date of delivery or irrevocable letter of credit.

In this regard, we have obtained and reviewed a number of the contracts and invoices in respect of the historical transactions between the Group and Sichuan Changhong, and the Group and Independent Third Parties. We note that the terms of the contracts with Sichuan Changhong, in particular the pricing and settlement terms are no less favourable to the Group than the terms offered to Independent Third Parties, which we consider are fair and reasonable, on normal commercial terms and are in the interests of the Company and its Shareholders as a whole.

Settlement

We have reviewed the 2009, 2010 and 2011 annual reports of the Company and the information provided by the Group in respect of subsequent settlement. The ratio of delay in settlement by Sichuan Changhong was approximately 0.79% as of 31 December 2011, and no bad debt provision has been made. Accordingly, we consider that the settlement term by Sichuan Changhong is acceptable, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Basis of determination of the proposed annual caps ending 31 December 2015 regarding the New Master Supply Agreement

As disclosed in the Circular, the proposed aggregate annual caps for the three years ending 31 December 2015 under the New Master Supply Agreement are determined with reference to:

(i) the historical transactions conducted and transaction amounts in respect of the Target Group's and the Group's supply of products to the Sichuan Changhong Group;

(ii) the Target Group's estimated approximate 10% year-on-year increase in annual sales of IT products to the Sichuan Changhong Group based on the Sichuan Changhong Group's expected needs and projected increase in revenue and growth of its business in view of the increase in demand and the expansion of customer base in the consumer electronics and IT products markets in the PRC; and

(iii) the value of the actual supply by the Group to the Sichuan Changhong Group in 2010 and 2011 under the Existing Master Supply Agreement, and the anticipated increase in demand by the Sichuan Changhong Group assuming that the supply of electronic components and products to the Sichuan Changhong Group by the Enlarged Group in the three years ending 31 December 2015 will have an increase of approximately 10% per year.

In determining the fairness and the reasonableness of the proposed aggregate annual caps for the three years ending 31 December 2015 under the New Master Supply Agreement, we have considered the following factors:

– *Historical transactions conducted and the transaction amounts*

The table below sets forth (i) the historical aggregate transaction amounts and historical annual caps under the Existing Master Supply Agreement for the Track Record Period; and (ii) the proposed annual caps of the aggregated transactions contemplated under the New Master Supply Agreement ending 31 December 2015:

	Historical transaction amounts for the year ended 31 December			**for seven months ended 31 July**	**Historical annual caps for the year ended 31 December**			**Annual caps for the year ending 31 December** *(Note 1)*		
	2009	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2013**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Supply of the Target Group Supply Products	12,958	23,305	18,598	26,946	–	–	–	22,504	24,754	27,230
Supply of the Group Supply Products	1,776,680	1,553,588	1,991,262	987,076	2,184,000	2,090,000	2,299,000	2,409,427	2,650,370	2,915,407
Total	1,789,638	1,576,893	2,009,860	1,014,022	2,184,000	2,090,000	2,299,000	2,431,931	2,675,124	2,942,637

Note:–

1. The proposed annual caps for the three years ending 31 December 2015 represent the "Supply of the Enlarged Group Supply Products" under the New Master Supply Agreement.

The utilization rates of the annual caps for the year 2009, 2010 and 2011, are calculated based on the historical transaction amounts divided by the annual caps of the respective years. These rates range from approximately 74% to 87% indicating that these historical annual caps have been determined and utilised to a reasonable level. The CAGR of the total historical transactions between 2009 and 2011 is approximately 6%. The Company estimates the annual growth rate for the year ending 2013 is expected to be approximately 10% and continues to maintain steadily at 10% in 2014 and 2015.

– *Expected business growth of the Sichuan Changhong Group*

As discussed with the Company, the estimated increases in the annual sales of IT products and the electronic components and products by the Target Group and the Group, respectively, to the Sichuan Changhong Group have been determined with reference to the Sichuan Changhong Group's expected business growth. As disclosed in the Sichuan Changhong Group's 2007, 2008, 2009, 2010 and 2011 annual reports, the CAGR of its turnover between 2007 and 2011 is 22.5%, while the CAGR of its IT products segment alone during the same period is 40.5%.

– *Prospects of the PRC's electronic information industry*

As discussed in the section headed "PRC electronic information industry" before, we have reviewed the Electronic Information Industry Statistical Bulletins 2007-2011 (2007-2011年電子資訊產業統計公報) published by the MIIT, the calculated CAGR of the sales revenue from the main businesses of the electronic information industry as well as the sub-sector of "Computer", which are approximately 13.3% and 7.9% between 2007 and 2011, respectively. Moreover, the PRC government has targeted to maintain the annual growth rate of the sales revenue from the main businesses of the electronic information industry at around 10% until 2015 according to its twelfth "Five-year plan". Euromonitor has also forecasted the IT product market with the CAGR of 5.1% between 2012 and 2017.

Having considered the factors and discussed above, in particular, (i) the historical growth rates and the transaction amounts; (ii) the expected business growth of the Sichuan Changhong Group; and (iii) the continuous growth of the consumer electronics and IT products markets of the PRC, we are of the view that the aggregate annual caps contemplated under the New Master Supply Agreement, and the expected annual supply value growth of 10% in determining the 2013, 2014 and 2015 aggregate annual caps, are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

(2) Purchase of consumer electronic products by the Enlarged Group from the Sichuan Changhong Group

Principal terms of the New Master Purchase Agreement

Pursuant to the terms of the New Master Purchase Agreement, the Enlarged Group will purchase the Enlarged Group Purchase Products and such other products from the Sichuan Changhong Group. Details of the principal terms of the New Master Purchase Agreement are set out in the Circular.

Pricing

As advised by the Directors that the prices of the Enlarged Group Purchase Products under the New Master Purchase Agreement shall be determined and negotiated based on normal commercial terms and with reference to the prevailing fair market prices of comparable products, and such prices shall be no less favourable to the Enlarged Group than that available from the Independent Third Parties.

Payment terms

Pursuant to the New Master Purchase Agreement, payment by the Company depends on the products to be purchased and volume, and the time of delivery for each transaction. It is generally expected to be made by telegraphic transfer payable within 35 to 45 days from the date of delivery or by transferable letter of credit.

In this regard, we have obtained and reviewed a number of the contracts, purchasing orders and invoices of the Company for the purchases from Sichuan Changhong and the Independent Third Parties for the purchase of similar electronic components and products. We note that the terms of the contracts with Sichuan Changhong, in particular the pricing of materials and payment terms are no less favourable to the Company than the terms available from the Independent Third Parties, which we consider are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholder as a whole.

Basis of determination of the annual caps ending 31 December 2015 regarding the New Master Purchase Agreement

As disclosed in the Circular, the proposed aggregate annual caps ending 31 December 2015 under the New Master Purchase Agreement are determined with reference to:

(i) the historical transactions conducted and transaction amounts in respect of the Enlarged Group's purchase of the Enlarged Group Purchase Products from the Sichuan Changhong Group;

(ii) the Enlarged Group's overall projected demand for products from the Sichuan Changhong Group based on its business expansion plans; and

(iii) the value of the actual purchase by the Group from the Sichuan Changhong Group in 2010 and 2011 under the Existing Master Purchase Agreement, and the anticipated increase in demand by the Group's customers assuming that the purchase of electronic products from the Sichuan Changhong Group by the Enlarged Group in the three years 31 December 2015 will have an increase of approximately 10% per year.

In determining the fairness and the reasonableness of the annual caps, we have considered the following factors:

– *Historical annual caps under the Existing Master Purchase Agreement*

The table below sets forth (i) the historical aggregate value of purchase of products and historical annual caps under the Existing Master Purchase Agreement for the Track Record Period; and (ii) the proposed aggregate annual caps under the New Master Purchase Agreement ending 31 December 2015:

	Historical transaction amounts for the year ended 31 December			**the seven months ended 31 July**	**Historical annual caps for the year ended 31 December**			**Annual caps for the year ending 31 December** *(Note 1)*		
	2009	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2013**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Purchase of the Target Group Purchase Products	4,570	4,121	495	19	–	–	–	599	659	725
Purchase of the Group Purchase Products	1,160,050	1,323,062	924,262	492,387	1,250,000	1,375,000	1,512,500	1,118,357	1,230,193	1,353,212
Total	1,164,620	1,327,183	924,757	492,406	1,250,000	1,375,000	1,512,500	1,118,956	1,230,852	1,353,937

Note:–

1. The proposed annual caps for the three years ending 31 December 2015 represent the "Purchase of the Enlarged Group Purchase Products" under the New Master Purchase Agreement.

The utilization rates of the annual caps for the years 2009, 2010 and 2011, are calculated based on the historical transaction amounts divided by the annual caps of the respective years. These rates range from approximately 61% to 96% indicating that these historical annual caps have been determined and utilised to a reasonable level. While the CAGR of the total historical transaction amounts between 2009 and 2011 shows a negative growth rate, the historical transaction amounts fluctuated to a high of HK$1,327.2 million in 2010 and a low of HK$924.8 million in 2011. We note that the proposed 2013, 2014 and 2015 aggregate annual caps of the New Master Purchase Agreement are higher than the historical transactions in 2009,

2010 and 2011. Having considered the factors and discussed above, in particular, (i) the transaction amounts where a buffer is required to meet the possibility of large fluctuations; (ii) the historical transaction amounts under the Existing Master Purchase Agreement; (iii) the expected business growth under the Enlarged Group's future business plan; (iv) the approximately 13.3% historical CAGR of the sales revenue from the main businesses of the electronic information industry; and (v) the approximately 10% targeted growth rate of the consumer electronics and IT products markets of the PRC under the twelfth "Five-year Plan", we are of the view that it is fair and reasonable to determine the 2013, 2014 and 2015 aggregate annual caps based on the historical transaction amounts incorporating buffers and expected business growth. Consequently, we are of the view that the 2013, 2014 and 2015 aggregate annual caps contemplated under the New Master Purchase Agreement, and the expected annual purchase value growth of 10% in determining the 2013, 2014 and 2015 aggregate annual caps, are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

– *Expected business growth of the Enlarged Group*

As discussed with the Company regarding the future plan of the Enlarged Group, the Company decides to expand the product varieties and the business, including expansion of the PDP products and IT products services businesses through the Acquisition. The Company also seeks for the opportunities for the development of IT products and consumer electronic products business in the developing regions, such as the South East Asia, South America and Africa.

– *Prospects of the PRC's electronic information industry*

After reviewing the Electronic Information Industry Statistical Bulletins 2007-2011 (2007-2011年電子資訊產業統計公報) published by the MIIT, we have calculated the CAGR of the sales revenue from the main businesses of the electronic information industry, which is approximately 13.3% between 2007 and 2011. Moreover, the PRC government has targeted to maintain the annual growth rate of the sales revenue from the main businesses of the electronic information industry at around 10% till 2015 according to the twelfth "Five-year plan".

We also notice that there is a decrease of approximately 30% in the historical transaction amount in 2011 when compared to that of 2010. As discussed with the Company, the decrease was mainly due to the weak global economy, the unstable atmosphere brought by the European debt crisis and the unstable political environment in the Middle East region. These resulted in the reducing of the purchasing orders by the end-users and consumers, as well as weakening the customers' confidence. The Company estimates the annual growth rate for the year ending 2013 is expected to be approximately 10% and continue to maintain steadily at 10% in 2014 and 2015. The management of the Company is of the view that the general economy will start picking up in 2012 and 2013 and the

expansion of business as discussed above. As such, the demand and the sales will restore gradually. Furthermore, a reasonable buffer should be allocated to meet the fluctuations under the New Master Purchase Agreement. We have also calculated that the CAGRs of the turnover of the Group and the Target Group are approximately 2.9% and 60.2% between 2009 and 2011, respectively, and having taken the consideration of the benefits of the Acquisition discussed in the section headed "Reasons for and benefits of the Acquisition", we are of the view that the Company's estimation on the 10% annual business growth rate of the Enlarged Group between 2013 and 2015 is fair and reasonable.

(V) DISCUSSION AND CONCLUSION

The Acquisition is in line with the strategy of the Group to further develop the IT products market through mergers and acquisitions and will broaden the Group's revenue base, which we consider the Acquisition will likely bring positive impact to the Group's turnover.

The total Consideration of HK$2,012,868,000 for the Acquisition will be satisfied in full by (i) as to HK$135,000,000 by the allotment and issue of New Ordinary Shares at an issue price of HK$1.00 per New Ordinary Share; and (ii) as to HK$1,877,868,000 by the allotment and issue of New Convertible Preference Shares at an issue price of HK$1.00 per New Convertible Preference Share to Fit Generation upon Completion. This settlement method allows the Group to acquire significant assets without stretching its financial positions. For the Consideration, the P/E Ratio implied by the Consideration is lower than the average as well as the median of the Comparable Companies, and for the P/S Ratio implied by the Consideration is lower than the average of the Comparable Companies, but is equal to the median value. Accordingly, we are of the view that the Consideration when compared to the Comparable Companies is fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

The allotment and issue of the New Ordinary Shares and New Convertible Preference Shares at a price of HK$1.00, representing a discount of approximately 42.5% to the closing price of the Ordinary Shares on the Stock Exchange on the Last Trading Day, which is higher than the average discount of the issue prices of the new shares and/or preference shares to the Comparable Shares on the respective last trading days. Taking into account (i) the poor liquidity of the Ordinary Shares, (ii) the large number of Ordinary Shares to be issued or convertible relative to its trading volume, and (iii) there is a lack of comparable market information for shares with low liquidity, accordingly, we are unable to form a view if the issue price at HK$1.00 is fair and reasonable so far as the Independent Shareholders are concerned and in interests of the Company and the Shareholders as a whole. However, having considered that upon Completion, the pro forma earnings per Ordinary Share and the pro forma net asset value per Ordinary Share will be significantly improved as discussed in the section headed "Financial effects of the Acquisition on the Group" above, we are of the view that the discount on the New Ordinary Shares and New Convertible Preference Shares is fair and reasonable, and in the interests of the Company and Shareholders as a whole.

The shareholding interest in the Company of the public Shareholders of Ordinary Shares will be diluted from 35.15% to 25.02% after Completion and the allotment and issue of the New Ordinary Shares (but before conversion of any New Convertible Preference Shares), and further diluted to 5.00% after allotment and issue of the New Ordinary Shares and the full conversion of the New Convertible Preference Shares if the public float requirement is not met by the Company. We consider that the dilution is inevitable in the case of a substantial acquisition of this type which is being financed without incurring any cash outlay or additional liabilities to satisfy the Consideration.

The Acquisition will result in the interests of the Sichuan Changhong Concert Party Group and associates being increased from approximately 33.34% to approximately 52.53% of the issued share capital of the Company as enlarged by the New Ordinary Shares (but before conversion of any New Convertible Preference Shares) and further to 90.51% upon full conversion of the New Convertible Preference Shares and the issue of the New Ordinary Shares (in the assumed scenario that the New Convertible Preference Shares are fully converted without subject to the minimum public float requirement), thus triggering an obligation to make an unconditional mandatory general offer for all the issued Ordinary Shares. Sichuan Changhong Concert Party Group has made the application for the Whitewash Waiver, which is subject to the Independent Shareholders' approval. If the Whitewash Waiver is not granted, the Acquisition will not proceed. In the light of the benefits of Acquisition mentioned above, we consider it is in the interests of the Independent Shareholders that the Whitewash Waiver be granted to Sichuan Changhong.

Assuming Completion has taken place on 1 January 2011, the unaudited pro forma net profit of the Enlarged Group would be increased to approximately HK$201.8 million, representing an increase of approximately 18 times from the audited net profit of the Group for the amount of HK$10.5 million for the year ended 31 December 2011. Besides, the Acquisition would enhance the pro forma net asset value per Ordinary Share from HK$0.14 to HK$0.32 as if the Completion has taken place on 30 June 2012 based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to the Circular (and based on a total of 2,346,868,000 Shares after the issuance of the New Ordinary Shares and full conversion of all New Convertible Preference Shares). Given that the proven track record of the turnover generated by the Target Group and the experience of the Group's management in operating the business of distribution of IT products in the PRC, we expect that there will not any material adverse factor as disclosed in the section headed "Risk Factors" in the Circular on the net profit of the Enlarged Group. Nevertheless, Shareholders are advised to read the section headed "Risk Factors" contained in the Circular which describes the risks relating to the Acquisition, the Enlarged Group, the Target Group's business and the industry in which the Target Group operates.

The supply and purchase arrangements between the Enlarged Group and the Sichuan Changhong Group will continue after the Completion and will constitute continuing connected transactions for the Company under the GEM Listing Rules. The proposed annual caps have been determined with reference to the historical transactions conducted, the historical transaction amounts and the future expected growth of the Sichuan Changhong Group after the Acquisition, which we are of the view that the bases for determining the proposed annual caps under the Framework Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

(VI) ADVICE

Having considered the principal reasons and factors referred to above, we are of the view that:

(a) the Acquisition, while not in the ordinary and usual course of business of the Company, is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;

(b) the potential benefits of the Acquisition to the Group and the terms of the Acquisition being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the Completion, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and

(c) the Framework Agreements are entered in the ordinary and usual course of business. In addition, the terms of the Framework Agreements and their respective proposed annual caps are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to advise, and we also recommend, the Independent Shareholders to vote in favour of the resolutions to be proposed at the forthcoming SGM to approve the Acquisition Agreement, the proposed grant of specific mandate to allot and issue the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the application for the Whitewash Wavier, the Framework Agreements and the transactions contemplated thereunder, and to approve the proposed related aggregate annual caps.

Yours faithfully,
For and on behalf of
TC Capital Asia Limited
Edward Wu
Managing Director

FURTHER ISSUE OF SECURITIES

Rule 17.29 of the GEM Listing Rules prohibits the issue of further shares or securities convertible into equity securities of a listed issuer (whether or not of a class already listed) or the forming of the subject of any agreement to such an issue within six months from the date on which securities of the listed issuer first commence dealing on the Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing), except for certain circumstances specified in Rule 17.29 of the GEM Listing Rules. Rule 13.16A of the GEM Listing Rules provides that the controlling shareholders (as defined in the GEM Listing Rules) of an issuer, shall not, and must procure that the relevant registered holder(s) will not: (a) in the period commencing on the date by reference to which disclosure of the shareholding of the controlling shareholders is made in a listing document and ending on the date which is six months from the date on which dealings in the shares commence on the Stock Exchange (the "**First Six Months**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those shares in respect of which he/she is or they are shown by the listing document to be the beneficial owner(s); or (b) in the period of six months commencing on the date on which the First Six Months expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that person or group of persons would cease to be a controlling shareholder.

The restriction in Rule 17.29 of the GEM Listing Rules applies to the Company because it is deemed to be a new listing applicant under Rule 19.54 of the GEM Listing Rules as a result of the Acquisition which constitutes a reverse takeover under the GEM Listing Rules and the restriction in Rule 13.16A of the GEM Listing Rule also applies. The reasons for application for the waiver from the strict compliance with Rule 17.29 of the GEM Listing Rules and a consequential waiver from the strict compliance of Rule 13.16A of the GEM Listing Rules by the Company in respect of the deemed disposal of Shares by the Controlling Shareholders upon issue of securities within six months after the deemed new listing of the Company are as follows:

(a) the deemed new listing will not involve any share offering to the public, and hence there is no concern of new investors being subject to the risk of dilution within a relatively short period of time after listing; and

(b) the Company will also have the flexibility in financing or structuring payment method through activities such as acquisition of assets or business for any future expansion as disclosed in the section "Statement of Business Objectives" within the first six months after the Completion and preserving the Enlarged Group's cash resources at the same time. The Company considers that it would be unduly onerous to restrict its ability to raise funds through the issuance of new shares on terms set out in Rule 17.29 of the GEM Listing Rules, which could have a prejudicial effect on the Enlarged Group's business development and which not be in the interests of the Shareholders as a whole.

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 17.29 of the GEM Listing Rules and a consequential waiver from strict compliance of Rule 13.16A of the GEM Listing Rules in respect of the deemed disposal of Shares by the Controlling Shareholders upon issue of securities within six months after the deemed new listing of the Company on the conditions that:

(a) any issue of new Shares (or convertible securities) or the entering into of an agreement in this regard by the Company during the first six months after listing must be either:

    (i) for cash to fund a specific acquisition; or

    (ii) as partial or full consideration for a specific acquisition;

(b) such acquisition referred to in (a) must be for assets or businesses which will contribute to the growth of the Enlarged Group's operations; and

(c) the Controlling Shareholders would not cease to be controlling shareholders upon the issue of such Shares within first twelve months after the deemed new listing of the Company.

The Company has no current intention to acquire any business within the next six months after the deemed new listing of the Company.

You should carefully consider all of the information in this circular, including the risks and uncertainties described below, before making the voting decision at the SGM. You should pay particular attention to the fact that the business of the Target Group is located almost exclusively in the PRC and the Target Group is governed by a legal and regulatory environment that differs in certain respects from that which prevails in other countries. The business, financial condition or results of operations of the Enlarged Group could be materially and adversely affected by any of the risks described below.

RISKS RELATING TO THE ACQUISITION

The Acquisition constitutes an investment in a new business sector and may pose significant challenges to the Group's administrative, financial and operational resources

The Acquisition constitutes an investment in the new business sector of distribution of IT products in the PRC, which the Group has not previously had exposure to or experience in. The new business, coupled with the regulatory environment, may pose significant challenges to the Group's administrative, financial and operational resources. Since the Group does not have exposure to or experience in the new business, it is not in a position to assure the timing and amount of any return that may be generated from the new business, nor is it in a position to control the operational risks that could lead to a loss.

Completion of the Acquisition is subject to conditions precedent set out in the Acquisition Agreement having been fulfilled and there is no assurance that all of the conditions precedent can be fulfilled

Completion of the Acquisition is conditional upon fulfillment of the conditions precedent, details of which are set out in the section headed "Letter from the Board – The Acquisition Agreement – (2) Conditions" of this circular.

Fulfillment of certain conditions precedent is not within the control of the parties involved in the Acquisition as they involve decisions of third parties and/or governmental or regulatory authorities. Such conditions precedent include, among other things, obtaining approvals from relevant third parties and/or governmental or regulatory authorities for the execution and performance of the Acquisition Agreement and the transaction contemplated thereunder, obtaining approval from the Independent Shareholders at the SGM, obtaining approval from the Listing Committee of the Stock Exchange for the new listing application of the Company and for the listing of, and permission to deal in, the New Ordinary Shares and the Conversion Shares and the granting of Whitewash Waiver by the Executive. Since fulfillment of such conditions precedent is beyond the control of the parties involved in the Acquisition, there is no assurance that the Acquisition will be completed as intended.

The shareholding percentages of the existing Shareholders in the Company will be substantially diluted immediately following Completion

Pursuant to the Acquisition Agreement, the Company will issue a total of 135,000,000 New Ordinary Shares and 1,877,868,000 New Convertible Preference Shares to Fit Generation. The New Ordinary Shares represent approximately 5.75% of the issued share capital of the Company as enlarged by the allotment and issue of the New Ordinary Shares and the Conversion Shares. Any value enhancement of the Ordinary Shares as a result of the Acquisition may not necessarily be reflected in their market price and may not offset the dilution effect to the Shareholders. Assuming the New Convertible Preference Shares are fully converted and that further new Shares are issued by the Company to the public so that the minimum public float requirement of 25% is met (which scenario shall not happen as it is not the intention of the parties under the Acquisition Agreement), the corresponding pro forma earnings per Share and pro forma net asset per Share would, for illustration purposes only, be HK$0.06 and HK$0.25 respectively (based on a total of 2,972,673,787 Shares).

The shareholding percentages of existing Shareholders in the Company will be further diluted if the Company issues additional Shares and/or equity securities in the future

To facilitate expansion of the Group's business, the Company may contemplate further fund raising activities by offering and issuing additional Shares and/or equity securities in the future. The Company will make reference to, among other things, capital market conditions at that time to determine the issue price for such fund raising activities. There is no assurance that the issue price will be higher than the net tangible asset book value per Share. If the Company issues additional Shares and/or equity securities in the future at a discounted price to the net tangible asset book value per Share, Shareholders may experience further dilution in the net tangible asset book value per Share of their Shares.

Dividends declared by the Target Group and the Company in the past may not be indicative of the amount of future dividend payments

The Target Group had declared dividends in aggregate amounts of nil, HK$34,422,000, HK$193,713,000 and nil to its then shareholders for the three years ended 31 December 2011 and seven months ended 31 July 2012, respectively. No dividend was declared by the Company for the three years ended 31 December 2011 and the seven months ended 31 July 2012. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Therefore, the past dividend payments referred to above should not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Board in the future. According to the terms of the New Convertible Preference Shares, holders of New Convertible Preference Shares shall have the right to receive dividend in priority to holders of any other class of shares in the capital of the Company. No assurance can be given that dividends to be distributed out of the funds of the Company available for distribution can be paid to the Shareholders.

RISKS RELATING TO THE ENLARGED GROUP

Any decline in the ability of the operating subsidiaries of the Target Group, which will become operating subsidiaries of the Company following Completion, to pay dividends to the Company would adversely affect the earnings of the Company

The Company is a holding company and conducts substantially all its operations through its operating subsidiaries. Most of the assets of the Company are held by, and substantially all of the earnings and cash flows of the Company are attributable to, the operating subsidiaries of the Company. The operating subsidiaries of the Target Group will become operating subsidiaries of the Company following completion of the Acquisition. If the earnings from the operating subsidiaries of the Target Group decline, the cash flows of the Company would be adversely affected.

The ability of the operating subsidiaries of the Target Group to pay dividends depends on business considerations including its operating results and cash flows, and regulatory restrictions including its articles of association and applicable company law provisions. In particular, under the PRC law, an operating subsidiary of the Target Group in China may only pay dividends after 10% of its net profit has been set aside as a statutory common reserve fund (until such reserve fund is equal to 50% of their relevant registered capital). In addition, distributions by the operating subsidiaries of the Target Group to the Company other than by way of dividends may be subject to government approvals and taxation. These restrictions could reduce the amount of distributions that the Company may receive from the operating subsidiaries of the Target Group, which would restrict the ability of the Company to fund its operations on a group basis and to generate income to pay dividends.

There is no assurance that the operating subsidiaries of the Target Group will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to enable the Company to meet its obligations or declare dividends.

The Enlarged Group may not be able to obtain additional funding or generate sufficient cash from its operations to fund capital requirements

Additional funding from external sources and internally generated cash may be required by the Enlarged Group to finance the operations and development of its business. Any expansion involving the establishment of additional branches is likely to require a significant amount of capital expenditure. There can be no assurance that external source of funds or cash generated internally will be sufficient or available to meet the financial needs of the Enlarged Group in particular if such financial needs exceed the Enlarged Group's original budget and plan, or if there are any unforeseen adverse business development of the Enlarged Group. There is no guarantee that the Enlarged Group will be able to obtain additional external funding on terms acceptable to it or at an acceptable cost or at all. If the Enlarged Group cannot secure adequate funding at an acceptable cost, or any current banking facilities granted to the Enlarged Group are terminated or reduced, its ability to expand its business and to finance its operations may be restricted or limited.

The businesses and operations of the Enlarged Group may be materially disrupted or adversely affected due to force majeure and other causes

The Enlarged Group's business is vulnerable to interruptions by war, riot, fire, epidemic, power shortage and other non-controlled environmental events, including adverse weather conditions and natural disasters such as snowstorms, typhoons, and floods, the risks of which the Enlarged Group may not cover through insurance. Such interruption could delay deliveries of its products. This would reduce the sales and earnings for the affected period. Any losses due to business interruptions could have a material adverse effect on the Enlarged Group's prospects, profitability and operation results.

RISKS RELATING TO THE TARGET GROUP'S BUSINESS

The Target Group's customers may order IT products directly from the Target Group's suppliers

The Target Group maintains a network of customers with business relationships for a range of five months to eight years. The Target Group distributes IT products to various types of customers. The Target Group's major customers are mainly sub-distributors. There is no assurance that the Target Group's customers would not order those IT products directly from the Target Group's suppliers. In the event that the Target Group's customers order IT products directly from the Target Group's suppliers, the Target Group's business and financial results may be adversely affected.

The Target Group relies on a small number of key suppliers and products. The Target Group's failure to maintain a good relationship with the suppliers may adversely affect the Target Group's revenue and profitability

The Target Group is an authorised distributor of certain IT products in the PRC for a number of renowned IT product suppliers/brands. The Target Group's five largest suppliers accounted for approximately 81.92%, 81.83%, 86.40% and 82.14% of the Target Group's total purchases for each of the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively. Reliance on a small number of suppliers generally involves several risks, including the possibility of defective products from a supplier which does not provide warranty indemnity, loss of market share in a supplier's products, failure of a supplier to maintain updates on IT technology change or consumer preference, a shortage of product supply, reduced control over costs and loss of such suppliers.

The directors of the Target Group confirm that no distribution agreement was terminated by the Target Group's suppliers during the Track Record Period. The number of the suppliers which ceased to enter into new transactions with the Target Group during the Track Record Period are set out below:

For year ended 31 December	**Number of suppliers which last entered into transactions with the Target Group in the preceding financial year and had not entered into any new transaction since the financial year indicated**	**Approximate amount of total purchases from such suppliers during the Track Record Period** *(HK$)*	**Major reasons for no new transactions**
2009	1	Nil *(Note)*	Sales of the products from the supplier was not satisfactory
2010	3	8,193,000	Sales of the products from these suppliers was not satisfactory
2011	2	9,295,000	Sales of the products from these suppliers was not satisfactory
For the seven months ended 31 July			
2012	1	13,795,858	The Target Group has purchased the products from a new supplier in place of the former one after the expiry of the distribution agreement with that former supplier

Note:

That supplier and the Target Group had not entered into any transaction since 2009 and the amount of purchase from that supplier in 2008, being the financial year in which the Target Group last entered into transactions with that supplier, was approximately HK$156,134.

Furthermore, most of the distribution agreements which the Target Group has entered into with the Target Group's suppliers are non-exclusive. The non-exclusive distribution agreements may be terminated by the suppliers at any time by giving the Target Group a prior written notice which would become effective immediately on the date of the notice or with a notice period of up to 90 days. One of the distribution agreements which the Target Group has entered into with a supplier is renewable on an annual basis until March 2013. Purchases of products supplied by that supplier accounted for approximately HK$2,306,371,000, HK$2,518,588,000, HK$3,707,241,000 and HK$1,970,864,000, representing approximately 46.31%, 31.84%, 27.55% and 24.64% of the Target Group's total purchases

for the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively. There is no assurance that the existing distribution agreements will be renewed upon its expiry date or when renewed, will be on commercially acceptable terms to the Target Group. If there are significant price fluctuations for such products, or any supplier who fails to satisfy the requirements of the Target Group or the Target Group's relationship with such supplier is terminated or deteriorated for any reason, for example, the failure of the Target Group to achieve the minimum annual purchase attainment as agreed between the Target Group and such supplier, the Target Group's revenue and profitability may be materially and adversely affected, particularly when the Target Group is unable to identify alternative sources of supply for the same or similar products in a timely manner.

The Target Group may not be able to identify new sub-distributors

For the three years ended 31 December 2011 and the seven months ended 31 July 2012, the Target Group's turnover of approximately HK$1,538 million, HK$1,641 million, HK$3,022 million and HK$1,134 million, respectively, was attributable to sales to new sub-distributors, representing approximately 29.6%, 20.2%, 22.6% and 13.4% of the Target Group's turnover during the Track Record Period, respectively. The Target Group's turnover increased from approximately HK$5.2 billion in 2009 to HK$8.1 billion in 2010 and further increased to HK$13.4 billion in 2011. For details, please refer to the section headed "Business of the Target Group – Sub-distributors – Relationship with sub-distributors" in this circular. The sales growth of the Target Group depended to a certain extent on the Target Group's ability to identify new sub-distributors. The number of sub-distributors significantly decreased from 8,243 as at 31 December 2011 to 7,279 as at 31 July 2012. The reasons for the decrease are that (i) the sub-distributors designated or recommended by the suppliers may change from time to time and certain sub-distributors who were previously designated by the suppliers may not be designated by the suppliers for the products to be distributed subsequently; and (ii) there was a relatively shorter period of time, that is, seven months as compared with twelve months in any one of the financial years of 2009, 2010 and 2011, for a sub-distributor to enter into a transaction with the Target Group, through which a sub-distributor will become active again. Nevertheless, if the Target Group is unable to identify new sub-distributors either through its own channels or through the suppliers, the revenue and profitability of the Target Group may be adversely affected.

The Target Group may not be able to deliver the products timely

The Target Group will deliver products to a customer after the customer has placed a purchase order to the Target Group. According to the sales contracts made between the Target Group and its customers, the Target Group shall be responsible for the delivery of the products to the customers. While the legal title to the products will pass to the sub-distributors upon full payment of product price, the risks of loss to the products will transfer to the sub-distributors on the agreed delivery date, or, according to the new cooperation agreement, when the products are delivered to the sub-distributors. Further, the Target Group does not have its own delivery service and relies on other logistics companies for delivery of products to its customers. The Target Group may not be able to control and ensure such logistics companies to deliver the products timely. If the Target Group is held responsible for a delay in the delivery of the products, or there are any material disruptions to the supply and/or delivery of these products from the suppliers after the relevant purchase orders are made, the Target Group may be exposed to claims and its profits and reputation may be materially and adversely affected.

The Target Group's revenue, gross profit margin and net profit margin may not be sustainable in the future

The distribution of some of the IT products and provision of IT solutions and services are on project basis and customers may only enter into a single transaction with the Target Group. The revenue generated by the Target Group may not be recurring. There is no assurance that the Target Group can conclude sales on projects of similar number and sales amount in the future. Hence, the Target Group's revenue may fluctuate and not be sustainable in the future.

In addition, during the Track Record Period, the Target Group's gross profit margin was approximately 6.65%, 5.36%, 4.70% and 4.66% respectively and the Target Group's net profit margin was approximately 2.6%, 1.8%, 1.6% and 1.6% respectively. The sustainability of the Target Group's profit margin may be affected by a number of factors, including, among other things, the types of products sold and the amount of rebates offered by the suppliers. The selling price and purchase cost for each order vary according to a combination of factors including, but not limited to, the relative bargaining power of both of the Target Group's suppliers and customers, the pricing basis, demand and supply in the market and the market price. Many of these factors are beyond the control of the Target Group. Therefore, the selling price and purchase cost for each order may differ even for the same product produced within the same time period. There is no assurance that the Target Group will be able to achieve or maintain gross profit margin or net profit margin in the future at a similar level as the Track Record Period, which were generally thin for the business of IT product distribution. Please refer to the section headed "Financial Information of the Target Group" of this circular for a detailed discussion and analysis of the financial condition and results of operation of the Target Group during the Track Record Period.

The Target Group relies on certain key management. The Target Group's inability to retain key management may affect its operating results and future development

The success of the Target Group depends upon the continued service of its senior management. Many of its key executive persons, including Mr. Zhu Jianqiu, Ms. Su Huiqing, Mr. Dong Qiang and Ms. Zhang Hong, have been with the Target Group or working in the industry related to the Target Group's business for over seven years. As confirmed by the directors of the Target Group, their experiences have contributed to the success of the Target Group's business. If the Target Group loses the services of any of these key personnel and the Target Group is unable to find suitable replacement, it may adversely affect its operating results and future development.

The Target Group may face an inventory risk if stock levels are not properly monitored or managed

The inventory of the Target Group consists mainly of IT products and other components. These comprised approximately 35.70%, 32.72%, 50.78% and 48.20% of the Target Group's current assets during the Track Record Period.

In practice, the Target Group maintains its inventory at a certain level with reference to its sales plan. As such, if there is any sudden change in the demand of IT products, the Target Group may face an inventory risk if stock levels are not properly monitored or managed. Should the Target Group fail to manage its inventory properly, provisions will have to be made for slow-moving stocks, which may adversely affect the Target Group's profitability.

The Target Group's increase in sales might be represented by accumulation of inventory at the sub-distributor level rather than growth in underlying sales

The Target Group's revenue from the sales to the sub-distributors is recognised upon delivery of goods to the sub-distributors on which the risks and rewards of ownership to the products has transferred to the sub-distributors and the title is treated to have been passed to the sub-distributor in substance. However, for four sub-distributors, unsold goods may be returned to the Target Group if the goods cannot be sold after a period of time specified in individual sales agreements with the Target Group. The amount of sales return was approximately HK$936,000, HK$2,554,000, HK$9,747,000 and HK$9,010,000 for the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively, of which the amount had generally been increasing during the Track Record Period. For details, please refer to the section headed "Business of the Target Group – Sub-distributors – Sales to sub-distributors – (d) Return policies". The existing measures implemented by the Target Group to monitor inventory of certain IT products at sub-distributor level may not be as effective as the Target Group expects in tracking the inventory levels and sales of the Target Group's sub-distributors, in particular, inventory levels and sales of those sub-distributors which may return unsold goods to the Target Group. As a result, the Target Group's sales to sub-distributors may not be reflective of the actual sales trends to customers and the Directors cannot rule out the possibility that the information regarding the Target Group's increase in sales may not fully represent the actual growth in underlying sales but also reflect the accumulation of inventory at sub-distributor level. Further, the return of the unsold goods to the Target Group may adversely affect the Target Group's revenue.

The Target Group may not be able to accurately track the sales and inventory level of its sub-distributors, which could cause the Target Group to predict sales incorrectly

The directors of the Target Group confirm that for the seven months ended 31 July 2012, the Target Group contacted 3,011 sub-distributors of certain products by telephone to obtain data of their inventory level and/or sales figures weekly, or required sub-distributors to give a weekly report to the Target Group to provide inventory level and/or sales figures of certain products. However, these actions may not be as effective as the Target Group expects in tracking the inventory levels and sales of the Target Group's sub-distributors. As a result, the Target Group's sales to sub-distributors may not be reflective of the actual sales trends to customers and the Target Group may not be able to timely gather sufficient information and data regarding the market acceptance of certain products and the customers' preferences in relation to certain products and to timely relay such information and data to its suppliers. The failure may cause the Target Group to incorrectly predict sales trends of certain products and impede the ability of the Target Group or its suppliers to quickly realign marketing and product strategies to respond to market changes.

The Target Group may be exposed to inventory risk and credit risk under the consignment arrangement

The Target Group has entered into consignment agreements with 24 sub-distributors during the Track Record Period. Turnover generated from consignment sales were nil, approximately HK$2,835,332, HK$76,443,352 and HK$154,126,472, respectively for the three years ended 31 December 2011 and the seven months ended 31 July 2012. Under the consignment agreements, the sub-distributor may return the consigned products to the Target Group at the expenses and costs of the Target Group and the Target Group shall be liable for the loss suffered by the sub-distributor or its customers due to the defects of the consigned products. If there is any incident of material loss or damage of the consigned products after the products were delivered to the sub-distributors, the Target Group may suffer loss as a result thereof.

Further, according to applicable accounting policies, sales under the consignment agreements were recognised upon sales to end-customers. The Target Group will not receive payment of the products until the products were sold to end-customers. If the products could not be sold to the end-customers, the Target Group's profitability and cash flow of the Target Group may be adversely affected.

The Target Group's sub-distributors may engage in price competition and market cannibalisation among themselves

As at 31 July 2012, the Target Group had entered into cooperation agreements with 4,255 sub-distributors. As confirmed by the directors of the Target Group, the cooperation agreements entered into with sub-distributors during the Track Record Period did not contain any restrictions or exclusivity on the geographic location for the sales conducted by the sub-distributors. The sub-distributors of the Target Group may sell same types of products purchased from the Target Group in the same area, which may cause fierce competition between the sub-distributors of the Target Group. Further, the Target Group does not have any control over the selling prices for the distributed goods sold by sub-distributors and there is no assurance that the sub-distributors would not engage in any form of price competition or market cannibalisation which may cause adverse damage to the brand image of the products distributed by the Target Group and eventually affect the Target Group's sales.

The Target Group may grant trade credit to sub-distributors which may expose the Target Group to credit and liquidity risks

Trade and bills receivables accounted for approximately 37.04%, 41.38%, 35.35% and 32.62% of the Target Group's total assets throughout the Track Record Period, respectively. As at 31 December 2009, 2010, 2011 and 31 July 2012, the Target Group has concentration of credit risk as approximately 2.65%, 3.95%, 4.88% and 13.39% of the total trade receivables was due from the Target Group's largest customer, and approximately 8.72%, 9.94%, 12.31% and 13.41% of the total trade receivables was due from the Target Group's five largest customers. During the Track Record Period, the Target Group allowed an average credit period of 30-180 days to its trade customers. There may be a risk of delay in payment by the Target Group's customers from their respective credit period, which in turn may result in an impairment loss provision. There is no assurance that the Target Group will be able to fully recover its receivables from the customers or their settlements are made timely. In the event the settlements from the customers are not made in full or not on time, the financial position, profitability and cash flow of the Target Group may be adversely affected.

Furthermore, as a distributor, the Target Group may purchase its products from its suppliers first before it sells to its customers. This means that the Target Group will have to pay its suppliers first before it collects payment from its customers. There is a risk that any mismatch between the time the Target Group sources its products and the time it collects payment from its customers may affect the Target Group's liquidity if it is not managed properly. If the Target Group is unable to maintain a sufficient level of liquidity in its business operations, its financial condition and performance may also be adversely affected.

The Target Group had negative operating cash flow for the year ended 31 December 2011 and may not be able to generate sufficient cash from its operations or obtain adequate financing to fund its operations and capital requirements

During the Track Record Period, the Target Group funded its operations primarily by cash generated from its operations, advances from the ultimate holding company, and bank and other borrowings. Assuming completion of the Acquisition, the Target Group expects to fund its operations with cash generated from its operation and through short-term bank and other borrowings. For the year ended 31 December 2011, the Target Group recorded a net cash outflow from operating activities of approximately HK$467,946,000, which consists of a cash inflow of approximately HK$327,231,000 before movements in working capital and a net cash outflow of approximately HK$70,495,000 of income tax payments, partially offset by a cash inflow from operating activities before movements in working capital but after adjustments for non-cash and other items of approximately HK$31,207,000. The net operating cash outflow of the Target Group in 2011 was primarily due to the increase (i) in inventory level as a result of introducing new product lines by the Target Group in 2011; and (ii) the payments of the procurement that took place at the end of 2010. Please refer to the section headed "Financial Information of the Target Group – Liquidity and Capital Resources" of this circular for further details.

The Target Group's ability to generate sufficient cash from its operating activities to finance its operations and expansion plans depends on a number of factors, including but not limited to the performance of its operations, inventory purchases and the ability of its customers to settle their payments. If the Target Group continues to have a negative operating cash flow in the future, the Target Group may not be able to generate sufficient funding to finance its working capital and capital expenditure requirements. For example, the Target Group may have insufficient working capital to maintain and expand its business or to extend more credit to its long-term customers which may result in loss of customers or to duly repay its bank borrowings which may result in a breach of financing agreements with the banks, and the Target Group may require additional sources of funding which may incur additional financing costs. As such, its business, results of operations and financial position may be materially and adversely affected.

The quality of products manufactured by the suppliers is not subject to the Target Group's control

The Target Group currently distributes certain brands of IT products and the Target Group has no control over the quality of those products provided by the suppliers. In the event that there are massive product defects, the reputation and the sales of the Target Group may be adversely affected. According to the sales contracts made between the Target Group and customers, the Target Group shall

be responsible for the quality of the products. The Target Group may be subject to legal proceedings initiated by the aggrieved customers in respect of the suppliers' product defects which may divert the Target Group's attention from its business and the consequences thereof could have material adverse effects on the Target Group's reputation and financial condition.

The Target Group relies on suppliers' credit

The suppliers of IT products extend credit to the Target Group to allow flexibility for the Target Group to manage its payment cycle. The average credit period of Target Group on purchase of goods is 30 to 110 days. There is no assurance the interest rates to be charged and the credit limit to be offered by the suppliers of the IT products in the future will remain at the same level. In the event that any supplier of the IT products impose a higher credit charge or tighten the credit limit on the Target Group or terminate the abovementioned credit arrangements and the Target Group cannot obtain other financing at similar terms and conditions, the financial position of the Target Group may be adversely affected.

The Target Group may be required to relocate its leased properties due to defects or encumbrances in the landlord's building ownership rights to the leased properties of the Target Group

As at the Latest Practicable Date, the Target Group had 19 leased properties in the PRC which the Target Group may be required to relocate due to the legal defects or encumbrances of such leased properties. These legal defects include:

(1) three leased properties had been mortgaged to banks before entering into the relevant lease agreements. One leased property had been mortgaged to banks but whether it had been mortgaged to banks before or after entering into the lease agreement cannot be determined. As advised by the legal advisers to the Company as to PRC laws (assuming the fourth leased property had also been mortgaged to banks before entering into the lease agreement), if the mortgagee of any of the four abovementioned properties enforces its right under the mortgage and the relevant property is transferred to a third party, such third party has the right to terminate the lease;

(2) 13 leased properties are used by the Target Group as its offices which are in breach of the land use requirements for residential or industrial purposes as specified in the relevant title certificates or property sale and purchase contracts. According to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the relevant housing management authority may order the lessors and the Target Group to rectify the same within a prescribed time limit and impose a fine of up to RMB30,000 on the lessor. If they fail to rectify the same, the Target Group may not be able to rent the said property. If the damages are insufficient to cover the lessor's loss, the Target Group may not be able to continue the lease;

(3) lessors of 10 leased properties had not provided building ownership certificates to the Target Group. Third parties may seek to assert their ownership rights against the landlords or challenge the leases;

(4) one leased property located in Hangzhou leased by Changhong IT is shared with Changhong IT Digital as offices without the consent of the landlord. The landlord may challenge Changhong IT for sharing the premises with Changhong IT without its consent and request for termination of the lease.

Please refer to the section headed "Business of the Target Group – Property Interests" for further details and particulars.

Should disputes arise due to title defects or encumbrances to such properties, third parties may seek to assert their ownership rights against the landlords or challenge the leases. In such event, the Target Group may be required to relocate its respective leased properties. Assuming that the lease agreements of the Target Group are revoked due to their respective legal defects and the Target Group is required to relocate 19 of their leased properties, the relocation cost (including renovation cost and transportation cost) in aggregate is estimated to be approximately RMB4,311,299 (equivalent to approximately HK$5,359,000). As a result thereof, the Target Group may incur additional costs due to business interruption and relocation. Furthermore, the Target Group may not be able to find suitable alternative premises nor relocate in the same area at the same rental level.

Recent global economic downturn may have adverse impact on the Target Group's business and operations

The recent global financial crisis and economic downturn have adversely affected economies and businesses around the world, including in China. Due to the global economic downturn since the third quarter of 2008, there has been a decrease in consumer demand and a slowdown in domestic growth. This change in economic conditions may continue to have an adverse impact on the Target Group's business and operations.

The slowdown in China's economy may lead to a decrease in business activity nationwide, which may reduce demand for IT products and materially and adversely affect the Target Group's business, results of operations and financial condition.

The tightening of credit in the PRC, the US and the European Union countries would have an indirect impact on the Target Group since both its customers and suppliers may rely on borrowings from these countries and regions. Corporate failures of suppliers would adversely affect the Target Group's operations. Corporate failures of customers would adversely affect the Target Group's financial performance.

RISKS RELATING TO THE INDUSTRIES IN WHICH THE TARGET GROUP OPERATES

The Target Group may not be able to maintain updates on IT technology change, its suppliers' technologies and consumer preference

The market for the products of the Target Group's suppliers is characterised by rapidly-changing IT technology and introduction of new products. The demand for IT products and services are also subject to business cycles, which may rise or fall along with overall economic growth and business

investment environment. The success of the Target Group's business depends on its technical know-how of these new IT technologies, product features and implementation methods, its ability to respond and adapt quickly to IT technology change and business cycles, as well as its capability to understand the changing needs, preferences and requirements of its customers.

If the Target Group fails to keep itself updated of IT technology change and introduction of new products, or keep up with the pace of new developments and trends in the IT market and the demands of its customers, its ability to respond effectively to customer demands may be affected, which may undermine the Target Group's future development and have an adverse impact on the Target Group's business and financial results.

The Target Group has limited insurance coverage for its assets or business interruption, and may incur damages which could result in material adverse effects on its business

The Target Group has limited insurance coverage for its assets and may incur damages resulting from a number of events, including, among other things, severe weather condition, industrial accident, fire, earthquake, war, flooding and power outage. Should the Target Group incur substantial losses or liabilities and its insurance coverage were unavailable or inadequate to cover such losses and liabilities, or if its business operations are interrupted for more than a short period of time, it could incur costs and losses that would materially and adversely affect its operating results.

The Target Group may be liable for damages for product liability and warranty claims in the event that the failure, use or misuse of its products results, or is alleged to result, in physical injuries or property damages. As advised by the legal advisers to the Company as to PRC laws, it is not a mandatory requirement to maintain product liability insurance under PRC laws. A successful product liability claim brought against a member of the Target Group or a requirement to participate in any product recall may affect the business and financial results of the Target Group. Furthermore, the Target Group may have to allocate significant resources and time to defend legal proceedings with respect to such claims, which in turn may adversely affect the Target Group's reputation and operating results.

The Target Group entered into contractual arrangements with Independent Third Party labour service companies to provide contractual workers for its business. It has limited control over these contractual workers and may be liable to the contractual workers for the labour service company's violation of PRC Labour Contract Law

The Target Group entered into labour service agreements separately with two employment agencies (collectively, the "**Employment Agencies**"), each an Independent Third Party labour service company, to provide Contractual Workers for its business operation. As of 31 October 2012, it had 1,102 contractual workers ("**Contractual Workers**"). Since these Contractual Workers are not directly employed by the Target Group, the Target Group has limited control over them. If the Contractual Workers fail to act in accordance with the Target Group's business directions or policies, the Target Group's business operations could be materially and adversely affected. Each of the Employment Agencies has entered into employment agreements with Contractual Workers directly and is responsible for the payment of salary, social security contribution and housing provident fund for the Contractual

Workers. However, under the PRC Labour Contract Law, if the Employment Agencies violate the PRC Labour Contract Law and such violation results in damages to the Contractual Workers, the Target Group would be jointly and severally liable for the compensation payable to the Contractual Workers. As a result, the Target Group's business, financial condition and results of operations could be materially and adversely affected.

The Target Group may be required to pay up any outstanding social insurance and housing provident fund for the Contractual Workers

The Target Group has recognised in the statement of comprehensive income the unpaid amount of social insurance of approximately HK$4,396,000, HK$7,736,000, HK$14,914,000 and HK$2,750,000 for the years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012, respectively, and the unpaid amount of housing provident fund of approximately HK$1,510,000, HK$2,637,000, HK$5,110,000 and HK$1,137,000, respectively for the years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012, respectively, which is set out in the "Accountants' Report on the Target Group" contained in Appendix I to this circular. If the relevant authorities request the Target Group to pay up the outstanding amount of the social insurance or housing provident fund contributions and/or impose any fine on the Target Group, the cash flow of the Target Group will be adversely affected.

For details, please refer to the section headed "Business of the Target Group – Regulatory Compliance" of this circular.

There is no assurance that any of the research and development activities will produce positive results

Research and development in the Target Group's self-developed products conducted by the Target Group is a lengthy and expensive process involving a lot of trial testing in order to demonstrate that the products are effective and safe for commercial sale. Successful results in the early stage of the trial process may, upon further review, be revised or negated by later stage trial results and there is no assurance that any of the research and development activities will produce positive results.

The Target Group may not be able to adequately protect its intellectual property, which could materially and adversely affect its business operations

The Target Group's profit from its self-developed products depends in part upon their proprietary technology. It seeks to protect its patents and other intellectual property rights through a combination of patents, registered trademarks, trade secrets, and confidentiality agreements. The Target Group cannot assure that the measures it currently adopts to protect its patents or non-patented intellectual property rights are adequate to efficiently enforce such protection or to prevent any unauthorised use of its intellectual property by third parties. On the other hand, the existence of any particular intellectual property right may not necessarily protect the Target Group from competition, as it may be challenged, invalidated or held to be unenforceable. Competitors may successfully challenge the Target Group's patents, produce similar products that do not infringe its patents or produce similar products in countries that do not recognise its patents. It is also not possible to determine with certainty whether

there are any conflicting third party rights which may affect the Target Group's current commercial strategy and intellectual property portfolios. Furthermore, the PRC's intellectual property laws are still evolving and the level of protection and means of enforcement of intellectual property rights in the PRC differ from those in other jurisdictions. Enforcement of the Target Group's intellectual property rights could be costly, and it may not be able to immediately detect unauthorised use of its intellectual property and take the necessary steps to enforce its rights in such property. The Target Group may be involved in litigation in enforcing its intellectual property rights and/or be sued by third parties for alleged infringement and the result of such litigation is difficult to predict. Adverse rulings in any litigation or proceeding could result in the loss of its proprietary rights and subject it to substantial liabilities, or even disrupt its business operations of its own brand division.

Reduced spending on IT products and services may affect the Target Group's business

The Target Group's business and revenue growth depends not only on the Target Group's ability to attract customers to its IT products and IT services, but also on the level of spending on IT products, IT systems and solutions of its customers. Furthermore, the general health of the PRC economy will also have an effect on the level of spending on IT products and services of consumers in the PRC as a whole. Any general economic, business or industry conditions that cause customers or potential customers to reduce or delay their investments in IT products and services could harm the Target Group's business. If there is a significant downturn in the PRC market or a significant reduction in consumer demand in the PRC for products distributed or services offered by the Target Group, the Target Group's business may be adversely affected.

The Target Group faces intense competition in the IT industry in the PRC

As at the Latest Practicable Date, so far as the directors of the Target Group are aware, there were a limited number of large distributors engaged in the IT products distribution business in the PRC. The Target Group therefore faces intense competition from such large distributors. Moreover, there are other global IT product suppliers that offer IT products with similar features and functions as those distributed by the Target Group. There is no assurance that other competitors will not surpass the Target Group's performance in the future. In the event that competition intensifies or the Target Group fails to sustain its competitive strengths or effectively implement its business strategies, the Target Group's business, results of operations and financial position may be materially and adversely affected. Likewise, product innovation and technical advancement may render the Target Group's existing and potential self-developed products and its own research and development efforts obsolete or non-competitive.

The Target Group's revenue is subject to seasonality

The Target Group's revenue is affected by seasonality factors. The Target Group experienced higher sales in the second half of the year as the demand and consumption of IT products are higher in the PRC due to higher demand during summer holidays and year end. Should there be any adverse change of market condition in the second half of the year, the Target Group's profitability may be adversely affected.

Material factors such as decrease of selling price, slow-down of the market growth rate of IT product distribution etc. will affect the Target Group's margins, cash flow and performance

The profit margin for the IT product distribution business in the PRC is generally thin. For most of the IT consumer product categories, once a new product is rapidly gaining in popularity, various brand owners will follow the trend to produce functionally identical or slightly differentiated products. This causes the problem of, among other things, fierce competition in pricing in the chain of distribution and the end user market. The price mark-up for the distributors is declining. Distributors may even have sold the products at no profit. According to the Euromonitor Report, from 2007 to 2011, IT consumer and corporate product markets in the PRC were in a downward price trend, and such downward price trend is expected to continue between 2012 and 2017 and the market growth rate of IT product distribution will be slowed down during the said period. Operating in such a competitive and thin profit margin market, the Target Group recorded a low net profit margin during the Track Record Period. For details of the profit margin of the Target Group, please refer to the section headed "Financial Information of the Target Group" and the "Accountants' Report on the Target Group" in Appendix I of this circular.

The Target Group's low profit margin may further be eroded by, among other things, competition, unfavourable economic conditions, downward selling price, loss of major customers and increase in purchase costs. Any increase in the costs of goods, labour, rents, etc., which the Target Group could not pass onto its customers, and the slow-down of the market growth rate of IT product distribution business in the PRC would adversely affect the Target Group's profitability. As a result, the cash flow generated from its IT distribution business may not be sufficient to cover the operating expenses and additional cash flow may be required. All of the above factors would have an adverse impact on the Target Group's operation and financial performance.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Political and economic policies of the PRC government could affect the Target Group's business

With the commencement of the PRC government's efforts to reform the Chinese economic system in the late 1970s, the PRC government has placed increasing emphasis on the utilisation of market forces to develop the PRC economy. Over the last three decades, the PRC government's reform measures have resulted in the PRC economy experiencing significant growth and social progress. However, many of the reforms are unprecedented or experimental and are expected to be refined and modified from time to time. Any revision or modification to the economic and political strategies and policies of the PRC government could have a material adverse effect on the overall development of the IT products and services market in the PRC. With the Target Group's main operating assets and customers located in the PRC, the Target Group's operations and financial results could be adversely affected by any stagnation in the development of this market in the PRC. The Target Group may not in all cases be able to capitalise on economic reform measures adopted by the PRC government. There is no guarantee that the PRC government will not impose economic and regulatory controls that would harm the Target Group's business.

Any changes in the PRC government policies regarding foreign investments in the PRC may adversely affect the Enlarged Group's business, financial condition and results of operations

Foreign investments are subject to foreign investment policies and laws of the PRC. Under the Foreign Investment Industrial Guidance Catalogue (《外商投資產業指導目錄》) that came into effect on 30 January 2012, the Enlarged Group's business of "distribution of IT products" does not fall under the prohibited or the restricted categories for foreign investments. There is no assurance that the Enlarged Group's business would not fall under such prohibited or restricted categories subsequent to any change to the foreign investment policies and laws of the PRC or that the Enlarged Group could not be subject to more stringent restrictions on its operation and business, which may adversely affect its financial condition and results of operations.

Fluctuations in foreign exchange rates may adversely affect our financial condition, results of operations and the value of future dividend payments

The exchange rates for RMB against foreign currencies, including US$ and HK$, are susceptible to movements based on external factors and there can be no assurance that RMB may not be subject to devaluation. As the Enlarged Group's revenue and purchases are primarily denominated in RMB and US$, fluctuations in exchange rates may adversely affect the value, translated or converted into HK$, of the Enlarged Group's net assets, earnings and any declared dividends. The Enlarged Group may incur new debt financing which may include foreign currency denominated borrowings. Any adverse fluctuations in exchange rates among these foreign currencies may materially and adversely affect the Enlarged Group's results of operations.

The enforcement of the Labour Contract Law and other labour-related regulations in the PRC may adversely affect the Enlarged Group's business and results of operations

The Labour Contract Law of the PRC (《勞動合同法》), which came into effect on 1 January 2008, with the Implementation Rules of Labour Contract Law of the PRC (《勞動合同法實施條例》) promulgated on 18 September 2008, impose more stringent requirements on employers with regard to entering into written employment contracts, hiring temporary employees and dismissing employees. In addition, the Labour Contract Law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including in cases of expiration of a fixed-term employment contract. Under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which came into effect on 1 January 2008, and its Implementation Measures, which was promulgated on 18 September 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to fifteen days, depending on their length of service. Employees who waive such vacation entitlement at the request of employer shall be compensated at three times of their normal salaries for each waived vacation day. As a result of these protective labour measures, the Enlarged Group's labour costs may increase and the Enlarged Group's future operations may be adversely affected.

After Completion, the Company and Target Co BVI may be treated as resident enterprises for PRC tax purposes under the new enterprise income tax law, which could result in the imposition of 25% PRC enterprise income tax payable on their taxable global income

On 16 March 2007, the National People's Congress of the PRC passed the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》) ("**Income Tax Law**"), which took effect as of 1 January 2008. On 6 December 2007, the Implementation Rules of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》) ("**Implementation Rules**") were also enacted, and took effect as of 1 January 2008. In accordance with the new laws and regulations, foreign-invested enterprises incorporated after 16 March 2007 which are not entitled to transitional preferential policies in respect of enterprise income tax shall apply a unified enterprise income tax rate of 25% and unified tax deduction standards with domestic enterprises.

Under the Income Tax Law and the Implementation Rules, enterprises established under the laws of foreign jurisdictions other than the PRC may nevertheless be considered as PRC-resident enterprises for tax purposes if these enterprises have their "de facto management organisation" within the PRC. Under the Implementation Rules, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. The directors of Changhong IT and its subsidiaries and four of the Directors are located in the PRC, so there is a high chance that Changhong IT and its subsidiaries and the Company would be considered as PRC-resident enterprises after Completion. If they are treated as resident enterprises for PRC tax purposes, they will be subject to PRC tax on their worldwide income at the 25% unified tax rate, which could have an impact on their effective tax rate and an adverse effect on their net income and results of operations.

After Completion, if the Company and Target Co BVI are treated as non-resident enterprises of PRC, dividends received from their PRC subsidiary may be subject to PRC withholding tax

Under the Income Tax Law and the Implementation Rules, dividend payments between certain "qualified PRC-resident enterprises" shall be exempted from income tax under the Income Tax Law, and the Implementation Rules refer to "qualified PRC resident enterprises" as enterprises with "direct equity interest". Therefore, if the Company and Target Co BVI are considered as PRC-resident enterprises for tax purposes, dividends distributed by Changhong IT to Target Co BVI and dividends distributed by Target Co BVI to the Company may be exempted from PRC income tax. However, due to uncertainty of the implementation of the Income Tax Law and the Implementation Rules, no assurance can be provided that dividends distributed by Changhong IT to Target Co BVI and dividends distributed by Target Co BVI to the Company will constitute dividend income between qualified resident enterprises which qualifies for tax exemption even if the Company and Target Co BVI are considered PRC-resident enterprises for tax purposes. After Completion, if the Company is considered as a PRC-resident enterprise, any dividends distributed by the Company to the Shareholders who are not PRC-resident as well as gains realised by such Shareholders from the transfer of the Shares may be subject to PRC withholding tax at the rate of up to 10%, and this would adversely affect the investment value of the Shareholders in the Company.

The Income Tax Law provides that an income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are "non-resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC, and the State Council of the PRC has reduced such rate to be actually executed at 10% through the Implementation Rules, except otherwise provided in the tax treaties between PRC and other states or regions. Under the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) ("**Tax Agreement**") which took effect on 1 January 2007, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% if the Hong Kong enterprise owns at least 25% of the PRC enterprise, otherwise, the dividend withholding tax rate is 10%. However, pursuant to the Notice on How to Understand and Identify the Owner of Benefits in Tax Agreement (《國家税務總局關於如何理解和認定税收協定中 "受益所有人" 的通知》) issued by the State Administration of Taxation on 27 October 2009, if a company is deemed a channel company (導管公司) other than the qualified owner of benefits, it cannot enjoy the favourable tax treatment provided in the Tax Agreement. According to the Notice of the State Administration of Taxation on issues relating to the administration of the dividend provision in tax treaties (《國家税務總局關於執行税收協定股息條款有關問題的通知》) promulgated on 20 February 2009, the corporate recipients of dividends distributed by PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. And, if the primary purpose of the transactions or arrangements is deemed by the relevant authorities to be entered into for the purpose of enjoying a favourable tax treatment, the favourable tax benefits enjoyed pursuant to the Tax Arrangement may be adjusted by the relevant tax authorities in the future. On 24 August 2009, the State Administration of Taxation issued the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation) (《非居民享受税收協定待遇管理辦法(試行)》), which requires that the non-resident enterprises obtain the approval for enjoying the treatments under tax treaties from the competent tax authority. Therefore, if the Company and Changhong (Hong Kong) Enterprise are considered as non-resident enterprises for PRC tax purposes, dividends distributed by Changhong IT to Changhong (Hong Kong) Enterprise may be subject to a PRC withholding tax at a rate of 5% if the requirements of the tax regulations mentioned above are satisfied and aforementioned approvals are obtained, and dividends distributed by Changhong (Hong Kong) Enterprise to the Company may be exempted from PRC income tax. If dividend payments from Changhong IT to Changhong (Hong Kong) Enterprise are subject to PRC withholding tax, the Company's financial condition, results of operations may be adversely affected.

The Target Group may be subject to the PRC taxation pursuant to the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (《關於企業重組業務企業所得税處理若干問題的通知》) and the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfer by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得税管理的通知》)

The Ministry of Finance and the State Administration of Taxation ("**SAT**") jointly issued, on 30 April 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (《關於企業重組業務企業所得税處理若干問題的通知》) ("**Circular 59**"), which became effective retrospectively on 1 January 2008. Pursuant to Circular 59 and the relevant rules and regulations, the transfer of equity interests in certain PRC subsidiaries held by offshore subsidiaries of a group to other offshore subsidiaries of the same group may be subject to a 10% EIT on capital gains which may be determined as the difference between the fair value of the equity interest transferred and the cost of investment.

On 10 December 2009, the SAT issued the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfer by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得税管理的通知》) ("**Circular 698**"), which became effective retrospectively on 1 January 2008. Circular 698 clarified how the capital gains should be calculated regarding the equity transfer of a resident enterprise by non-resident enterprises directly or indirectly. For transfers of equity interest in a PRC resident enterprise between related parties, the PRC tax authorities have the discretion to make adjustment to the taxable capital gains if the transfer price is deemed not being determined on an arm's length basis. In addition, if a non-resident foreign investor indirectly transfers equity interests in a PRC resident enterprise by selling equity interests in an offshore holding company which is located in a jurisdiction where tax rate is lower than 12.5% or offshore income is not taxable, it requires that the vendor of the foreign holding company (which holds, directly or indirectly, equity interest in a PRC resident enterprise) to make a submission to the PRC tax authorities within 30 days after signing of the equity transfer agreement, if certain conditions are met. The SAT is entitled to redefine the nature of such indirect equity transfer and impose enterprise income tax on the seller of the foreign target company if it determines that such indirect transfer is carried out without reasonable commercial intention and evades enterprise income tax by abusing corporate structures.

In contemplation of the acquisition of the Target Group by the Company, the Target Group was reorganised pursuant to the Reorganisation which involved a reorganisation of the shareholding and related transfers of interests in members of the Target Group. For details of the Reorganisation, please refer to the section headed "History and Background of the Target Group" of this circular.

As advised by the legal advisers to the Company as to PRC laws, it is the duty for the seller(s) of the foreign target company to make submission to the relevant PRC tax authorities to report the equity transfer agreement and to settle the amount of tax payable on such transfer. The legal advisers to the Company as to PRC laws further advised that it is currently unclear how the relevant PRC tax authorities will implement or enforce the above notices and whether such enterprise income tax on capital gains will be subject to any further change resulting in any materially adverse impact on the Target Group.

It may be difficult to effect service of process upon the directors or the management of the Enlarged Group who reside in the PRC, or to enforce any judgment obtained from non-PRC courts against them in the PRC

Eight of the directors and members of the management of the Enlarged Group reside within the PRC. The PRC government has not entered into treaties for the reciprocal recognition and enforcement of judgments of courts with jurisdictions including the United States, the United Kingdom, most other western countries and Japan. The Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) took effect on 1 August 2008. However, only enforceable final judgments requiring payment of money in civil and commercial cases pursuant to choice of court agreements in writing may be applied for recognition and enforcement. As a result, it may not be possible for investors to effect service of process upon those persons in the PRC, or to enforce any judgment obtained from a non-PRC court against those persons in the PRC. As a result, recognition and enforcement in the PRC of judgments of a court in these jurisdictions in relation to any matter not subject to a binding arbitration provision is subject to uncertainties.

Interpretation and enforcement of PRC laws and regulations involves uncertainties, which could materially and adversely affect the business of the Target Group

The operations of the Target Group will be conducted in the PRC immediately upon Completion. The PRC legal system is a civil law system based on written statutes, and prior court decisions have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations governing economic matters in general, such as foreign investment, corporate organisation and governance, commerce, taxation and trade. As many of these laws, regulations and legal requirements are relatively new or have not been fully developed, and there is only limited volume of published cases (which are non-binding in any event), the interpretation and enforcement of these laws and regulations involve uncertainties. This may result in additional restrictions and uncertainty for the business of the Target Group. In addition, any changes to such laws and regulations may materially increase costs and regulatory exposure for the Target Group in complying with them.

Any occurrence of natural disasters or severe contagious disease in the PRC or elsewhere may cause damage to economies, financial markets and business activities in the PRC and elsewhere, which in turn could result in material adverse effect on the business of the Enlarged Group

The Target Group's business could be adversely affected by natural disasters or the outbreak of health epidemics in the PRC. From November 2002 to June 2003, certain regions of the PRC and certain other Asian countries experienced an outbreak of Severe Acute Respiratory Syndrome ("**SARS**"), which caused a significant negative impact on the economies of the PRC and of the Asia-Pacific Region at that time. The outbreak of Influenza A ("**H1N1**") had caused deaths worldwide. Countries and territories including Hong Kong had reported infected cases. The possible re-occurrence of SARS, and any spread of severe contagious disease such as H1N1 and avian flu, or any similar public health problems or any future natural disasters may have a material adverse effect on the

overall business sentiment and environment of the PRC. This could in turn have a material negative impact on the business, operations and results of the Enlarged Group. The Enlarged Group's operations may be affected by natural disasters and various health-related factors, including travel restrictions, quarantines, or closures of some of its offices and manufacturing facilities, major adverse health issues for key personnel, and a general downturn of the economy.

RISK RELATING TO THIS CIRCULAR

Certain statistics and other information relating to the economy and the industry contained in this circular were derived from various official sources and government publications and may not be reliable

Statistics, industry data and other information relating to the economy and the industry contained in this circular have been derived from various official government publications with information provided by Chinese and other government agencies. The Company, the Sponsor or their respective directors, agents and advisors cannot assure you or make any representation as to the accuracy or completeness of such information and statistics. None of the Company, the Sponsor, or their respective directors, agents or advisers have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economy and the industry derived from official government sources may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources. Shareholders should give careful consideration as to how much weight or importance the Shareholders should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

This section contains information and statistics relating to the industry in which the Company operates. The Company has derived such information and data from a report from Euromonitor International Limited ("Euromonitor") namely "IT Distribution in China" dated 7 December 2012 (the "Euromonitor Report"). The Euromonitor Report was commissioned by the Company at an aggregate fixed fee of US$78,000.

The Company believes that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. The Company has no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. No independent verification has been carried out on such information and statistics by the Company, the Sponsor or their respective directors, agents and advisors. The Company, the Sponsor, and their respective directors, agents and advisors make no representation as to the accuracy of such information and statistics.

Euromonitor, founded in 1972, is a private independent provider of business intelligence on industries, countries and consumers. Euromonitor conducts its research in accordance to the guidelines and practices set by European Society for Opinion and Marketing Research (ESOMAR), an international and independently market research association.

IT PRODUCT MARKET IN CHINA

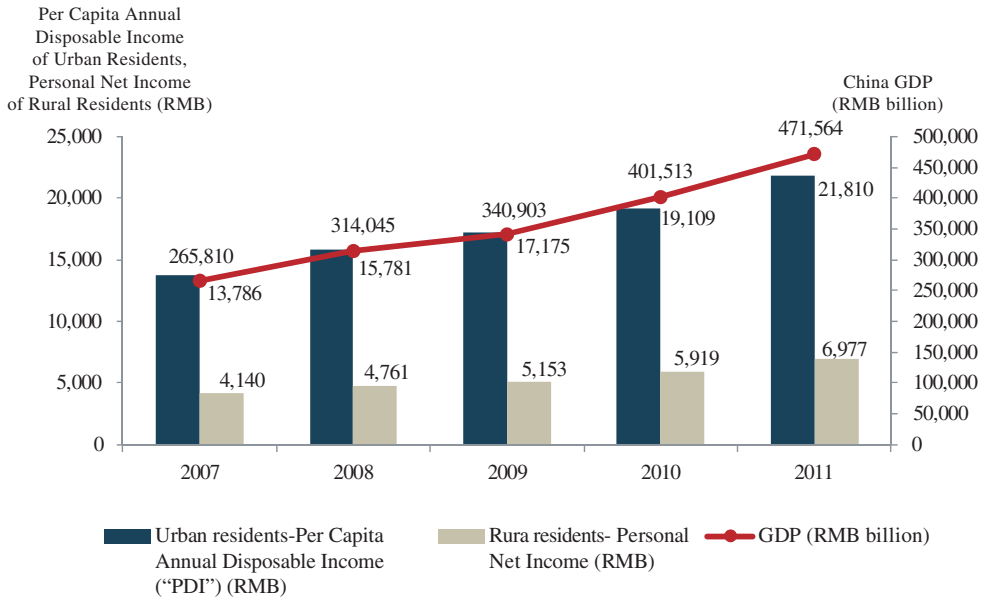
Overview of IT Product Market

Favorable Macro Economy in China

China produced double-digit gross domestic product ("**GDP**") annual growth from 2001-2008, and experienced an accelerating growth prior to 2008 even in the escalation of the world financial crisis. However, not being immuned to the global economic downturn, particularly with Europe's deepening debt crisis as well as the fading effects of the PRC government's RMB4 trillion stimulus package implemented in 2009, China witnessed a gradual decrease of GDP growth from 9.7% (on year-on-year basis) in 2011's first quarter to 8.9% (on year-on-year basis) by fourth quarter of the same year. Subsequently, this was followed by another drop to 7.6% (on year-on-year basis) throughout second quarter of 2012.

Yet, China has suffered less in the midst of global economic downturn with a double-digit GDP growth of 10.4% in 2010, and surpassing Japan as the world's second largest economy. Such growth rate, in percentage terms, exceeded 9% during a difficult year in 2011. According to *IMF (International Monetary Fund),* China is expected to enjoy robust economic recovery since second half of 2012 primarily attributable to the government's active launching of quantitative easing to encourage investment (e.g. the central bank reduced the deposit reserve ratio and interest rates in the second quarter and third quarter in 2012), and implementation of policy initiatives to drive domestic demand.

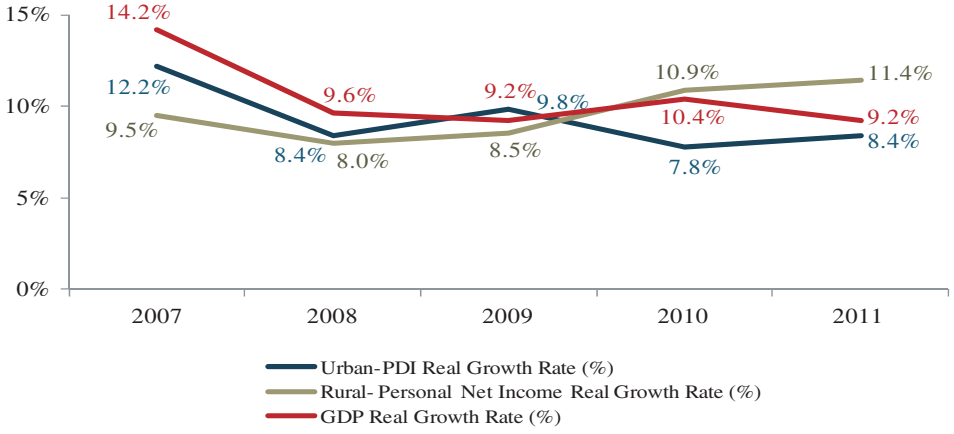
China GDP, per Capita Annual Disposable Income and Personal Net Income of residents, 2007-2011



Source: National Bureau of Statistics of China

China has devoted itself to shift its economic structure to promote growth from domestic consumption and investment rather than relying significantly on export growth. The national 12th-five-year program (2010-2015) indicates that the government would place focus on continued urbanization together with rise of personal disposable income, especially for the mid-to-low income population, to stimulate domestic demand.

Real Growth of China GDP, per Capita Annual Income, 2007-2011



Source: National Bureau of Statistics of China

Favorable macro economic environment and the policy initiatives of central government's 11th-five-year program (2006-2010) in promoting the construction of information platform (such as through the use of websites to facilitate information flow to users) in the government offices, and developing IT technology have strongly boosted China's IT industry.

Growing urbanization rate

The pace of urbanization in China has accelerated: In 2011, the urbanization rate of China amounted to 51.3%, with a total urban population of approximately 691 million, an increase from 670 million in 2010. Urbanization helps to drive a country's economic development, such as, improving people's living conditions, promoting the widespread use of public service and improving the quality of public service. The information technology and service industry, finance and assurance industry, etc. are expected to benefit from urbanization.

China Population, 2007-2011 (in thousands)

	2007	2008	2009	2010	2011
Population (in thousands)	1,321,290	1,328,020	1,334,500	1,340,910	1,347,350
Urban (in thousands)	606,330	624,030	645,120	669,780	690,790
Rural (in thousands)	714,960	703,990	689,380	677,130	656,560
Urbanization rate	**45.9%**	**47.0%**	**48.3%**	**49.9%**	**51.3%**

Source: National Bureau of Statistics of China

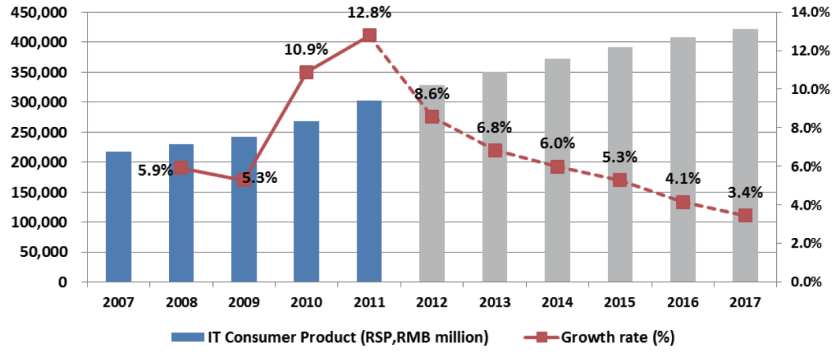
Increasing disposable income enables more people to consume IT product

In 2011, the per capita annual net income of rural residents saw a real growth rate of 11.4% from 2009, and the per capita annual disposable income growth rate of urban residents saw a real growth rate of 8.4%. As the disposable income of rural residents increases, more people have the purchasing power to own one or more IT products. A large population located in rural regions and their increasing purchasing power have provided IT manufacturers and distributors with opportunities to penetrate into the low-tier cities and rural regions.

IT Consumer Product Market

In 2011, the China IT consumer product market increased from RMB267,949 million in 2010 to RMB302,208 million in terms of retailer's selling price ("**RSP**"), which represented an increase of 12.8%. This growth was mainly attributed to the growth in the digital product segment, particularly the increased sales of tablets.

Market Size and Growth of IT consumer product at RSP, 2007-2017



Source: Euromonitor International

– Market Overview

Surging Digital product segment

Sales volume of tablet consumption climbed to a new peak in 2011, reaching 6,425,000, from 783,000 in 2010 (published by ***Analysys International***[1] in the ***Infodesk***^{TM}).

Personal computer segment witnessed downward trend in 2011

The personal computer sector grew modestly in 2011, following faster growth in 2009 and 2010. As the government's subsidy policy[2] has been launched since 2009, its stimulation impact on personal computer consumption has diminished in 2011. Low-tier regions saw faster growth due to the less penetrated market, while in developed regions, the demand was mainly driven by the replacement of old computers by the new products, which experienced modest growth. The Home Appliance Replacement Policy ended on 31 December 2011. Meanwhile, due to challenges from tablets, PC segment only experienced average sales in the first half of 2012.

[1] *Established in 2000, Analysys International is a research company mainly engaged in China internet and information technology market research. Infodesk*^{TM} *is an information system service product launched by Analysys International that reflects the development of China new media economy, including internet, mobile, broadcasting network, IOT etc.*

[2] *'Home Appliances Going to the Countryside Policy' (家電下鄉) and 'Home Appliance Replacement Policy', both are government-funded projects aiming to stimulate consumption of household electrical products.*

Home Appliances Going to the Countryside Policy was targeting to rural residents, who can purchase electronic appliance at prices which were 13% lower than those in cities; Home Appliance Replacement Policy was launched to stimulate consumption of both city and rural residents by subsidizing 10% of the purchase cost by the government.

*Falling average sales price ("**ASP**") due to increasing market competition*

From 2007 to 2011, personal computers and IT accessories were suffering from a decline in the average unit price.

Posted by ***GfK China***[1] in GfK review, for the first three quarters in 2011, sales volume of laptops increased by 17% from the corresponding period in 2010, while sales value increased by 8%. In the desktop segment, sales volume increased by 14%, while sales value only increased by 9%.

Popular products were followed

For most IT consumer product categories, once a new product is rapidly gaining in popularity, various brand owners will follow the trend to produce functionally identical or slightly differentiated products. This has caused the problem of homogeneity and keen competition in pricing, advertising, promotions in the chain of distribution and the end user market.

Larger IT consumer product brands took a diversified development approach to provide a wide range of products, covering personal computers, tablets and other digital products such as mobile phones.

IT consumer product brands compete by differentiating their brands through new technology, product design, user experience and brand value, to cater to more sophisticated consumer preferences.

Developed e-commerce channels benefit the consumers by providing more choice, which pushes IT distributors into an even highly competitive environment

During 2007-2011, the distribution mode of IT consumer products shifted to e-commerce channels. Online retailing gained popularity as the result of the increasing number of price-sensitive and convenience-driven online consumers. Demand for IT consumer products such as tablets, personal computers were driven by the development of online retailing. Meanwhile, demands of IT corporate products to establish or upgrade the online platform from e-commerce retailers have increased.

[1] *GfK (Growing from Knowledge) is a research company established in 1925 in Germany. GfK China has engaged in monitoring China's consumer electronic products market since 1993.*

– Demand Growth Drivers

Large population of internet users drove the demand of IT products

The PRC government has placed the internet into the nation's information infrastructure construction plan since 1997. In 2009, a total investment of RMB4.3 trillion was spent on constructing internet infrastructure, consisting of 8.3 million kilometers of optical cable. As the internet infrastructure reaches more people, people need products to access the internet, therefore, demand of IT products such as personal computer, tablets and IT accessories has increased.

Data from *China Internet Network Information Center*[1] indicated that 38.3% of people in the PRC have access to the internet by the end of 2011, which represented approximately 513 million internet users. More people owned more than one equipment to connect to the internet, in addition to desktops or laptops, mobile phones or tablets are also popular among young internet users. Thus the growth of internet infrastructure has driven the demand of IT consumer products such as personal computer, tablets and IT accessories.

Rising disposable income strengthened people's purchasing power

The rise in individual disposable income and the decreasing average unit price for IT consumer products contribute to the growth of the IT consumer product market. Personal computers and IT accessories benefited from both drivers, while digital products, which had rising average unit prices, also had increased sales due to the rise in disposable income.

Government subsidies policy boosted low-tier cities and rural regions

Commencing in May 2009, a government subsidies policy stimulating consumer electronics sales had played an important role in driving the growth of IT consumer product. The government subsidies policy expanded the choices for personal computers (including cheaper models), therefore, increasing demands of IT consumer products were witnessed in low-tier cities and rural regions.

– Supply Growth Drivers

Technology development is driving market demand

Industrialization of new technology gradually increased demand for IT products. 3G, tri-network integration, mobile internet, and the internet contributes to driving the demand for consumer electronic products.

[1] *Established in 1997, China Internet Network Information Center is the state operator of China's internet network information infrastructure. It engages in administrating China's internet address system, posting the statistics information of China's internet network and guiding the development of China's internet network industry.*

With the introduction of new technology, the production cost of the IT products has decreased, driving the retail price downwards. Meanwhile, new IT products were introduced quickly in recent years. Thus more people can afford more IT products. Meanwhile, the development of internet technology and data processing methodology has promoted the upgrading of IT products, which has created more opportunities for IT market development.

Developed online retailing channels stimulated IT consumer products consumption in China

The expansion of e-commerce channels breaks through the geographical limit of the IT distributors' outlets and has driven the demand of IT consumer products. Through e-commerce channels, consumers can easily compare a product sold by different distributors, such as price. Hence, the development of online retailing channel also led to a decrease in the average selling price of IT consumer products, this in turn stimulated more demand of IT products from lower-income consumers.

IT Corporate Product Market

– Market overview

Enterprises are the main source of business

The construction of enterprise networks requires end-to-end network solutions, integrated data, as well as audio and video capability. IT corporate products applicable to such integrated systems are gaining in popularity driven by the IT system platform construction of the enterprises.

IT corporate products for finance and telecommunication systems were popular during 2007-2011. Corporate demands from these industries were attentive towards price/quality ratios and as a consequence, cheaper products with reasonable quality were gaining in popularity. Besides, with the application of campus area network technologies, educational institutions had increasing demands for PC servers.

Downward price trend was witnessed

There has been a downward price trend in the IT corporate products market during 2007-2011. Foreign-origin IT vendors carried out a lower pricing strategy to cater to the lower end PC server markets.

Demand for various IT systems was emerging

In the UC & CC product market, Avaya Inc. and Cisco Systems, Inc. are notable foreign-origin brand owners that have a strong presence in the Chinese market. Huawei Technologies Co. Ltd., a notable local brand owner undergoing rapid growth, works in close cooperation with the government, state-owned companies and telecommunication companies.

In the IBMS product market, most leading players are foreign-origin brands. Notable local brands, like Tsinghua Tongfang Co., Ltd, offer IBMS products with lower prices.

– Growth Drivers

Increasing IT product demands from government enterprises, banks, and telecommunication industries

One of the targets addressed in the PRC government's 11th five-year program was to promote the establishment of information platform (such as through the use of websites to facilitate information flow to users) for government enterprises, which has driven the demand for information infrastructure facilities, such as IT corporate hardware products and consumer hardware products. During 2007-2011, various IT corporate products witnessed strong demand from government offices, such as corporate storage products, PC servers as well as corporate networking products.

For corporates, a well established IT platform will help companies to achieve efficient management of products throughout the supply chain and to keep track of their market performance, which can assist senior management to formulate development strategies. Therefore, more IT products are demanded from corporates to better equip themselves to compete with peers.

Outlook of IT Product Market 2012-2017

Market Size and Market Growth of IT Product Market

In 2012-2017, the IT consumer product market is expected to enjoy a modest growth, to reach RMB421,313 million in terms of retail values in 2017, with a CAGR of 5.1% during 2012-2017.

Despite the smaller size of IT corporate product market compared to IT consumer product market, IT corporate product is expected to be driven by industry technology upgrades, wider adoption of novel technology, and urbanization are estimated to drive the IT corporate product market and benefit the IT consumer product market as well. However, a decline in average unit price is estimated within both IT consumer product and IT corporate product market.

– Demand Growth Drivers

PRC government's policy to further drive IT products' demands in China

The government's "12 five-year program" stresses to further promote the establishment of information platform (such as through the use of websites to facilitate information flow to users) of the government enterprises, corporates and residents, which stimulates upgrades of IT infrastructure to improve public service levels. This has created growth opportunity for IT corporate products suppliers. The development of mobile internet, and tri-network integration will drive demands of networking products, consumer electronics, as well as IT accessory products.

Large population of internet users and 3G users to drive more demands of IT products

Data from China Internet Network Information Center indicated that the internet had reached up to 39.9% of the total population of China by the end of 2011, that is China has around 538 million internet users. The research also demonstrated that, users owned more than one facility to connect to the internet. Besides desktop or laptop, mobile phones and tablets are also popular among young internet users. In addition, with increasing popularity of mobile internet, 3G users in China have climbed to approximately 175 million in 30 June 2012, an increase of over 45 million from 2011, calling for higher demand for IT products.

Novel technology is leading to new lifestyle, young internet users' individual needs promote diversification of products

The new digital lifestyle will further stimulate consumers' demand for IT consumer products. Online shopping and social networking serve as the terminals for consumers to shop, communicate and participate in other activities online, and have driven the growth of consumer electronic products market.

Young consumers accounted for a majority of internet users, their lifestyle and consumption behaviour are very diversed, as a result more diversed products are demanded to satisfy their demand, promoting diversification of IT product market.

Increasing demands from low-tier cities and rural regions drive the development of IT consumer products

As IT consumer products have well penetrated into developed regions, market demand in developed regions is mainly stimulated by product upgrades and product innovation. In the near future, it is expected that more demand of IT consumer products to come from low-tier cities and rural regions.

– Supply Growth Drivers

Novel technologies to bring growth to IT product industry

Increasing popularity of novel technologies will stimulate growth to the IT product industry. The Internet of Things (IOT), which is regarded as the third IT industry revolution, will create a new market with growth in the telecommunications industry, consumer electronic products and various IT industries. The emerging cloud computing industry in China is expected to experience a positive growth trend, with expanding demand for IT products used in cloud storage, cloud computing, networking, etc.

Decreasing prices of IT products will stimulate more consumption

With decreasing prices of IT products, more consumers will be able to afford personal computers, digital products and accompanying accessory products. It is estimated that an increasing number of consumers will own more than one computer and digital products.

Opportunities and Threats

– Opportunities

IT industry upgrading brings opportunities to suppliers who can adopt to the fast changing market

The domestic market is undergoing an economic restructuring that will lead to structural upgrading of IT related industries. It presents opportunities for IT product brand owners who have a better understanding of the fast changing market to make timely adjustments to cater for the demand generated by a fast moving domestic market. Meanwhile, with more international IT suppliers joining the domestic market, the industry will become increasingly competitive.

Market potential in developing regions and demand for product upgrades in developed regions

Increasing demand in lower-tier cities and middle-western regions are going to be one of the key factors driving the market. This presents opportunities for distributors with strong established channels in lower-tier cities.

The upgrading of technologically obsolete IT products to new ones will continue to be an important consumption pattern for higher tier cities in China. Tablets will continue to take up an increasing share of the digital products market and may eventually compete with the personal computers market.

– Threats

Threat from low-price Shanzhai products[1]

Almost all IT consumer products can be copied within the PRC market. In the domestic market, there are plenty of Shanzhai (山寨) IT consumer products, for instance, Shanzhai notebooks, Shanzhai tablets, Shanzhai keyboard etc. The wide availability of Shanzhai products will put downward pressure on product prices for the leading players and represent a threat to the profitability of new products.

[1] *Shanzhai products commonly refer to a product that are designed by imitating the appearance/functions of the popular products (usually introduced by major brand owners), to attract consumers who have lower purchasing power, less-informed on IT products, have lower awareness of brands but are price sensitive.*

Entry Barriers

Technological strength is a barrier to achieve sustainable development in the future

The IT product industry is a technology-driven industry with a relatively short product life cycle, this creates a technological entry barrier. Because of this, multinational IT enterprises, which invest heavier in R&D, have enjoyed leading position in the fast changing technology-driven market.

Distribution network is a barrier to success

Distribution network is critical for IT product distribution. Wide geographical coverage is required for nationwide distribution. Effectively adopting multi-channel distribution is also a barrier for new entrants that want to present their products to a larger group of consumers.

Brand reputation is a barrier to success in the highly competitive market

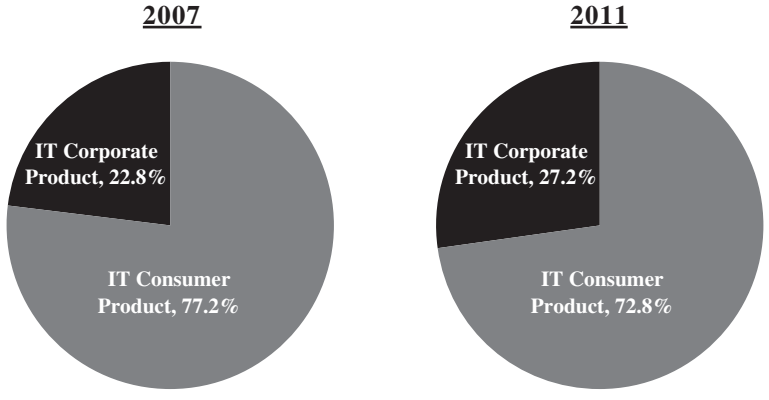
Brand reputation will also hinder the growth of new entrants. IT product market is a highly consolidated market in China as the major suppliers accounted for a solid market share and consumers are more familiar with major brands. Therefore, even if a new entrant has strong competitiveness in developing new products but without a recognized brand name, it is a challenge to earn market shares from current major brands.

IT PRODUCT DISTRIBUTION MARKET IN CHINA

Overview of IT Product Distribution Market 2007-2012

In 2011, IT product distribution registered approximately RMB278,432 million sales value in total, with a year-on-year growth of 14.0% in 2011 from RMB244,259 million in 2010. Sales from IT consumer product distribution contributed to 72.8% of the total sales value in 2011, a decrease from 77.2% of the total sales value in 2007. IT corporate products had a faster growth compared to IT consumer products from 2007-2011, which was attributable to comparatively faster growth in PC servers and networking products, due to the high demands from government enterprises, finance and telecommunications industries.

IT Product Distribution Market Size Breakdown (at Distributor Selling Price ("DSP"))



Source: Euromonitor International

Typical Sales Model Employed in Distribution

In the supply chain of IT corporate products, IT product distributors help IT product brand owners to distribute their products to corporate resellers, system integrators, application providers and Independent Software Vendors ("**ISVs**"). They may also provide system integration services to end customers. The corporate resellers sell the products to system integrators, ISVs or directly to end customers and enterprises. Usually only a small portion of products are sold from IT product brand owners directly to IT integrators or end customers.

For IT consumer products, IT product distributors would distribute the product to corporate resellers, or retailers, including self-owned retail outlets. The corporate resellers would sell the products to retailers.

IT product suppliers approach distributors for distribution of their products but not approaching the end-user directly due to reasons below:

- **Channel advantage –** IT product suppliers rely on the mature distribution channel of IT product distributors to reach the population in China. Major distributors' network has already penetrated into small cities and rural regions of China.

- **Capital advantage –** IT product distributors provide financial support to their channel partners, therefore, the business operation of IT product distributors requires significant levels of working capital.

- **Expertise –** IT product distributors possess expertise in inventory management and logistics.

- **Co-marketing advantage –** China is a sizeable market with regional differences, thus the competitive environment of IT products varies by region. To have their products better introduced to consumers, IT product suppliers require support from local distributors. With direct links to the channel partners and end consumers, local IT product distributors serve to report marketing conditions timely to the suppliers, conduct efficient marketing activities to promote sales of the brand, and strive to optimize channel coverage. In addition, IT product distributors can provide supports on value-added technical service as well as localized post-sale service for customers.

Seasonality in IT product distribution

IT product distributors usually record higher sales in the second half of a year, especially in the fourth quarter due to reasons below:

- Patterns in capital budgeting – A lot of corporates and government enterprises make annual budgeting in the first quarter, while the actual purchasing occurs in the second half of a year, meanwhile, bigger projects such as *IBMS* usually complete in second half of a year.

– For IT consumer product, IT product retailers usually decrease prices of certain PC or digital products in major holidays, thus there will be higher sales in IT consumer product in major holidays including lunar new year, Labour Day Holiday, summer holiday from July to August, and the national holidays in October.

IT distribution disparity by regions – Distribution in coastal area was more developed and distribution in low-tier cities was developing

IT product distribution business was well established in developed areas of China. The development of IT product distribution business in non-developed areas is slower, since developed area demands better IT product and the market was supported by higher consumption power. Due to the higher concentration of developed areas in coastal area in China, distributors in coastal areas in China have a higher market share as a whole.

Due to urbanization, emerging demand for IT products from lower-tier cities in western and middle China results in a gradual increase of market share of the IT product distribution market in these areas during 2007-2011. IT product distributors conduct IT product distribution business in low-tier cities by either cooperating with local channel partners or setting up direct retail terminals.

– Key Trends during 2007-2011

IT Product Distribution market has a trend of consolidation

Major IT product distributors in the market were gaining market shares in 2007-2011. The economies of scale helped major distributors to gain more competitive advantages in the highly competitive market, including bargaining power with brand owners, higher priority in obtaining latest products from brand owners, training and certified supports from brand owners.

Decline in profit margin of IT products results in diversified business focus and advanced management

Profit margin of IT products for distributors declined during 2007-2011. To cope with the declining profit margin of IT products, IT product distributors strive to reduce their costs and introduce new sources of income. Typical ways for IT product distributors to improve profitability include improving the efficiency of distribution management and placing more focus on providing value-added services.

Business focus of IT distributors was changing

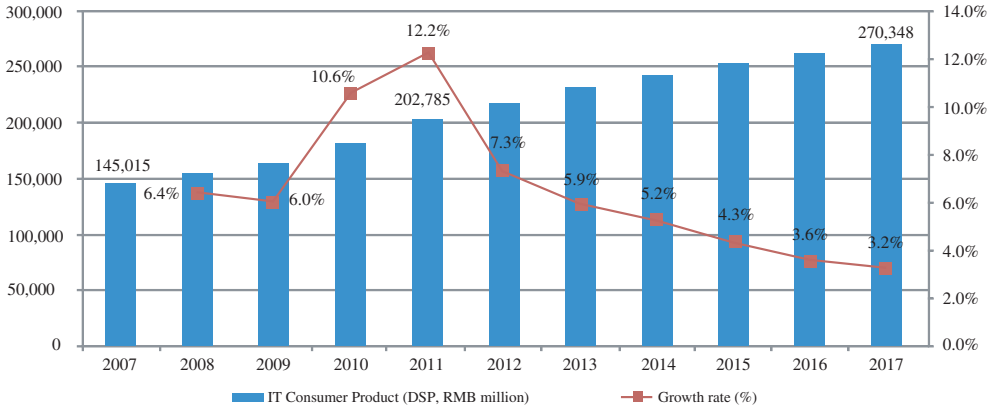
Benefiting from the increase in sales in IT consumer products that was stimulated by government subsidies in lower-tier cities, IT product distributors with strong resources in lower-tier cities had benefited from increase in sales in lower-tier cities.

Many distributors also increased their investments in online retail networks.

IT Consumer Product Distribution Market

In 2011, IT consumer product distribution achieved sales value of approximately RMB202,785 million, with a year-on-year growth of 12.2% from RMB180,724 million in 2010. Affected by the global recession, growth rates in 2008 and 2009 were much lower compared to that of 2011.

Market Size and Growth of IT Consumer Product at DSP, 2007-2017



Source: Euromonitor International

– **Market Drivers**

Distribution channel development of IT consumer product in lower-tier cities and economically developing areas in China helped driving the IT consumer product distribution market.

On-line retailing was expanding in the overall IT consumer product market and driving the growth of the IT consumer product distribution market. In addition, factors such as industrialization, new technologies, wider adoption of 3G network, and social networking, supported the growth of the IT consumer product market and also helped the growth of IT consumer product distribution market.

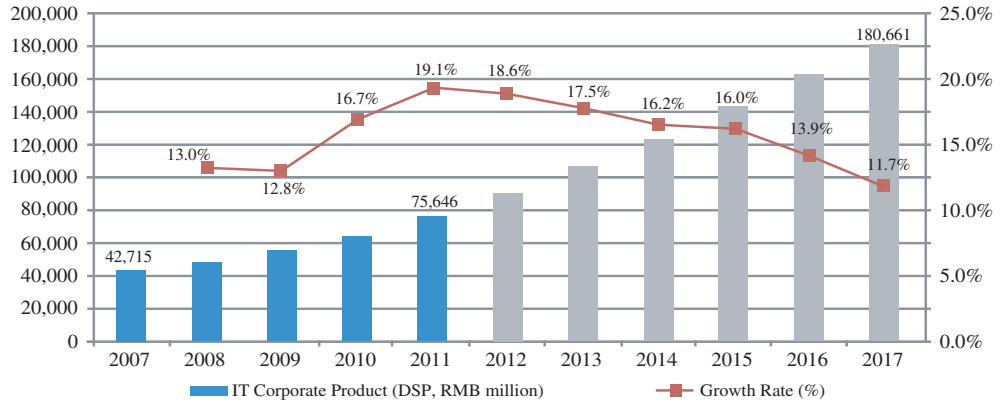
During 2007-2011, digital products outgrew the market of IT consumer product in general mainly due to growth in tablets.

IT Corporate Product Distribution Market

Backed by government projects and industry upgrading, IT corporate product distribution registered sales value of approximately RMB63,535 million with a CAGR of 13.5% during 2007-2011.

For the past five years, growth in IT corporate products was mainly driven by demands in banks, telecommunications, transportation, power sectors and government enterprises. Orders from customers of the aforesaid sectors can allow IT product distributors to obtain a better discount from IT product suppliers, who prefer to penetrate into larger companies and government authorities.

Market Size and Growth of IT Corporate Product Distribution at DSP, 2007-2017



Source: Euromonitor International

PC servers and networking products had fastest growth in 2011

PC servers and networking products had a growth rate of 28.0% and 22.0% respectively from 2010 to 2011. PC servers and networking products outgrew the IT corporate product market in general, which was mainly attributable to demand arising from the construction of cloud computing infrastructures and data center, as well as the development of Internet of Things, and the ongoing replacement of some of the low-end UNIX servers.

Storage products market experienced positive growth

Storage products sector had a growth rate of 14.1% from 2010 to 2011, reaching approximately RMB10,200 million in 2011, which was mainly attributable to demands from government enterprises, banks and telecommunications industries.

Minicomputers had a growth rate of 5.4% from 2010 to 2011. UNIX servers have the strengths of good performance, high level of security and strong expandability, which are the priority choices for critical IT systems of enterprises like banks and the telecommunications industries. While challenged by the price advantage of PC servers, some small-to-medium enterprises may choose the upgraded X-86 servers instead of UNIX servers.

IT corporate product brand owners strongly rely on IT product distributors. First tier distributors, which are usually general agents for IT systems products (which includes UC & CC products as well as IBMS products), were less likely to have themselves involved in system integration and IT solution development, for which were provided by system integrators and IT solution providers. IT product distributors provided financial support to brand owners by paying them before the system was integrated to the end products.

– **Market Drivers**

Close cooperation between IT corporate product distributors and system integrators helped to drive the growth of the distribution market, as system integrators played an important role in product selection for their client. More focus on offering lower end products from IT corporate product vendors stimulated market demand by providing cheaper products with reasonable quality. Demand emerging from lower-tier cities attracted attention from IT product distributors, causing them to develop distribution channels into these areas. This led to the expansion of IT product distribution market in lower-tier cities and rural areas of China.

Outlook of IT Product Distribution Market 2012-2017

Market size and Market growth of IT product distribution market

Bolstered by urbanization, emerging new technology and industry upgrading, the IT product distribution market is estimated to grow at a CAGR of 8.0% from RMB307,233 million in 2012 to RMB451,008 million in 2017. Declining average unit prices and declining market growth rate is likely to continue throughout this period.

IT corporate product distribution market is estimated to grow faster than IT consumer product distribution market with a CAGR of 15.0% from 2012 to 2017. This is attributable to demand from corporate and government enterprises' IT infrastructure, and the rising demands from western regions of China as well as current IT infrastructure upgrade driven by fast changing technologies.

Emerging demand for IT products from lower-tier cities in western and middle China were an important driver that drived the growth the IT product distribution market during 2007-2011, and is expected to further drive the demand from 2012 to 2017.

Opportunities and Threats

– **Opportunities**

More opportunities in low-tier cities and western regions

In the consumer IT products category, the demand is mainly driven by technology innovation and upgrading, while in low-tier cities, traditional IT product channels like 3C malls (computer, communication and consumer electronics mall), hyper and super markets influence consumers to a large degree. This is due to the consumers' less affluent living and consumption condition, and the limitation caused by insufficient logistic networks. With China's accelerating pace of industrialization, consumer purchasing power is becoming stronger, and is expected to provide more business opportunities for IT distributors.

In the corporate IT products category, more demands are emerging from low-tier cities and middle-western regions of China driven by the government's program of developing economy in these regions to reduce the economic disparity in mainland China.

More opportunities to be derived from mobile terminal system upgrading

In 2012-2017, a new format of multiple screen portable smart terminals set up by personal computers, mobile phones/tablets, and smart TV, is expected to gain more presence in the market.

IT distributors explore opportunities in providing service-oriented business

With increasing competition, profit margin of hardware witnessed a downward trend. IT distributors are exploring opportunities in service-oriented businesses, including IT planning, IT systems consultation, operation and maintenance, systems integration and the design of customized software and solutions to increase their margins.

Booming on-line retailing indicates huge opportunity for IT distributors

On-line retailing market is expected to continue to grow in 2012- 2017 due to the growing number of internet users and general improved access to the internet. The fast growing online retail market will stimulate the growth of IT products market as it improves accessibility and convenience for IT consumers. Online retailing also improves market transparency, raising the level of competition and requires resources to be spent on online distribution channels.

Cloud computing era to provide new business

The advent of the cloud computing era is indicating increasing popularity for the rental of IT applications and devices. Small and medium-sized enterprises are more likely to be the target customers for cloud computing related IT outsourcing service. IT product distributors are expected to expand their IT service business in response to such trend.

– Threats

Threats caused by on-line channels

With the development of e-commerce, more on-line channels are set up either by e-commerce retailers or 3C mall players. These players have gained recognitions from IT manufacturers due to their sound customer base. Traditional channels are challenged by on-line channel's price advantage, which is benefited by its lower operation cost. IT distributors need to explore on-line channel to maintain their market share.

Distributors are subject to uncertainties in demand due to a purchase-order basis collaboration mode with distribution partners

IT distributors sell products to their distribution partners on a purchase-order basis, thus its sales are subject to demand uncertaintities. Impacted by seasonal purchasing activities of end users, the introduction of new technology, competition environment as well as macro economic conditions, those purchase orders already delivered may be cancelled, reduced or postponed.

Hence, only if IT distributors are able to correctly anticipate the demand, they may either have inadequate supply or excess inventory. The inventory value may decrease due to the rapid technological revolution in IT products.

Channel partners expansion may threaten the management efficiency of IT Distributors

With increasing operation costs and competition environment, the IT distribution channel is welcoming a shortened trend to guarantee the profitability of all partners in the supply chain. Thus, to penetrate sub-tier cities and rural regions, more channel partners are needed to join the current distribution network. Although opportunities for business expansion exist, distributors might need to manage and train a large group of partners or employees, who might be more geographically fragmented, smaller in size and weaker in terms of financial capability, than those in developed areas of China.

High staff turnover in IT distribution industry

IT distribution industry is highly competitive. The success of distributors relies heavily on key senior management, experts and technological and sales personnel. There is high staff turnover for management and technical staff in IT distribution industry. A turnover usually lead to a change in sales policy (for example, the approach to reallocate the sales team, either by geographical coverage or by product brands etc.), which takes time to conform to the market and bring satisfactory performance to industry players.

IT distributors are subject to dynamic changes in the business model

IT distribution is a dynamic market as it is an industry that relies highly on technology innovation. A new technology introduced may influence preferences in the demand market, which in turn will influence the distributors' business structure.

Entry Barriers and Challenges for Market Success

Distributors in this industry are required to do more than merely distributing products. Value-added services and system integration services are gaining importance for distributors to succeed. Thus, brand reputation and relationship networks will become more critical in IT product distribution, which represents barriers to market entry, and challenges to succeed in this dynamic market place.

It is estimated that IT brand owners will require their distribution partners to have stronger financial capability, distribution management expertise and the capability to provide value-added services (for example, IT planning, IT systems consultation, operation and maintenance, systems integration and design of customized software and solutions), which will lead to higher entry barriers.

Significant levels of capital strength, excellent inventory and logistics management are barriers to success

Distributors provide financial credit support to channel partners. IT distributors require significant levels of capital to finance accounts receivable and product inventory that is not financed by trade creditors.

In the supply chain, IT product distributors also serve as a buffer for brand owners, which requires excellent inventory management and logistics expertise. As mentioned before, IT distributors are subject to uncertainties in demands, thus the key to success is to regularly monitor the market conditions and respond quickly to the dynamics. To achieve this, an efficient management platform support will be a necessity. This will track the orders placed by channel customers timely, monitor product shipments, inventory as well as logistics, and then report to the senior executives and upstream brand owners. Meanwhile, it helps manage customer credit and ensures timely delivery.

Low profit margin creates a barrier for market entrants

In the supply chain, IT distributors functioned as capital and logistics intermediary between manufacturers and channel partners/end-users. Generally, the suppliers determine the price of products they sell to their sub-distributor/end-user. A distributor implements the pricing policy set by the manufacturer and gets return points from them. Hence, its profit margin is determined to a small range.

Typical Profit Margin Range of IT Distributors, 2011

IT Product	Typical Profit Margin Range	Base Profit Margin	Return points reward (sales target met)	Discount Reward (advance payment only)
Personal computer, digital product, IT accessory; low-mid tier PC server and networking products;	**2-7%**	2-3%	1-1.2%	1.2-1.5%
Storage, minicomputer, high-tier servers and networking products	**3-11%**	3-7%	1-2%	2%
UC&CC	**5%**	*Note: IBMS is the most profitable category as it is distributed directly from the distributors to the system Integrators or end-users.*		
IBMS	**10-15%**			

Source: Euromonitor International estimates

Currently, the top distributors are enjoying a profit advantage by economies of scale, management expertise, bargaining power with brand owners and high profit value-added service that leverages their industrial resources. The capability of value-added services was gaining importance as an asset for distributors to build its partnerships with others, including IT product brand owners and channel partners.

Declining profit margins will continue to be an important barrier for market entrants. To achieve market success, it's crucial for a distributor to acquire a profit advantage via: economies of scale, management expertise, bargaining power with brand owners, value-added services, higher profit leveraging of their industrial resources, and technology expertise.

Excellent brand reputation is required

IT product distributors serve as an intermediary between brand owners and downstream customers, including: resellers, system integrators, independent software vendors, retailers or even end users. To achieve success in IT product distribution, excellent brand reputation is essential. Brand reputation helps to drive sales performance, improves channel customer's loyalty and adds value to end customer sales.

Industry expertise, training and marketing support will be a barrier to success

Industry expertise in each end customer industry is critical in distributing IT corporate products, because IT corporate product distribution is increasingly combined with system integration services. Excellent technical expertise and in-depth understanding of the corresponding industry will bring higher customer satisfaction.

The capability to provide channel customers with training services and marketing activities support is increasingly crucial for success.

Exploring regional market, providing high-quality low price service is a challenge for new industry entrants

Demands of IT products in western China and regional sub-tier markets are expected to experience a rapid growth in the near future. A key to success for an IT distributor is to provide low-cost but high-quality service.

Providing service-oriented products, developing retail channels, and seeking for suppliers to provide products with competitive prices will be a challenge for IT distributors to achieve sustainable development in the competitive distribution market in the future.

Supply trends for IT Product Distribution Market

Business expansion - Solution- and Service-oriented business to contribute more to IT distributors' profitability

With increasing competition in China's IT distribution market, declining profit margin of hardware, and increasing operation cost, a development mode of merely selling product is not sustainable for IT distributors. IT distributors are expected to transform towards solution and service providers. Currently, major IT distributors are exploring a consumer- and service-oriented business, including customized IT service, IT systems consultation and integration, design and implementation of industry application software and solutions, etc. The new business expansion has gradually improved profitability for the distributors.

Distribution network expansion – e-commerce channels are highly valued by IT distributors

With the rising penetration rate of the internet and increasing number of online customers, online e-commerce retail enterprises has enjoyed rapid growth in the past several years. The traditional IT retail business model is changing. Traditional IT retail stores and large chain electronic stores are challenged by online 3C (computer, communication and consumer electronics) enterprises.

To keep their market share in the high competitive market, some IT distributors are exploring e-commerce channels, either by setting up separate e-commerce platform or collaborating with leading e-commerce retail enterprises.

Advantage expansion - Diversified competition is valued by IT distributors

Besides exploring in service business and expansion in distribution channels, some IT distributors are seeking for more resources from the suppliers to enhance its capabilities.

Some distributors provide suppliers with information such as demand change, consumers' behaviour and spending patterns, consumers' preference and feedback of products, operational details of its channel customers, as well as end-users, etc. Their intelligence helps the manufacturers in research and development of new products, as well as launching feasible marketing activities, to promote the competitiveness of IT distributors.

COMPETITIVE LANDSCAPE

Market Rankings

Top 5 IT Distributors by Sales Revenue of IT Hardware Products, 2011

IT Distributor	Ranking (2011)	Market Share (2009-2011)		
National Brand Owner		2009	2010	2011
Synnex Corporation (China) Limited ("Synnex")	1	9.0%	9.6%	9.9%
Digital China Holdings Limited ("Digital China")	2	7.4%	7.3%	8.4%
Highly IT Limited ("Highly")	3	3.4%	4.2%	4.3%
Changhong IT Information Products Co., Ltd. ("Changhong IT")	4	2.1%	2.8%	3.8%
ECS Technology (China) Limited ("ECS")	5	3.2%	3.0%	2.9%

Source: Euromonitor International estimates

Consolidating IT Distribution Market

In 2011, the market shares of Synnex and Digital China were 9.9% and 8.4% respectively, which were followed by Highly and Changhong IT with market share of 4.3% and 3.8% respectively.

Accompanied with ECS, the top five distributors accounted for 29.2% of China's total IT hardware products distributed in 2011. While in 2009, the total value share of these 5 companies only occupied 25.2% of the IT hardware distribution. This indicates that the market is consolidating, especially by the leading major players, who have obtained higher market share due to their strong competitiveness.

This section summarizes the principal PRC laws and regulations that are relevant to the business of the Target Group.

PRC REGULATIONS ON FOREIGN INVESTMENT INDUSTRIAL GUIDANCE CATALOGUE (2011 REVISION)

According to applicable PRC regulations on foreign-invested enterprises, capital contributions from a foreign holding company to its PRC subsidiaries, which are considered foreign-invested enterprises (or foreign-funded enterprises), may only be made when the approval by the Ministry of Commerce or its relevant local counterpart is obtained. In approving such capital contributions, the Ministry of Commerce or its relevant local counterpart examines the business scope of each foreign-invested enterprise (or foreign-funded enterprise) under review to ensure it complies with the Foreign Investment Industrial Guidance Catalogue (the "**Catalogue**"), which together with other applicable laws and regulations, classify industries in China into four categories: "encouraged foreign investment industries", "permitted foreign investment Industries", "restricted foreign investment industries" and "prohibited foreign investment industries".

The Catalogue has been revised several times since it was first promulgated, with the most significant revisions taking place in 2002, 2004, 2007 and 2011. The version of the Catalogue currently in effect was jointly promulgated by the National Development and Reform Commission and the MOFCOM on 24 December, 2011 and came into effect on 30 January, 2012. According to the latest Catalogue, a commercial company engaged in IT products distribution falls within the category of permitted foreign investment industry.

LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT IN COMMERCIAL FIELDS

According to the Measures for the Administration on Foreign Investment in Commercial Fields (the "**Measures**", 外商投資商業領域管理辦法), which were promulgated on 16 April 2004 and became effective on 1 June 2004, foreign-invested enterprises, other than foreign-invested commercial enterprises, which are engaged in business activities such as the activities of a commission agency, or wholesale, retail or franchising activities must comply with the Measures and alter its business scope according to the requirements set out therein.

Pursuant to the Measures, a foreign invested commercial enterprise must meet the following conditions: its minimum registered capital must comply with the requirements of the Company of the PRC; it must comply with the normal total investment and registered capital requirements for foreign invested enterprise; and in general, its term of operation may not exceed 30 years, or 40 years in the mid-western region of the PRC.

Moreover, the foreign invested commercial enterprise must meet the following conditions in order to open a retail store:

– if the application is made simultaneously with the application for establishment of the commercial enterprise, the proposed store must conform to the applicable urban development plan and the commercial development plan of the city where it is to be located; and

– if the application is made subsequent to the establishment of enterprise, then in addition to meeting the above requirement, the enterprise must also (a) have undergone annual inspection on time and passed, and (b) have received all of its registered capital from its investors.

LAWS AND REGULATIONS RELATING TO PRODUCT LIABILITY

Under existing PRC laws, where a defective product causes personal injury and damage to properties, a victim may seek compensation from the manufacturer or the seller of the product; where a seller commits faults which results in a defective product and causes personal injury and damage, the seller shall be liable for compensation. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

The PRC Tort Liability Law (《中華人民共和國侵權責任法》) which took effect on 1 July 2010 also has similar provisions on product liabilities. Further, according to such law, where a defective product is identified after it has been launched, the manufacturer and the seller shall take remedial measures such as warning or recalling the product in a timely manner. If the manufacturer or the seller knows that there are defects in a product but still produces or sells such product, and thus causes death or serious damage to the health of consumer, the consumer shall have the right to request for punitive damages.

LAWS AND REGULATIONS RELATION TO REBATE AND COMMISSIONS

According to the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法), which was promulgated on 2 September 1993 and became effective on 1 December 1993, business operators shall not use money or properties or the other methods to bribe to others in order to sell or purchase commodities. A business operator giving any off-book kickback to another entity or individual in secret shall be regarded as offering a bribe; and an entity or individual accepting any off-book kickback in secret shall be regarded as accepting a bribe. However, business operators may expressly offer a discount to the others, or may expressly pay commission to an intermediary in selling or purchasing commodities. The discount or commission offered by the operator must be truthfully entered into the accounts; and the discount or commission accepted by another entity or an intermediary must also be truthfully entered into the accounts.

On November 15, 1996, the State Administration for Industry and Commerce of the PRC ("**SAIC**") issued the Interim Rules on Prohibition of Commercial Bribery (關於禁止商業賄賂行為的暫行規定) ("**Order 60**"), which provided that the act of commercial bribery includes offering money, goods, free tours, and unrecorded rebate sales commission in secret to any person when selling or buying products. Pursuant to Order 60, the term "kickback" refers to an amount refunded by a business operator in secret to another entity or individual in a certain proportion of the price of commodities with off-book cash or material objects or by other means, when selling commodities. The terms "off-book" and "in secret" mean that no clear and true entries are made according to the financial and accounting rules in the financial accounts which, as maintained according to law, reflect the production and operation activities or the revenue and expenditure of administrative funds, including no entries in the financial accounts, transfer to other financial accounts or false entries in accounts.

In accordance with the Anti-Unfair Competition Law of the People's Republic of China and Order 60, SAIC (or its local counterparts), being the principal government authority that supervises matters relating to unfair competition and commercial bribery in China, has the power to impose fines in an amount ranging from RMB10,000 to RMB200,000 and to confiscate the illegal gains of a business operator when convicted of commercial bribery. And, if any crime is constituted, transfer the case to the judicial organ for criminal investigation.

LAWS AND REGULATIONS RELATION TO IMPORTATION AND EXPORTATION OF GOODS

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法),which was promulgated on 6 April 2004 and became effective on 1 July 2004, foreign trade dealer who are engaged in the import or export of goods or technologies shall register with the authority responsible for foreign trade under the State Council or its authorized bodies unless such registration is not required under the laws and regulations of the State Council and/or by the authority responsible for foreign trade under the State Council. Where a foreign trade dealer fails to register as required, the Customs authority shall not process the procedures of declaration, examination and release for the imported and exported goods.

According to the Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Foreign Trade Right by Foreign-funded Enterprises (商務部關於外商投資企業外貿權備案登記有關問題的通知), which was promulgated and became effective on 17 August 2004, when foreign-funded enterprises which were duly established before 1 July 2004 apply for the addition of any import/export business to its approved scope of business, they must, in accordance with the Measures for the Record-keeping and Registration by Foreign Trade Dealers (對外貿易經營者備案登記辦法), complete the formalities of business addition to the enterprises' business licences and shall, in accordance with the relevant procedures, complete the formalities of record-keeping and registration (note: no formalities of change are required with regard to the approval certificate for its establishment) on the strength of the approval certificate for its establishment, business licence with the business addition made, and any other document as required under the Measures for the Record-keeping and Registration by Foreign Trade Dealers. The registration authorities shall affix a stamp indicating "business of distribution of import goods excluded" on the registration form.

Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities (中華人民共和國海關對報關單位註冊登記管理規定), which were promulgated on 31 March 2005 and became effective on 1 June 2005, "consignor or consignee of export or import goods" means any legal person, other organization or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of imports or exports goods shall go through registration formalities with their local Customs authorities in accordance with the applicable provisions. After going through the registration formalities with Customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. And a PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of 3 years.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (中華人民共和國外匯管理條例), as amended in August 2008. Under this regulation, the RMB is freely convertible for current account items, including the trade and service-related foreign exchange transactions and other current exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities, unless the prior approval of SAFE is obtained and prior registration with SAFE is made.

Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange promulgated on June 20, 1996 by the People's Bank of China, foreign-invested enterprises in China may purchase or remit foreign currency for settlement of current account transactions without the approval of SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities.

On August 29, 2008, SAFE promulgated the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) ("**SAFE Circular 142**"), regulating the conversion by a foreign-invested company with registered capital in foreign currency in Renminbi by restricting how the converted Renminbi may be used. The SAFE Circular 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of the SAFE Circular 142 could result in severe monetary penalties.

LAWS AND REGULATIONS RELATING TO TAXATION

Pursuant to the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得税法), which was promulgated on 16 March 2007, EIT rates applicable to both domestic and foreign-invested enterprises were unified at 25% effective from 1 January 2008.

Value Added Tax

The *Provisional Regulations of the People's Republic of China Concerning Value Added Tax* (中華人民共和國增值税暫行條例) promulgated by the State Council came into effect on 1 January 1994 and were amended on 5 November 2008. The Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Value Added Tax (中華人民共和國增值税暫行條例實施細則) issued by the Ministry of Finance came into effect on 1 January 1994, and was amended on 15 December 2008 and 28 October 2011 respectively. Under these regulations, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. Except for certain specified categories of goods sold or imported the value-added tax rate for the sale or import of which is 13%, the tax rate for sales or import of goods and provision of processing and repair and replacement services is 17%. The Value Added Tax ("**VAT**") applicable to Changhong IT and its subsidiaries is 17%.

Business Tax

Pursuant to the *Interim Regulations of the People's Republic of China on Business Tax* (中華人民共和國營業稅暫行條例) promulgated by the State Council on 13 December 1993, amended on 10 November 2008, and implemented on 1 January 2009, and the *Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax* (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance on 25 December 1993, amended on 28 October 2011 and implemented on 1 November 2011, the tax rate applicable to the service sector is 5%.

LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

On 5 July 1994, the Standing Committee of NPC promulgated the *Labor Law of the PRC* (中華人民共和國勞動法), which became effective on 1 January 1995. On 29 June 2007, the Standing Committee of NPC promulgated the *Employment Contract Law of the PRC* (中華人民共和國勞動合同法), which became effective on 1 January 2008. Pursuant to the said law, a written labor contract shall be concluded within one month from the date when the employee commences working; otherwise the employer shall pay twice of the monthly wage. Labor contract is divided into two types, namely labor contract with fixed term and labor contract without fixed term. Where the employee has already worked for the employer for 10 full years consecutively or the labor contract is to be renewed after two fixed-term labor contracts have been concluded consecutively, a labor contract without fixed term shall be concluded.

The *PRC Law for Promotion of Employment* (中華人民共和國就業促進法), promulgated by NPC Standing Committee on 30 August 2007 and effective as of 1 January 2008, provides that no employee can be discriminated in employment by reason of race, ethnic, gender, or religion. The employer should neither refuse nor request higher conditions for, the employment of any woman, because of their gender; and no provision limiting any woman employee in marriage and child-bearing is allowed in the labor contract. The employer should not refuse the employment of anyone for the reason that the individual is a pathogen carrier, unless regulated otherwise. Moreover, enterprises should allocate the employee education fund for occupational training and further education of employees, violation of which may result in punishment imposed by the labor administration.

Pursuant to the *Social Insurance Law of PRC* (中華人民共和國社會保險法) promulgated on 28 October 2010 and implemented on 1 July 2011, the *Interim Regulations Concerning the Levy of Social Insurance Fees* (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 by PRC State Council, the *Interim Measures Concerning the Maternity Insurance of Enterprise Employees* (企業職工生育保險試行辦法) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labor, the *Regulation Concerning the Administration of Housing Fund* (住房公積金管理條例) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by PRC State Council, the *Regulation on Occupational Injury Insurance* (工傷管理條例) promulgated on 27 April 2003 by PRC State Council and implemented on 1 January 2004 and amended on 20 December 2010 by PRC State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing fund for the employees.

HISTORY OF THE TARGET GROUP

The corporate history of the Target Group can be traced back to October 2004 when Changhong IT was established in Sichuan. The following is a brief corporate history of the Target Group.

Changhong IT

Changhong IT (formerly known as Sichuan Changhong Zarva Information Technology Products Co., Ltd. (四川長虹朝華信息產品有限責任公司)) was established by Sichuan Changhong and Shanghai Zarva Technology Co., Ltd. (上海朝華科技有限責任公司) ("**Shanghai Zarva**") in the PRC on 13 October 2004 with limited liability. Its initial paid up registered capital was RMB180,000,000 which were contributed by Sichuan Changhong as to RMB102,000,000 in cash and by Shanghai Zarva as to RMB78,000,000 by way of cash, fixed assets and intangible assets, representing 56.67% and 43.33% of the equity interest in Changhong IT respectively. As confirmed by various capital verification reports issued by PRC accounting firms, and as advised by the legal adviser to the Company as to PRC laws, the registered capital had been fully paid up. The Company name of Changhong IT was changed from Sichuan Changhong Zarva Information Technology Products Co., Ltd. (四川長虹朝華信息產品有限責任公司) to Changhong IT Information Products Co., Ltd. (四川長虹佳華信息產品有限責任公司) on 20 March 2006.

Due to a dispute between Shanghai Zarva and other parties in respect of a borrowing agreement under which Shanghai Zarva was a defendant, the 43.33% equity interest in Changhong IT held by Shanghai Zarva were subject for sale at an auction and according to a decision made by Shanghai No.2 Intermediate People's Court of the PRC on 28 June 2006, Sichuan Changhong acquired all the 43.33% equity interest in Changhong IT at a consideration of RMB49,500,000. The registration procedures of the said transfer with Mianyang Municipal Administration for Industry and Commerce had been completed on 31 July 2006. There were no disputes between Sichuan Changhong and Shanghai Zarva.

The registered capital of Changhong IT as provided in the articles of association of Changhong IT dated 28 September 2004 signed by Sichuan Changhong, Shanghai Zarva and Mr. Zhu Jianqiu (祝劍秋) ("**Mr. Zhu**") is RMB200,000,000. Mr. Zhu, representing Changhong IT's management team (which includes senior management and key staff) would contribute RMB20,000,000 to the registered capital of Changhong IT. However, such contribution had not been paid up by the management team of Changhong IT when Changhong IT was established. As advised by the legal advisers to the Company as to PRC laws, Mr. Zhu (representing Changhong IT's management team) was not a shareholder of Changhong IT before the first capital contribution was made by Mr. Zhu on 31 July 2006. According to three capital contribution verification reports for the respective Capital Increase issued by firms of qualified accountants in the PRC, the registered capital of Changhong IT had been increased in phases on 31 July 2006, 25 January 2010 and 26 July 2010 (the "**Capital Increase**") to RMB200,000,000 with additional RMB20,000,000 in aggregate being contributed by Mr. Zhu. According to the articles of association of Changhong IT signed by Sichuan Changhong and Mr. Zhu in June 2010, subsequent to such capital increase, Changhong IT was owned by Sichuan Changhong and Mr. Zhu (on behalf of Changhong IT's management team) as to 90% and 10%, respectively.

As confirmed by the Target Group, for the Capital Increase, Sichuan Changhong or Changhong IT had not appointed any valuer for performing valuation of the Capital Increase, and Sichuan Changhong or the relevant shareholders had not sought approvals or filed with relevant State-owned Assets Supervision and Administration Commission any valuation reports in respect of the Capital Increase. According to relevant PRC laws and regulations, relevant parties involved in the capital increase who fails to report the same to relevant State-owned Assets Supervision and Administration Commission may be subject to criticism or order for rectification. There may also be a risk that the relevant State-owned Assets Supervision and Administration Commission may apply to the People's Court for an order to invalidating the Capital Increase. As advised by the legal advisers to the Company as to PRC laws, given that the shareholding structure of Changhong IT had been confirmed by Mianyang Municipality State-owned Assets Supervision and Administration Commission under a confirmation letter dated 23 April 2012 and the Capital Increase had already been duly registered with the relevant Administration for Industry and Commerce, it will not have any material impact on the existing shareholding structure of Changhong IT.

Pursuant to the Reorganisation, Changhong IT became an indirect 90% owned subsidiary of Target Co BVI. For details of the Reorganisation, please refer to the paragraph headed "the Reorganisation" of this section.

Changhong IT Digital

Changhong IT Digital was established in the PRC with limited liability on 12 August 2008 with its registered capital of RMB50 million which was fully paid up in cash by Changhong IT.

Changhong IT Intelligence

Changhong IT Intelligence was established in the PRC with limited liability on 3 November 2010 with its registered capital of RMB50 million. Each of Changhong IT and Changhong IT Digital contributed RMB25 million, representing 50% of the total registered capital of Changhong IT Intelligence, which were fully paid up in cash.

THE REORGANISATION

In contemplation of the acquisition of the Target Group by the Company, the business of the Target Group and the Group was reorganised pursuant to the Reorganisation which involved a reorganisation of the shareholding and related transfers of interests in members of the Target Group and the Group, the steps of which are detailed below.

Step 1: Transfer of 90% equity interest in Changhong IT by Sichuan Changhong to Changhong (Hong Kong) Enterprises at the direction of Changhong (Hong Kong) Trading

(i) Pursuant to a contribution agreement dated 8 July 2011 (the "**Contribution Agreement**") entered into between Sichuan Changhong, Changhong (Hong Kong) Enterprises, Changhong (Hong Kong) Trading, Target Co BVI and Fit Generation, Sichuan Changhong agreed to transfer its 90% equity interest in Changhong IT ("**Changhong IT 90% Stake**") which is valued at RMB680,098,300 (equivalent to approximately HK$812,543,000, based on the exchange rate of HK$1:RMB0.837 as at 19 May 2011) (the "**Purchase Consideration**") to Changhong (Hong Kong) Trading (or as it may direct). The Purchase Consideration is based on the evaluation report《川華衡評報〔2011〕12號評估報告》issued by Sichuan Huaheng Assets Evaluation Limited, a licensed assets evaluation firm in the PRC.

The parties to the Contribution Agreement subsequently agreed that the Purchase Consideration shall be revised to RMB151,900,000 (equivalent to approximately HK$190,000,000, based on a fixed exchange rate of HK$1:RMB0.7994736 as agreed by the parties) (the "**Revised Purchase Consideration**"), being the net investment value of the Changhong IT 90% Stake by Sichuan Changhong.

(ii) At the direction of Changhong (Hong Kong) Trading, Sichuan Changhong agreed to transfer the Changhong IT 90% Stake to Changhong (Hong Kong) Enterprises, which transfer was effective on 9 January 2012.

Step 1A: Increase in authorised share capital of Changhong (Hong Kong) Trading

In contemplation of the issue and allotment of the Changhong (Hong Kong) Trading New Shares (as defined below), on 5 March 2012, Changhong (Hong Kong) Trading increased its authorised share capital from HK$10,000,000 divided into 10,000,000 ordinary shares to HK$200,000,000 divided into 200,000,000 ordinary shares.

Step 1B: Increase in issued share capital of Changhong (Hong Kong) Trading

In consideration of Sichuan Changhong agreeing to transfer the Changhong IT 90% Stake to Changhong (Hong Kong) Enterprises at its direction, on 5 March 2012, Changhong (Hong Kong) Trading allotted and issued 190,000,000 new ordinary shares ("Changhong (Hong Kong) Trading New Shares") at a nominal value of HK$1.00 for each Changhong (Hong Kong) Trading New Share to Sichuan Changhong credited as fully paid-up to satisfy the Revised Purchase Consideration.

As a result of the allotment and issue of the Changhong (Hong Kong) Trading New Shares, the issued share capital of Changhong (Hong Kong) Trading was increased to HK$200,000,000 comprising of 200,000,000 ordinary shares.

Step 2: Allotment and issue of 1 new ordinary share by Changhong (Hong Kong) Enterprises to Target Co. BVI at the direction of Changhong (Hong Kong) Trading

Step 2A: Increase in authorised share capital of Changhong (Hong Kong) Enterprises

In contemplation of the issue and allotment of the Changhong (Hong Kong) Enterprises New Share (as defined below), on 5 March 2012, Changhong (Hong Kong) Enterprises increased its authorised share capital from HK$10,000 divided into 10,000 ordinary shares to HK$20,000 divided into 20,000 ordinary shares.

Step 2B: Increase in issued share capital of Changhong (Hong Kong) Enterprises

In consideration of Changhong (Hong Kong) Trading directing Sichuan Changhong to transfer the Changhong IT 90% Stake to Changhong (Hong Kong) Enterprises, on 5 March 2012, Changhong HK Enterprises allotted and issued 1 new ordinary share ("**Changhong (Hong Kong) Enterprises New Share**") of a nominal value of HK$1.00 at an issue price of HK$190,000,000 credited as fully paid-up to Target Co. BVI, at the direction of Changhong (Hong Kong) Trading.

As a result of the allotment and issue of the Changhong (Hong Kong) Enterprises New Share, the issued share capital of Changhong (Hong Kong) Enterprises was increased to HK$10,001 comprising 10,001 ordinary shares.

Step 3: Allotment and issue of 1 new ordinary share by Target Co BVI to Fit Generation at the direction of Changhong (Hong Kong) Trading

In consideration of Changhong (Hong Kong) Trading directing Changhong (Hong Kong) Enterprises to allot and issue the Changhong (Hong Kong) Enterprises New Share to Target Co BVI, on 5 March 2012, Target Co BVI allotted and issued 1 new ordinary share ("**Sufficient Value New Share**") of a nominal value of US$1.00 at an issue price of HK$190,000,000 credited as fully paid-up to Fit Generation, at the direction of Changhong (Hong Kong) Trading.

As a result of the allotment and issue of the Sufficient Value New Share, the issued share capital of Target Co BVI was increased to US$2.00 comprising 2 ordinary shares.

Step 4: Allotment and issue of 1 new ordinary share by Fit Generation to Changhong (Hong Kong) Trading

In consideration of Changhong (Hong Kong) Trading directing Target Co BVI to allot and issue the Sufficient Value New Share to Fit Generation, on 5 March 2012, Fit Generation allotted and issued 1 new ordinary share ("**Fit Generation New Share**") of a nominal value of US$1.00 at an issue price of HK$190,000,000 credited as fully paid-up to Changhong (Hong Kong) Trading.

As a result of the allotment and issue of the Fit Generation New Share, the issued share capital of Fit Generation was increased to US$2.00 comprising 2 ordinary shares.

Step 5: Proposed allotment and issue of the New Ordinary Shares and the New Convertible Preference Shares by the Company to Fit Generation

Step 5A: Increase in authorised share capital of the Company

In contemplation of the issue and allotment of the New Ordinary Shares, the New Convertible Preference Shares and the Conversion Shares, the Company intends to increase its authorised share capital from HK$30,000,000 divided into 1,200,000,000 ordinary shares of HK$0.025 each to HK$200,000,000 divided into 5,000,000,000 Ordinary Shares of HK$0.025 each and 3,000,000,000 New Convertible Preference Shares of HK$0.025 each.

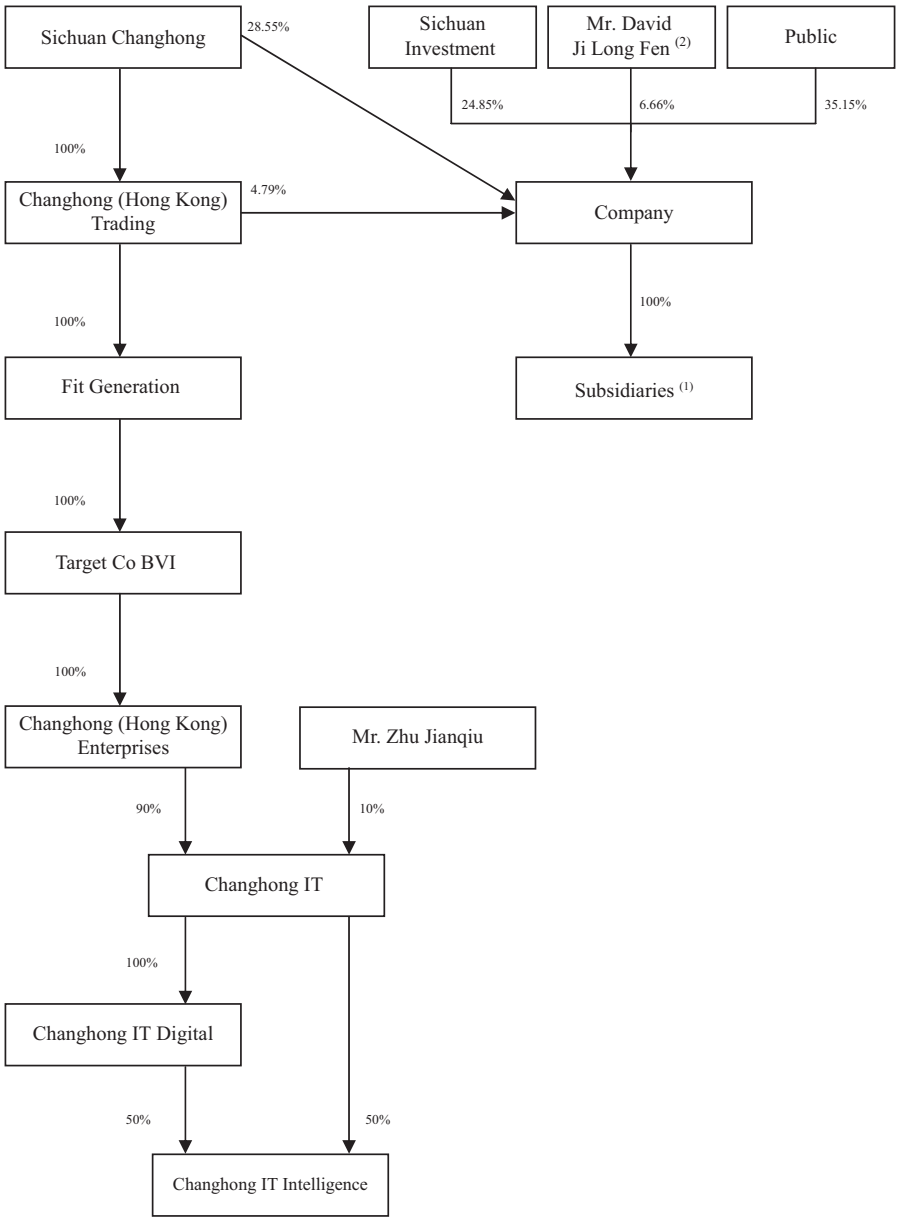
Step 5B: Increase in issued share capital of the Company

Of the HK$2,012,868,000 purchase consideration payable by the Company under the Acquisition Agreement, HK$135,000,000 will be settled by the allotment and issue of the New Ordinary Shares at an issue price of HK$1.00 each and the remaining HK$1,877,868,000 will be settled by the allotment and issue of the New Convertible Preference Shares at an issue price of HK$1.00 each.

As a result of the allotment and issue of the New Ordinary Shares and the New Convertible Preference Shares, the issued share capital of the Company will comprise 469,000,000 Ordinary Shares and 1,877,868,000 New Convertible Preference Shares (before the allotment and issue of the Conversion Shares upon conversion of the New Convertible Preference Shares).

SHAREHOLDING STRUCTURE

The chart below illustrates the corporate and shareholding structure of the Group and the Target Group immediately after completion of Step 4 of the Reorganisation, but before the Completion:

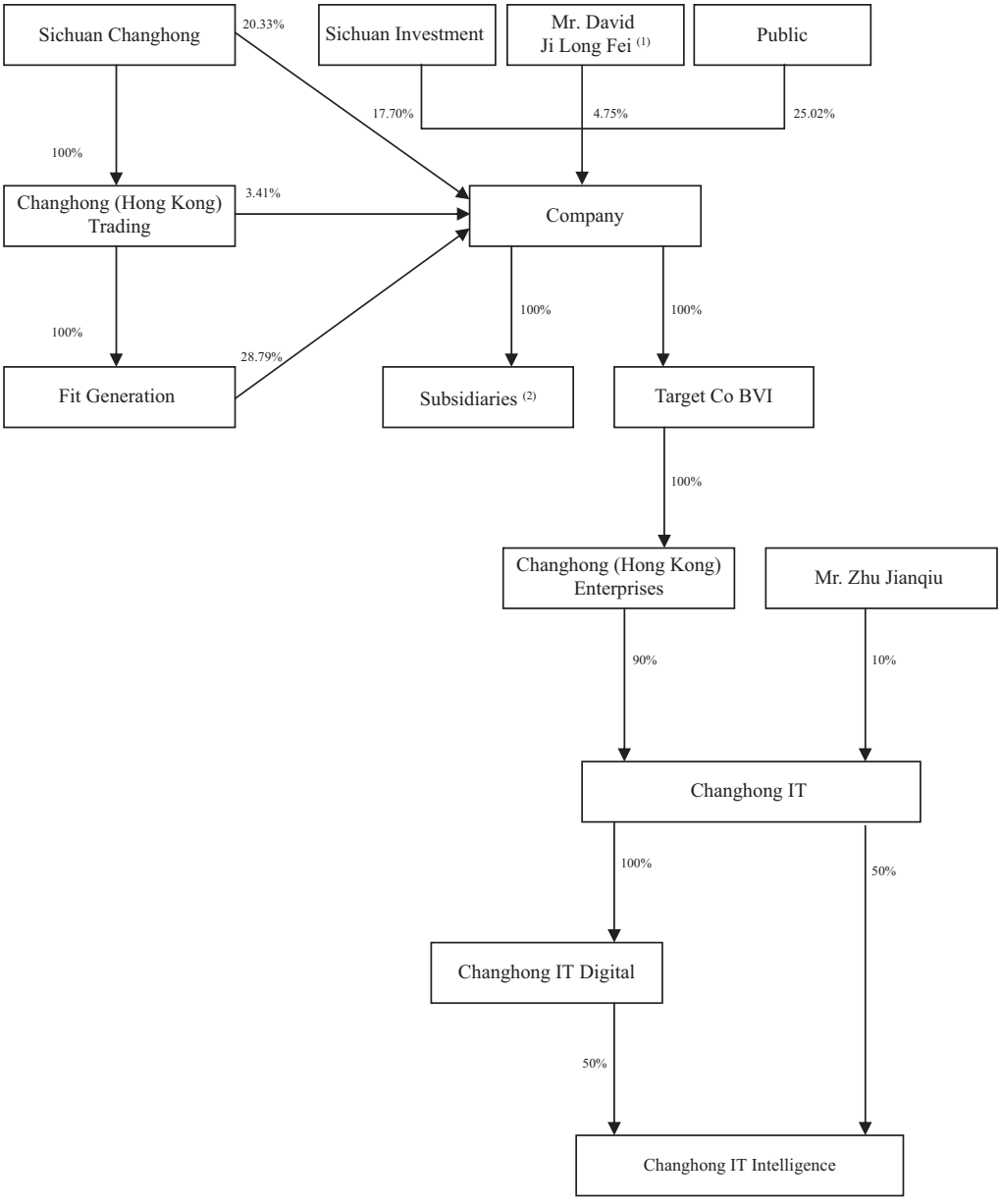


Notes:

(1) As at the Latest Practicable Date, the subsidiaries of the Company comprise Apex Honour Resources Limited (investment holding), Apex Digital Inc. (inactive), Changhong Overseas Development Limited (trading of consumer electronic products and related parts and components), Apex Digital, LLC (inactive) and Apex Digital Inc. Limited (trading of consumer electronic products and related parts and components).

(2) Mr. David Ji Long Fen is an executive Director.

The chart below illustrates the shareholding structure of the Company and the Target Group immediately after the Completion (assuming none of the New Convertible Preference Shares have been converted).



Notes:

(1) and (2). Please refer to the notes on the previous page.

OVERVIEW

The Target Group is one of the top five IT distributors in the PRC, which, according to the Euromonitor Report, ranked the fourth with a market share of 3.8% in 2011 in terms of its sales revenue attributed to IT Hardware Products, and is principally engaged in the distribution of IT consumer products and IT corporate products in the PRC. The Target Group distributes a variety of enterprise and consumer hardware and software products. IT consumer products distributed by the Target Group mainly include personal computers, digital products and IT accessories while IT corporate products distributed by the Target Group mainly include storage products, minicomputers, networking products, PC servers, IBMS products, and UC&CC products. During the Track Record Period, the Target Group had sold IT products under a total of 26, 25, 28 and 33 brands, respectively. Most of the brands of the IT consumer products and IT corporate products which the Target Group sells are international brands. The Target Group also sells well-known PRC branded IT products. The Target Group also provides ancillary services in association with distribution of IT corporate products to its customers including IT technical support services. Apart from IT consumer products and IT corporate products, the Target Group is also engaged in the distribution of smartphones and development of its self-developed products including but not limited to LBS products and provision of IT technical support services.

The Target Group has been in a relationship with renowned brand suppliers as their authorised distributor of IT consumer products and IT corporate products in the PRC ranging from four months to eight years. These companies are among the Target Group's major suppliers. As of 31 July 2012, the Target Group had 33 authorised distributorships of IT products in the PRC, mainly on a non-exclusive basis. These authorised distributorships enabled the Target Group to have a stable supply of IT products for its distribution to its customers.

The Target Group maintains a network of customers with business relationships, ranging from five months to eight years. The Target Group distributes IT products to various types of customers. The Target Group's major customers are mainly sub-distributors, of which 1,440, 2,104, 2,738, and 2,201 sub-distributors were also engaged in system integration business during the Track Record Period. The Target Group also sells its IT products to end-users. The end-users of the IT corporate products sold by the Target Group include enterprises, government authorities, financial institutions, health authorities, education institutions, railway companies, construction companies and electricity companies in the PRC. An insignificant amount of turnover of the IT consumer products are contributed by end-users including the Sichuan Changhong Group.

The Target Group recorded a total turnover of approximately HK$5,204,358,000, HK$8,115,756,000, HK$13,357,743,000 and HK$8,439,564,000 for each of the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively, representing a CAGR of approximately 60.2%.

COMPETITIVE STRENGTHS

– Established long-term relationships with IT product suppliers

Being one of the top five IT distributors in the PRC with a market share of 3.8% in 2011 according to the Euromonitor Report, the Target Group has built up long term and solid relationships with renowned brand suppliers of IT consumer products and IT corporate products, which allows the Target Group to sell a variety of IT products which the directors of the Target Group believe to have a considerable demand in the PRC. The Target Group has been in a relationship with renowned brand suppliers as their authorised distributor of IT consumer products and IT corporate products in the PRC, ranging from six months to eight years. Leveraging on the IT technical competence of the Target Group, the Target Group has enjoyed support from their renowned brand suppliers of IT products in delivering IT products and solutions to cater for the needs of the Target Group's customers.

– Experienced management team and qualified IT technical and sales force

The Target Group is led by Mr. Zhu Jianqiu, a director and general manager of the Target Group who has over 13 years of experience in the distribution business of IT products and managed by Ms. Su Huiqing, Mr. Dong Qiang and Ms. Zhang Hong, vice general managers of the Target Group who have worked in the Target Group for over seven years. Together with a team of sales force and competent IT technical staff (over 88 staff have passed the tests, attended the trainings or obtained the certifications from the Target Group's suppliers in the areas of hardware or software as at the Latest Practicable Date), the Target Group has experienced a strong business growth throughout the years.

– National coverage of sales network in the PRC

Over the years, the Target Group has managed to establish an extensive network of sub-distributors in the PRC, and as a result the Target Group is benefited from having access to a larger base of end-users for the IT products that it sells to. Furthermore, the Target Group has established several offices in the PRC in order to expand the marketing channels of the Target Group and to facilitate its technical support services to customers of IT corporate products, including sub-distributors and the end-users. As at the Latest Practicable Date, the Target Group has presence in 26 cities in the PRC, such as Beijing, Shanghai, Chengdu, Fuzhou, Guangzhou, Hangzhou, Nanjing, Wuhan and Shenyang.

BUSINESS STRATEGIES

The Target Group, being one of the top five IT product distributors in the PRC, intends to enhance its role as key market player by pursuing the following strategies:

– **Broadening of IT products range and procurement work**

The Target Group has established a long term relationship with renowned brand IT suppliers. The Target Group intends to reinforce the business cooperation with these current IT product suppliers through, inter alia, joint marketing and promotion activities to identify potential business opportunities, as well as formulation of cost effective IT solutions which capitalise on the prominent features and functionalities of the IT products offered.

Furthermore, the Target Group intends to diversify its IT products portfolio by identifying suitable IT products which can complement its current IT products portfolio, in order to (i) capture more revenue from each customer by enriching its product offerings to meet with various IT requirements of each customer, (ii) broaden its customer base through distribution of IT products with features different from those of its current IT product portfolio, as well as (iii) enhance its service opportunities and revenue in association with distribution of different IT products.

– **Strategic extension of sales network and coverage**

Leveraging on the Target Group's experienced sales team and competent IT technical personnel, the Target Group has cultivated a long term relationship with its customers, which is a key component to the success of the Target Group. The Target Group intends to extend its network of customers by expanding the geographical coverage of the Target Group's sales and technical support in the PRC through establishing new offices. In the new offices, the Target Group's IT technical staff will be able to design, test and demonstrate different IT solutions to new or existing customers based on the IT requirements from end-users with an aim to initiating and concluding more sales orders on purchase of IT corporate products and related services after such free provision of IT solutions. With the existing presence in 26 cities in the PRC, the Target Group intends to capture more sales opportunities in Hong Kong and other cities in the PRC like Qingdao, Hefei and Kunming, which the Target Group believes to have considerable demand for IT products.

– **Exploring expansion opportunities in Southeast Asia**

Taking advantage of its well-established business operations in the PRC, the Target Group is exploring growth opportunities beyond the PRC market. The Target Group currently seeks to extend its geographical reach to Southeast Asia. The Target Group believes that with a more extensive geographical presence and a larger scale of operation, the Target Group can further benefit from cost-efficiency and increase its market share in the IT products distribution industry, and hence driving viable financial growth.

– **Expansion of the IT service provision in the PRC**

The Target Group intends to enhance its IT service capability and extend its service offerings including, inter alia, provision of IT technical outsourcing services to meet specific requirements of corporate customers. Besides, in order to further intensify the relationship with existing customers, a broader range of IT technical support services and trainings will be offered by the Target Group in association with provision of IT corporate products, particularly those which enable the customers to better understand the features and functionalities of the IT corporate products that they purchase from the Target Group so as to facilitate the customers to develop industry-specific solutions for their corporate end-users and to assist end-users to better utilise and enhance the performance of the IT corporate products in their business operation. Hence, the Target Group intends to set up a technical department. To cope with the Target Group's business strategy to provide more user-specific IT technical support services to customers as mentioned above, more experienced and qualified IT technical and training personnel will be recruited to strengthen the Target Group's IT service capability and enrich IT technical know-how of the Target Group's IT service team in various business sectors.

– **Enhancing employee performance and continuous training and development**

The Target Group's success is partly due to the continued contribution from its management team. The Target Group will continue to develop its human resources through various initiatives in order to support its business strategies. The Target Group intends to adopt a performance-based reward scheme to attract, retain, motivate and develop a high quality workforce. The Target Group will also continue its training programmes to further upgrade the technical knowledge and skills of its existing technical and sales team.

PRODUCTS AND SERVICES

The Target Group is one of the top five IT distributors in the PRC, which, according to the Euromonitor Report, ranked the fourth with a market share of 3.8% in 2011 in terms of its sales revenue attributed to IT Hardware Products, and is principally engaged in the distribution of IT consumer products and IT corporate products in the PRC. The Target Group distributes a variety of enterprise and consumer hardware and software products. IT consumer products distributed by the Target Group mainly include personal computers, digital products and IT accessories while IT corporate products distributed by the Target Group mainly include storage products, minicomputers, networking products, PC servers, IBMS products, and UC&CC products. During the Track Record Period, the Target Group had sold IT products under a total of 26, 25, 28 and 33 brands, respectively. Most of the brands of IT consumer products and IT corporate products which the Target Group sells are international brands. The Target Group also sells well-known PRC branded IT products. The Target Group also provides ancillary services in association with distribution of IT corporate products to its customers including IT technical support services. Apart from IT consumer products and IT corporate products, the Target Group is also engaged in the distribution of smartphones and development of its self-developed products including but not limited to LBS products and provision of IT technical support services.

The following table sets forth the turnover by product types and the percentage contribution of each product type to the total turnover of the Target Group for the years/periods indicated:

	For the year ended 31 December						For the seven months ended 31 July			
	2009		2010		2011		2011		2012	
	HK$'000	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*	*HK$'000*	*% to total*
							(Unaudited)			
IT Consumer Products										
Personal computers	3,003,403	57.71	4,532,413	55.85	7,142,073	53.47	3,671,279	54.30	4,331,554	51.32
Digital products	278,142	5.34	789,108	9.72	2,349,526	17.59	1,120,657	16.57	996,908	11.81
IT accessories	348,529	6.70	421,334	5.19	468,762	3.51	260,117	3.85	301,330	3.57
IT Corporate Products										
Storage products	234,588	4.51	463,230	5.71	639,710	4.79	317,831	4.70	588,634	6.98
Minicomputers	139,312	2.68	108,888	1.34	122,775	0.92	47,091	0.70	129,256	1.53
Networking products	274,591	5.28	432,689	5.33	606,937	4.54	303,371	4.49	645,551	7.65
PC servers	383,718	7.37	548,918	6.76	786,316	5.89	408,970	6.05	474,610	5.63
IBMS products	505,306	9.71	634,410	7.82	732,369	5.48	353,640	5.23	413,811	4.90
UC&CC products	2,590	0.05	140,330	1.73	195,035	1.46	95,691	1.41	105,856	1.25
Others										
LBS	8,505	0.16	1,798	0.02	143	0.00	90	0.00	1,107	0.01
Smartphones	–	0.00	10,685	0.13	276,913	2.07	168,746	2.49	434,256	5.15
IT services	25,674	0.49	31,953	0.40	37,184	0.28	14,077	0.21	16,691	0.20
Total	**5,204,358**	100.00	**8,115,756**	100.00	**13,357,743**	100.00	**6,761,560**	100.00	**8,439,564**	100.00

The following table sets forth the Target Group's revenue by regions for years/periods indicated:

Region	Provinces, municipalities and autonomous regions	For the year ended 31 December			For the seven months ended 31 July	
		2009	2010	2011	2011	2012
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Northern China	Beijing, Heilongjiang, Jilin, Liaoning, Inner Mongolia, Tianjin, Hebei, Shanxi, Qinghai and Henan	2,487,380	3,626,967	6,387,990	3,251,250	3,920,147
Eastern China	Shanghai, Zhejiang, Jiangsu, Anhui and Shandong	1,123,849	1,984,158	3,237,565	1,650,139	2,172,617
Southern China	Guangdong, Guangxi, Hunan, Hubei, Jiangxi, Fujian and Hainan	836,659	1,363,356	2,158,615	1,085,746	1,415,184
Western China	Sichuan, Chongqing, Shaanxi, Gangsu, Ningxia, Tibet, Xinjiang Uygur Autonomous Region, Guizhou and Yunnan	756,470	1,141,275	1,573,573	774,425	931,616
Total		**5,204,358**	**8,115,756**	**13,357,743**	**6,761,560**	**8,439,564**

Note:

During the Track Record Period, approximately 1.27%, 0.15%, 0.41% and 0.61% of the Target Group's revenue respectively was recognised as non-PRC sales. As confirmed by the directors of the Target Group, such sales are recognised as non-PRC sales because the products were delivered to the sub-distributors before import to the PRC at the request of the sub-distributors. These products were ultimately delivered to the PRC.

(A) IT consumer products

The Target Group sells IT consumer products to sub-distributors and end-users. During the Track Record Period, the Target Group derived its turnover primarily from sales of IT consumer products, which mainly included:

(a) Personal computers

During the Track Record Period, personal computers that the Target Group distributed include laptop and desktop computers.

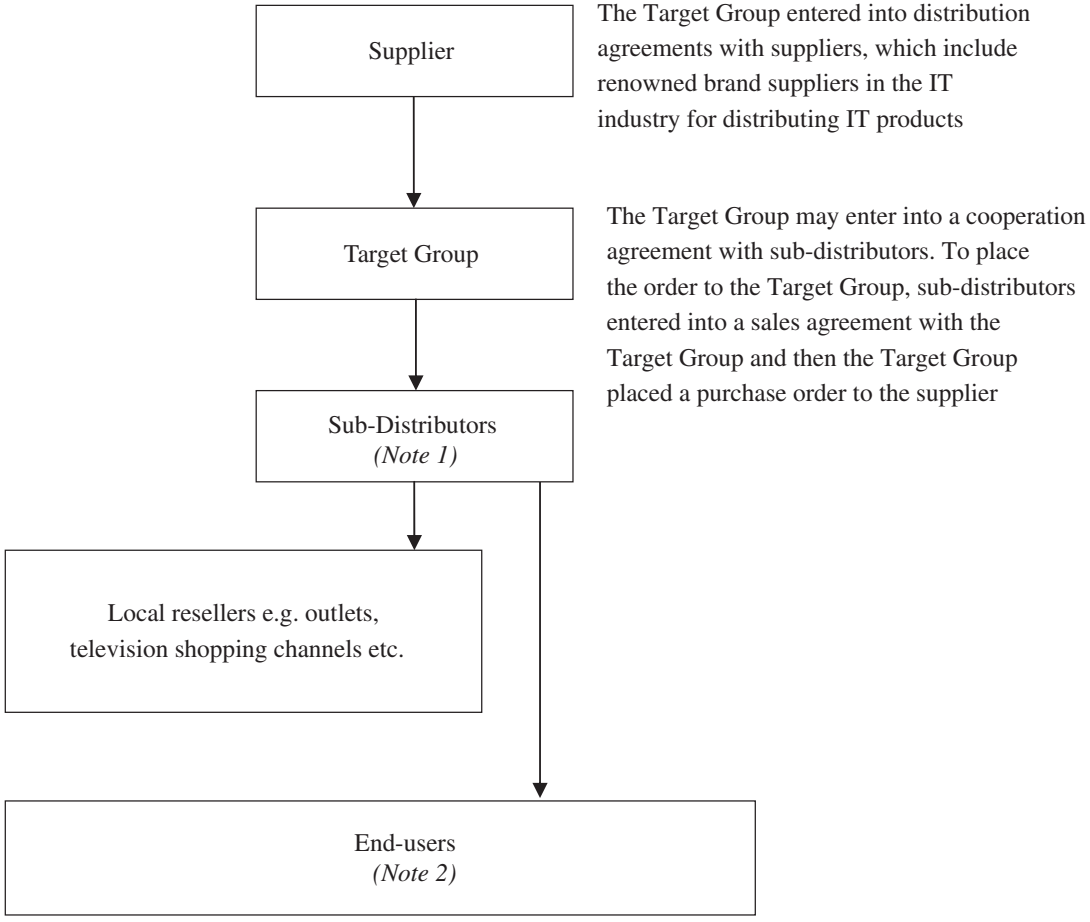
(b) Digital products

In addition to personal computers, the Target Group also distributes digital products such as media players, tablet PCs and e-book readers.

(c) IT accessories

The Target Group also distributes IT accessories such as computer mice, speakers, earphones and non-enterprise network products like modems.

The supply chain and distribution channels of the Target Group of IT consumer products are principally illustrated in the following chart:



Notes:

1. For the years ended 31 December 2010 and 2011 and the seven months ended 31 July 2012, the Target Group also operated the sales of IT consumer products by way of consignment. For details, please refer to the section headed "Business of the Target Group – Sub-distributors – Consignment".

2. An insignificant amount of turnover of IT consumer products of the Target Group was contributed by end-users including the Sichuan Changhong Group.

(B) IT corporate products

In general, the Target Group will distribute IT corporate products and provide ancillary services in association with its provision of IT corporate products for no additional fees. During the Track Record Period, the Target Group mainly distributed the following IT corporate products:

(a) Storage products

The Target Group sells a wide range of storage products such as server switches, tape cartridges, storage servers, storage software, SAN, host bus adapters and data backup software.

(b) Minicomputers

During the Track Record Period, the Target Group sold minicomputers of a renowned brand to its customers.

(c) Networking products

The networking products for enterprises which the Target Group sells include but are not limited to routers, hubs, networking switches, cables and security products such as firewalls.

(d) PC servers

During the Track Record Period, the Target Group distributed PC servers of a renowned brand.

(e) IBMS products

The Target Group provides IBMS products in connection with public security and security alarm system, video surveillance system, IT system infrastructure and other intelligent building management system.

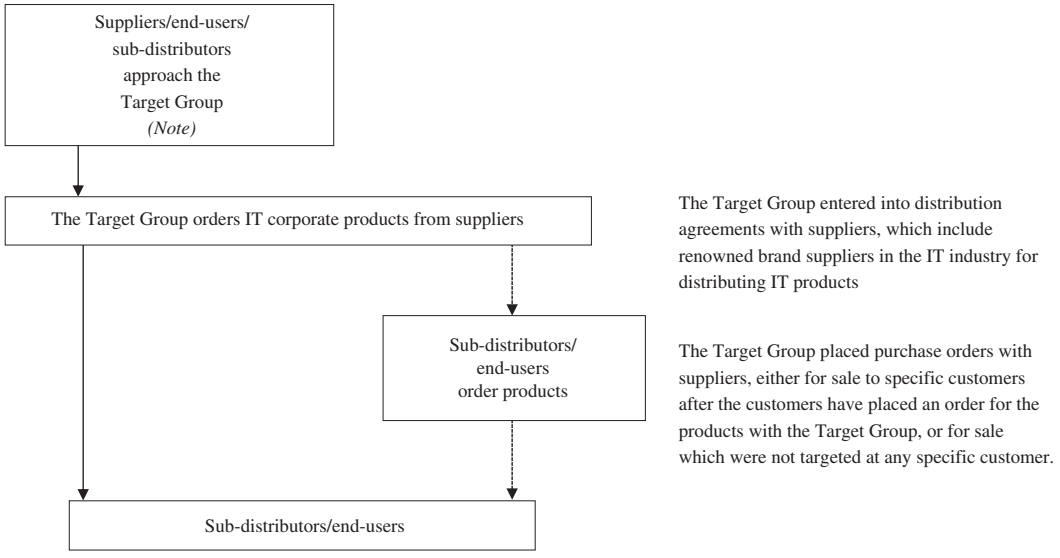
(f) UC&CC products

The Target Group also provides UC&CC products such as internet phones and video conferencing system, and solutions supporting a unified communication system and contact center.

The Target Group will also distribute IT corporate products such as PC servers to sub-distributors without providing any technical support services and the supply chain and distribution channels of such products are same as those of IT consumer products.

The Target Group orders IT corporate products at the request of its customer or with reference to the expected market demand before receiving specific orders for certain IT corporate products. In cases where the Target Group orders at the request of its customers, the Target Group will sign a sales agreement with a sub-distributor or end-user before the Target Group places an order with the suppliers. The Target Group will arrange the products to be delivered to a designated location for installation.

The supply chain and distribution channels of the Target Group for IT corporate products are principally illustrated in the following chart:



Note: The Target Group orders IT corporate products from suppliers in the following situations:

(1) Suppliers approach the Target Group to approve the order and provision of products for end-users;

(2) The Target Group may participate in tenders for providing IT products to end-users and provide IT products to end-users upon successful bids;

(3) End-users/sub-distributors approach the Target Group for their (or their client's) IT needs; or

(4) The Target Group places the orders with reference to the expected market demand before receiving specific orders.

IT technical support services

The Target Group provides to its customers ancillary IT services in association with its provision of IT corporate products to its customers for no additional fees. The range of IT technical support and system integration services that the Target Group offers ancillary to its IT corporate products are set out below:

(a) Formulation of cost effective and quality IT solutions

The Target Group analyzes IT needs of end-users and assists end-users in capacity planning, specification of features and determination of technical requirements of their system solutions, including hardware and software, as well as document these specifications and technical requirements, in order to formulate cost effective and quality IT solutions for the end-users (either directly or through sub-distributors), with an aim to initiating and concluding sales order on their purchase of IT corporate products from the Target Group.

(b) Provision of IT technical training services

As confirmed by the directors of the Target Group, the Target Group prepares and updates IT technical training manuals in relation to the IT corporate products that the Target Group provides technical support services for, as well as provides product and technical training services to end-users and sub-distributors on a regular or ad-hoc basis.

(C) Others

(a) Smartphones

The Target Group commenced distribution of smartphones in 2010.

(b) LBS

Apart from distribution of smartphones, the Target Group also developed LBS products tailor-made for its customer's exclusive needs and use.

In 2007, the Target Group cooperated with a telecommunications company and commenced its R&D in location-based technology in relation to the development of a location-based technology product by the Target Group for the telecommunications company ("**R&D Product for Telecommunication Company**"). The telecommunications company continued to order the LBS products from the Target Group until May 2011.

As confirmed by the directors of the Target Group, since 2011, the Target Group commenced its research in two LBS products:

(i) a vehicle intellectual terminal – with LBS technology, the vehicle intellectual terminal performs various functions such as GPS navigation, vehicle tracking, wireless communication and media centre. The directors of the Target Group confirm that the Target Group plans to focus on the development of parts needed for implementing navigation technology into products, such as chips and boards, sample testing of the product during the research process, the development of new virtual technology for the use of vehicles and modifying existing specifications in products to meet specific requirements from new customers. As at the Latest Practicable Date, the vehicle intellectual terminal is still in the research and development stages and has not been put on the market. Therefore, no sales of this product has been recorded.

(ii) a portable tracking device for the elderly – the device is specially designed for the elderly, featuring GPS tracking system, voice communication and call centre linking to the systems of health authorities and other community service units. The directors of the Target Group confirm that the Target Group plans to focus on the research and development of new versions and the network platform of the tracking device, and to increase the capacity of the network. For the seven months ended 31 July 2012, the Target Group recorded a total sales of HK$1,288,560 for the portable tracking device.

The Target Group has cooperated with Sichuan Changhong for, inter alia, the production and trial production of the LBS products, including the R&D Product for Telecommunication Company. As advised by the legal advisers to the Company as to PRC laws, all the intellectual property rights created or developed under the joint development of the LBS products, including the R&D Product for Telecommunication Company, are jointly owned by the Target Group and Sichuan Changhong according to the respective cooperation agreement between the Target Group and Sichuan Changhong for each of the LBS products. For details of the cooperation between the Target Group and Sichuan Changhong, please refer to the paragraph headed "Connected Transactions-Continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirement-Provision of research and development services by Sichuan Changhong to Changhong IT" of this circular.

As at the Latest Practicable Date, a team of 31 staff was mainly responsible for research and development of the Target Group's self-developed digital products in the digital electronics department. The team comprises software designers, programmers and engineers with an average of three years experience in software and hardware production in the Target Group. A majority of them gained bachelor degrees in relevant fields including computer science, industrial design and engineering.

For the three years ended 31 December 2011 and the seven months ended 31 July 2012, R&D related expenditure of the Target Group amounted to approximately HK$765,000, HK$1,498,000, HK$2,446,000 and HK$2,206,000, respectively. As confirmed by the directors of the Target Group, the estimated R&D related expenditure of the Target Group for the two years ending 31 December 2013 is RMB5,500,000 and RMB6,500,000, respectively.

(c) IT services

During the Track Record Period, the Target Group provides IT implementation services and after-sales IT technical support services either to its customers or suppliers.

(a) Provision of IT implementation services

While the IT implementation services for the IT corporate products that are sold by the Target Group such as installation and customization are mainly provided by the supplier, the Target Group may also provide such IT implementation services on behalf of the suppliers.

Pursuant to the independent service provider agreements entered into by the Target Group and the suppliers ("**ISP Agreements**"), the Target Group shall provide services such as installation, configuration and maintenance services on behalf of the relevant supplier and charge the labour fees according to the rate provided therein. The income in respect of ISP Agreements is recognised upon the provision of the services. As confirmed by the directors of the Target Group, all costs for the services performed by the Target Group will be reimbursed by the relevant product suppliers.

(b) Provision of after-sales IT technical support services

After-sales IT technical support services that the Target Group provides to its customers or suppliers include (without limitation to) fault identification and solution for the IT corporate products, maintenance and inspection services pursuant to a maintenance service agreement with the customers for the maintenance of a specific model of product and the Target Group shall charge the customers with an annual service fee or an one-off fee as agreed in the agreement.

SUPPLIERS

The Target Group is an authorised non-exclusive distributor for IT consumer products and IT corporate products in the PRC for a number of renowned brands. Distribution agreements are entered into between the Target Group and the suppliers, which are generally renewed on an annual or bi-annual basis. Products that the Target Group purchase from the suppliers include IT consumer products and IT corporate products.

During the Track Record Period, total purchases made from the Target Group's five largest suppliers accounted for approximately 81.92%, 81.83%, 86.40% and 82.14% of the Target Group's total purchases for each of the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively. Total purchases made from the Target Group's largest supplier accounted for approximately 46.31%, 31.84%, 27.55% and 26.29% of the Target Group's total purchases for each of the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively.

The amount of purchases by the Target Group from the Target Group's five largest suppliers during the Track Record Period is set out below:

	Year ended 31 December						Seven months ended 31 July	
	2009		**2010**		**2011**		**2012**	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
Supplier A	811,425	16.29	2,142,889	27.09	3,560,689	26.46	2,103,083	26.29
Supplier B	2,306,371	46.31	2,518,588	31.84	3,707,241	27.55	1,970,864	24.64
Supplier C	268,128	5.38	797,118	10.08	2,679,089	19.91	1,372,062	17.15
Supplier D	261,088	5.24	379,587	4.80	*(Note)*	*(Note)*	*(Note)*	*(Note)*
Supplier E	433,091	8.70	634,151	8.02	844,915	6.28	546,386	6.83
Supplier F	*(Note)*	*(Note)*	*(Note)*	*(Note)*	834,957	6.20	578,322	7.23
	4,080,103	81.92	6,472,333	81.83	11,626,891	86.40	6,570,717	82.14

Note: Supplier D was not among the Target Group's five largest suppliers in 2011 and for the seven months ended 31 July 2012. Supplier F was not among the Target Group's five largest suppliers in 2009 and 2010.

The suppliers from which the Target Group purchases the IT products are renowned IT product suppliers and service providers. In addition, the Target Group has established long-term relationships with these suppliers. The Directors confirm that the suppliers are Independent Third Parties, and none of the Directors, their respective associates or Shareholders (who own more than 5% of the issued Shares) had any interest in any of the five largest suppliers of the Target Group during the Track Record Period.

Distribution agreements

The following is a summary of the key terms of the distribution agreements entered into by the Target Group and its major suppliers. The legal advisers to the Company as to PRC laws advise that the agreements entered into with the following suppliers which were still effective as at the Latest Practicable Date are legally binding:

Name of suppliers	Products distributed by the Group	Exclusivity of distribution rights *(Note 1)*	Length of business relationship	Territory of distribution	Renewal term	Expiry Date	Status of Renewal *(Note 5)*	Termination procedure	Price protection	Minimum distribution quota
Supplier A	laptop and desktop computers	non-exclusive	2009 to the Latest Practicable Date	the PRC	Renewable automatically on an annual basis	6 May 2013 *(Note 3)*	The Target Group will negotiate with the supplier regarding renewal of the agreement before the expiry date	Either party may terminate the distributorship without cause by serving 60 days written notice to the other party	No	No
Supplier B	laptop and desktop computers	non-exclusive	2005 to the Latest Practicable Date	the PRC	Renewable automatically on an annual basis until March 2013 *(Note 2)*	27 March 2013	The Target Group will negotiate with the supplier regarding renewal of the agreement before the expiry date	Supplier may terminate the distributorship by serving three days written notice to the Target Group	Yes	Yes
Supplier C	Smartphones, tablet PCs and mp3 players	non-exclusive	2008 to the Latest Practicable Date	the PRC	N/A	31 October 2014	The previous agreement expired on 30 September 2012 and a new agreement has been entered into on 21 September 2012	Either party may terminate the distributorship, with or without cause, by serving 30 days written notice to the other party	No	No
Supplier D	Data transfer, storage, server monitoring products	non-exclusive	2005 to the Latest Practicable Date	the PRC	N/A	31 March 2013	The Target Group will negotiate with the supplier regarding renewal of the agreement before the expiry date	Either party may terminate the distributorship if the other party breaches the distribution agreement and does not rectify within 15 days upon serving the party in default with written notice	No	Yes
Supplier E	PC servers and minicomputers	non-exclusive	2005 to the Latest Practicable Date	the PRC	Renewable automatically every two years	15 April 2013	The Target Group will negotiate with the supplier regarding renewal of the agreement before the expiry date	Either party may terminate the distributorship by serving one month's written notice to the other party	No	Yes

Name of suppliers	Products distributed by the Group	Exclusivity of distribution rights *(Note 1)*	Length of business relationship	Territory of distribution	Renewal term	Expiry Date	Status of Renewal *(Note 5)*	Termination procedure	Price protection	Minimum distribution quota
Supplier F	laptop and desktop computers	non-exclusive	2010 to the Latest Practicable Date	the PRC	Remain in effect until terminated	31 October 2013 *(Note 4)*	The Target Group will negotiate with the supplier regarding renewal of the agreement before the expiry date	Either party may terminate the distributorship without cause by serving 30 days written notice or with cause upon 15 days written notice to the other party	No	No
Supplier G	storage products, modems, firewalls, hubs, switches	non-exclusive	2004 to the Latest Practicable Date	the PRC	Either party may renew the agreement by serving a 30 days written notice to the other party or otherwise it will be renewed automatically for 30 days and will end thereafter if the distributorship has not been formally renewed	31 December 2012	The Target Group will negotiate with the supplier regarding renewal of the agreement in December 2012 and complete renewal of the agreement immediately after the expiry date	Either party may terminate the distributorship by serving 30 days written notice to the other party	Yes	No

Notes:

1. The suppliers may, from time to time, grant to the Target Group an exclusive right to sell certain product lines for a certain period of time.

2. Purchases of products supplied by that supplier accounted for approximately HK$2,306,371,000, HK$2,518,588,000, HK$3,707,241,000 and HK$1,970,864,000, representing approximately 46.31%, 31.84%, 27.55% and 24.64% of the Target Group's total purchases for the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively.

3. The present agreement of the supplier was effective from 7 May 2010 for one year and it will automatically renew for one year upon each expiry date thereafter until it is terminated, of which the next expiry date will be 6 May 2013.

4. The present agreement of the supplier was effective from 9 August 2010 until it is terminated. The Target Group was authorized by the supplier to be the supplier's distributor until 31 October 2013.

5. As confirmed by the directors of the Target Group, the Target Group generally starts negotiating with suppliers regarding renewal of agreement one month before the existing agreement expires.

The terms of the distribution agreements entered into by the Target Group varies with each supplier. However, the principal terms of the agreements and arrangements with the suppliers are generalized as follows:

(a) Minimum attainment clause

Most of the distribution agreements would provide that during the term of the agreement, if the amount of products the Target Group purchases from the supplier reaches a certain level in terms of sales amount, the supplier may give a rebate bonus to the Target Group based on the amount of sales that exceeds the agreed target.

As at 31 July 2012, 22 of the Target Group's suppliers had set a minimum annual purchase amount in the distribution agreements, but no penalty clause for any failure of the Target Group to attain the minimum annual purchase amount is specified in the distribution agreements. As advised by the legal advisers to the Company as to the PRC laws, for those distribution agreements governed by the PRC laws, such failure may constitute a breach of the agreement and under most of the those distribution agreements, the suppliers shall have the right to terminate the agreement due to the Target Group's default but no penalty will be specifically imposed for failure of the Target Group to attain the minimum annual purchase amount pursuant to terms of the distribution agreements. Under individual agreements, if the Target Group breaches the agreement, the suppliers shall also have the right to require the Target Group to return the bonus previously granted and the Target Group shall indemnify the suppliers for any loss arising out of the default. Pursuant to two of the distribution agreements, the Target Group shall not be entitled to any sales bonus in the event of the Target Group's breach of the agreement.

As confirmed by the Target Group, during the Track Record Period and up to the Latest Practicable Date, the Target Group did not achieve the minimum annual purchase attainment as agreed with only one of the suppliers in the year ended 31 December 2011. Pursuant to the relevant distribution agreement entered into between the Target Group and such supplier (which expired on 31 December 2011), the supplier had the right to terminate the distribution agreement in such an event but no penalty will be specifically imposed on the Target Group for such failure. As confirmed by the directors of the Target Group, during the Track Record Period, and up to the Latest Practicable Date, there has been no claim by any supplier against the Target Group for the failure to meet the minimum purchase requirement.

(b) Product orders and pricing

After signing the distribution agreements with the main suppliers, the Target Group, as the main distributor, only needs to make an order with the supplier each time the Target Group requires products from the supplier directly. Delivery methods and delivery dates are determined by the order forms of each order. Pricing of products for onward sales to the Target Group's sub-distributors are generally determined according to a guiding price given by the supplier. According to the terms of the distribution agreements with 23 suppliers of the Target Group as at 31 July 2012, the Target Group may not be at a liberty to determine the sales price of certain products for onward sales to its sub-distributors. For details of the pricing policy, please refer to the section headed "Management of sub-distributors – Pricing" of this circular.

(c) Credit term and period

The suppliers may grant trade credit to the Target Group. During the Track Record Period, the average credit period granted by its suppliers was from 30 to 110 days.

The credit terms of seven suppliers had been guaranteed by Sichuan Changhong and Sichuan Changhong Electric. For each of the three years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012, the aggregate maximum amount secured under the guarantee given by Sichuan Changhong and Sichuan Changhong Electric in favour of suppliers amounted to approximately HK$699,223,000, HK$1,234,084,000, HK$1,890,007,000

and HK$1,579,370,000, respectively. For details, please refer to the section headed "Connected Transactions – Details of connected transactions to be discontinued upon completion – Financial assistance provided by the Sichuan Changhong Group and Sichuan Changhong Electric to Target Group".

(d) Price Protection

As at 31 July 2012, ten suppliers had granted price protection to the Target Group. Pursuant to such price protection clauses, if the suppliers decrease the prices on its products, they shall reimburse the Target Group for the difference between the higher price paid by the Target Group and the reduced price in respect of the remaining stocks which were kept by the Target Group.

As at 31 July 2012, 25 suppliers also provided rebates to the Target Group. Rebates given by suppliers to the Target Group, including bonus given to the Target Group for goods of which turnover during the relevant period exceeds the expected turnover, price protection guaranteed by suppliers for goods of which the actual selling price was lower than the expected sales price, sales discount offered by suppliers to the Target Group for goods paid by cash received from suppliers and rewards for conducting marketing and promotional activities by the Target Group given by the suppliers during the Track Record Period were approximately HK$250,584,536, HK$465,063,970, HK$1,140,821,930 and HK$725,678,490, respectively. The rebates given by suppliers to the Target Group have been recorded in the accountants' report on the Target Group as set out in Appendix I of this circular by netting off against cost of sales when they are incurred.

(e) After-sales services

After-sales services for IT consumer products and part of the IT corporate products are either provided by the Target Group, which are authorised by and costs of which are provided to the Target Group by the main supplier, or provided by the suppliers directly. Repair services for IT consumer products are provided by suppliers.

For sales of IT corporate products and provision of IT technical support services, after-sales services include installation, repair and staff training. After-sales services may be provided by the supplier within the warranty period or may be outsourced to the Target Group, the cost of which is borne by the main supplier. If the warranty period has expired, the Target Group may provide repair services at the expense of the end-user.

(f) Rights and obligations

Under the distribution agreements, the product delivery is either undertaken by the supplier or by a transportation company designated by the Target Group. If the supplier is responsible for the delivery of the products as agreed under such distribution agreements, risk of loss to the products will pass to the Target Group when the products are delivered to the designated location. If the Target Group is responsible for such delivery, the risk of loss to the products will pass to the Target Group upon collection of the products from the warehouse of the suppliers.

(g) Termination and renewals

The distribution agreements may be terminated either at any time with or without cause by either party serving to the other party, or only by the supplier to the Target Group, a prior written notice within a period specified in the agreements. The distribution agreements may be terminated by the suppliers at any time by giving the Target Group a prior written notice which would become effective immediately on the date of the notice or with a notice period of up to 90 days.

Upon expiry of the agreements, the term may be renewed on an annual or bi-annual basis either automatically or in writing.

The directors of the Target Group confirm that, based on their industry experience and understanding of the IT products distribution market in the PRC, the reasons that most of the IT products suppliers would enter into distribution agreements with main distributors rather than with sub-distributors are set out below:

(i) as a large number of sub-distributors in the industry are located in various cities and regions in the PRC, main distributors can provide value-added services including, but not limited to, installation, repair and maintenance, and other after-sales services, management of inventory and logistics services, and handling communications with these large number of sub-distributors for the suppliers;

(ii) main distributors can provide capital support to the suppliers as suppliers will collect the sales proceeds directly from the main distributors who usually have stronger financial capability after selling the IT products to main distributors, while main distributors will collect the sales proceeds from various sub-distributors separately after selling the IT products to such sub-distributors; and

(iii) main distributors can assist the suppliers to conduct marketing and promotions of their IT products.

For details of the typical sales model employed in IT product distribution market in the PRC, please refer to the section headed "Industry Overview – IT Product Distribution Market in China – Typical Sales Model Employed in Distribution" of this circular.

SUB-DISTRIBUTORS

Number of the Target Group's sub-distributors

As of 31 July 2012, the Target Group had maintained business relationships with 7,279 sub-distributors.

The following table sets forth the changes in the number of sub-distributors of the Target Group, the amount of sales attributable to new sub-distributors and the number of sub-distributors that were designated or recommended to the Target Group by the Target Group's suppliers during the Track Record Period:

	Year ended 31 December			Seven months ended 31 July
	2009	**2010**	**2011**	**2012**
Sub-distributors at the beginning of the period	2,791	4,072	6,135	8,243
Addition of new sub-distributors	2,564	3,511	4,003	2,331
No. of inactive sub-distributors (note 1)	(1,283)	(1,448)	(1,895)	(3,295)
Net change in sub-distributors	1,281	2,063	2,108	(964) *(note 3)*
Sub-distributors *(note 2)* at the end of the period	4,072	6,135	8,243	7,279
Amount of sales attributable to new sub-distributors (HK$'000)	1,538,244	1,641,042	3,022,300	1,133,503

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
No. of sub-distributors designated or recommended by suppliers	4,060	6,050	7,998	7,117
Approximate % of such sub-distributors to the total number of the Target Group's sub-distributors	99.7%	98.6%	97.0%	97.8%

Notes

1. "Inactive sub-distributors" refer to those sub-distributors which had not entered into any transaction with the Target Group during the relevant financial year/period. As suppliers may designate or recommend customers to the Target Group, the groups of customers which the suppliers designate or recommend may change from time to time, which results in sub-distributors becoming inactive and sub-distributors which were previously designated by the suppliers may not be designated by the suppliers for the products to be distributed subsequently.

2. The number of sub-distributors which have entered into cooperation agreements with the Target Group during the Track Record Period and as at the Latest Practicable Date were 871, 2,476, 4,189, 4,255 and 4,884, respectively.

3. As confirmed by the directors of the Target Group, a sub-distributor is classified as inactive during a financial period if it had not entered into any transaction with the Target Group during the relevant financial period. The number of inactive sub-distributors increased significantly during the seven months ended 31 July 2012 because (i) the sub-distributors designated or recommended by the suppliers may change from time to time and certain sub-distributors who were previously designated by the suppliers may not be designated by the suppliers for the products subsequently; and (ii) there was a relatively shorter period of time, that is, seven months as compared with twelve months in any one of the financial years of 2009, 2010 and 2011, for a sub-distributor to enter into a transaction with the Target Group. As a sub-distributor may become active again and revenue derived from sales to the 3,295 inactive sub-distributors for the seven months ended 31 July 2012 only amounted to approximately 10.1% of the Target Group's total revenue for the year ended 31 December 2011, the directors of the Target Group are of the view that the impact of the inactive sub-distributors to the Target Group's profitability is minimal.

The following table sets forth the number of sub-distributors by regions during the Track Record Period:

		No. of sub-distributors			
Region	Provinces, municipalities and autonomous regions	As at 31 December			As at 31 July
		2009	2010	2011	2012
Northern China	Beijing, Heilongjiang, Jilin, Liaoning, Inner Mongolia, Tianjin, Hebei, Shanxi, Qinghai and Henan	1,491	2,284	2,943	2,610
Eastern China	Shanghai, Zhejiang, Jiangsu, Anhui and Shandong	917	1,310	1,911	1,717
Southern China	Guangdong, Guangxi, Hunan, Hubei, Jiangxi, Fujian and Hainan	899	1,446	1,876	1,598
Western China	Sichuan, Chongqing, Shaanxi, Gangsu, Ningxia, Tibet, Xinjiang Uygur Autonomous Region, Guizhou and Yunnan	765	1,095	1,513	1,354
Total		4,072	6,135	8,243	7,279

Relationship with sub-distributors

Most of the Target Group's sub-distributors are designated or recommended by the Target Group's suppliers. As at 31 July 2012, 25 suppliers designated or recommended sub-distributors to the Target Group for distribution of certain types and models of the suppliers' products and may restrict the products that the sub-distributors may purchase from the Target Group. Also, fixed prices and recommended prices of the IT products may also be provided by suppliers to the Target Group, and as at 31 July 2012, 23 suppliers had provided fixed prices and recommended prices of the IT products.

The following table sets forth the amount of sales attributable to sub-distributors designated or recommended to the Target Group by the Target Group's suppliers during the Track Record Period:

	For the year ended 31 December			For the seven months ended 31 July
	2009	**2010**	**2011**	**2012**
	(*HK$'000*)	(*HK$'000*)	(*HK$'000*)	(*HK$'000*)
Amount of sales attributable to sub-distributors designated or recommended by suppliers	4,978,122	7,839,835	12,970,986	8,176,768

Other than sub-distributors designated or recommended by the suppliers, during the Track Record Period, the Target Group also identified sub-distributors on its own by the following means: (i) conducting seminars or conferences for sub-distributors; (ii) through Changhong IT's website; (iii) by media promotion; and (iv) sales of products to existing sub-distributors in addition to products they have been purchasing from the Target Group.

As confirmed by the directors of the Target Group and the Directors, save and except for the business relationship, during the Track Record Period and up to the Latest Practicable Date, there are no other relationships between the sub-distributors and the Target Group or the Group, their shareholders, directors, senior management or their respective associates.

The relationship between the Target Group and the sub-distributors (except for the consignment sub-distributors) is that of seller and buyer due to the following reasons:

- as confirmed by the directors of Target Group, the Target Group does not have control over the business operation of its sub-distributors, save for requirements for certain sub-distributors to report inventory and sales figures to the Target Group when requested by the Target Group;

- it is expressly stated in the cooperation agreements entered into between the sub-distributors and the Target Group that the sub-distributors are independent of the Target Group and the sub-distributors shall not represent to any third party as an agent or partner of the Target Group, and also in the agreements entered into between the Target Group and its five largest suppliers during the Track Record Period that the Target Group shall not represent to any third parties as an agent of the suppliers;

- The Directors are of the view that the Target Group is acting as a principal according to applicable accounting principles because (i) the Target Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order; (ii) the Target Group has the inventory risk before or after the customer order, during shipping or on return and the Target Group managed the whole process on the logistic of the inventory received and delivery as the Target Group takes the ownership of the inventory; (iii) the Target Group has launched the marketing activities for its products; and (iv) the Target Group bears the customer's credit risk for the amounts receivable from the customer.

- the legal advisers to the Company as to the PRC laws are also of the view that notwithstanding that certain suppliers of the Target Group recommend or nominate some sub-distributors to the Target Group, provide after-sales services to end-users/sub-distributors during the warranty period and impose certain restrictions on the Target Group on the types of products sold and the price charged, the relationship between the Target Group and its sub-distributors is that of seller and buyer, as long as these are commercial decisions of the suppliers and the Target Group upon arms' length negotiation between the parties.

As advised by the legal advisers to the Company as to PRC laws, the relationship between the Target Group and sub-distributors under the consignment arrangement is not that of seller and buyer. As advised by the legal advisers to the Company as to PRC laws, the sub-distributor under the consignment arrangement is acting as a commission agent and the Target Group is acting as a principal, due to the following reasons: (1) according to PRC laws and regulations, a commission agency contract is a contract pursuant to which a commission agent agrees to engage in trading activities in its own name for a principal, and the principal agrees to pay remuneration. Seven of the consignment agreements executed by the Target Group and the sub-distributors under the consignment arrangement expressly provided that, the consignment sub-distributors are entrusted by the Target Group to sell products and the sub-distributors are entitled to charge the Target Group commissions for such entrustment; and (2) the sub-distributors physically hold the consigned products when such products are delivered to such sub-distributors but the Target Group retains the legal title of the consigned products.

As confirmed by the directors of the Target Group, save and except for the fees for the services and products provided/sold to the sub-distributors and rebate bonus paid to the sub-distributors, there are no other fees the Target Group pays to the sub-distributor, or the sub-distributors pays to the Target Group. For details of the rebate bonus please refer to the paragraph headed "Sales and Marketing" of this section.

Agreements with sub-distributors

As at 31 December 2009, 31 December 2010, 31 December 2011 and 31 July 2012, and as at the Latest Practicable Date, the Target Group has entered into cooperation agreements with 871, 2,476, 4,189, 4,255 and 4,884, respectively. The cooperation agreements the Target Group entered into with sub-distributors include (i) the cooperation agreements with standard terms provided by the Target Group, (ii) the cooperation agreements with terms provided by sub-distributors, and are indicative of the cooperation between the Target Group and the sub-distributors. The Target Group and the sub-distributors entered into a separate sales agreement on each of the purchases made by the sub-distributors.

(A) Cooperation agreements with standard terms provided by the Target Group

The term of the cooperation agreements are renewable once every one year to three years should the parties continue the cooperation. As confirmed by the directors of the Target Group, the cooperation agreements entered into with sub-distributors during the Track Record Period did not contain any restrictions or exclusivity on the geographic location for the sales conducted by the sub-distributors. The directors of the Target Group advise that it is a market practice that the sub-distributors shall sell

the products within the area advised by and permitted by the brand supplier. In addition to market practice, although the existing cooperation agreement between the Target Group and the sub-distributors does not contain any restrictions or exclusivity on geographic location for the sales conducted by the sub-distributors, it provides that the sub-distributors shall follow the rules and practices set out by the Target Group and shall not disrupt the market and sales strategy of the Target Group. If a sub-distributor sells products outside the permitted area and has violated the market practice imposed by the Target Group or disrupted the market and the sales strategy of the Target Group, the Target Group has the right to terminate the agreement. When the Target Group finds potential competition among sub-distributors, for example when a sub-distributor lowers the selling price of products, the Target Group will notify the supplier of the relevant products for the supplier's action.

The directors of the Target Group confirm that before an internal policy was adopted in September 2011 to use a new standard form cooperation agreement with sub-distributors, it was the general practice of the Target Group that the Target Group entered into cooperation agreements with sub-distributors who placed orders electronically. For sub-distributors who placed written orders, the directors of the Target Group considered that it would not be necessary to enter into a cooperation agreement with these sub-distributors since the relationship between the parties were that of a buyer-seller relationship and key terms of the transactions would be laid down in a signed purchase order by the relevant sub-distributors.

As confirmed by the directors of the Target Group, the Target Group started to adopt a new standard cooperation agreement since July 2011 to:

(1) standardise the terms of the cooperation agreements to be entered into between the Target Group and its sub-distributors in future;

(2) put certain former practices of the Target Group in writing as a term of the cooperation agreement, including the request for sub-distributors to provide the Target Group a copy of its company chop for record, request for sub-distributors to affix its company chop when executing agreements entered into with the Target Group and when acknowledging receipt of products on the delivery receipt;

(3) require its sub-distributors to disclose whether (1) it/he is a shareholder, director or senior management of the Target Group, (2) if it/he is connected or associated with the Target Group; and (3) he was or is an employee of the Target Group in order to enhance the Target Group's management of its sub-distributors in respect of their independence to the Target Group;

(4) change the term of the cooperation agreement from generally one year to two or three years; and

(5) include specific terms in relation to after-sales service, delivery, goods ordering, etc. which are applicable to specific product lines of IT corporate products.

In order to enhance the control on the sub-distributors, from September 2011, an internal policy was adopted by the Target Group which stipulated that a new standard cooperation agreement is required to be signed with sub-distributors which have entered into three or more transactions with the Target Group.

For the seven months ended 31 July 2012, approximately 58.2% of all the Target Group's sub-distributors had entered into cooperation agreements with standard terms provided by the Target Group. The directors of the Target Group confirm that, as at 31 October 2012, all of the standard cooperation agreements in old form had either expired or been replaced by the new cooperation agreements and 4,689 sub-distributors had entered into the new standard cooperation agreements with the Target Group.

Further to the objectives of the new standard cooperation agreement described above and specific areas described below, the principal terms of the cooperation agreements are applicable to the new standard cooperation agreement. The principal terms of the cooperation agreements entered into between the Target Group and the sub-distributors are generalized as follows:

(a) Purchase target

For IT consumer products like laptop computers, sub-distributors may agree to purchase a certain amount of products from the Target Group. In those circumstances, sub-distributors are given bonuses in the form of a certain percentage of the sales amount of the products they purchased from the Target Group if the targets are achieved.

(b) Sales order

Sub-distributors are required to place an order for products with the Target Group according to methods specified in the agreements entered into between the Target Group and the sub-distributors, including placing and confirming an electronic order through the Target Group's designated website and through a separate sales agreement. The Target Group shall deliver the products to addresses provided by the sub-distributors or the sub-distributors may collect the goods in person.

(c) Payment and credit terms

According to the Target Group's internal policy, credit periods will be granted to sub-distributors with reference to the credit periods of other sub-distributors of the same product line as that of the applicant sub-distributor. If the sub-distributor cannot make the payment in full by the end of the credit period, the relevant sub-distributor may need to pay a penalty, calculated at an agreed percentage of the overdue sum and the Target Group may cease supply of goods to the relevant sub-distributor immediately. After attempts of recovering the overdue balances, the Target Group may take legal actions against the relevant sub-distributor and terminate the cooperation agreement.

For IT corporate products with ancillary IT services provided by the Target Group, the payment will be made by installments and the first payment will be made upon acceptance of the products by the sub-distributors.

The new cooperation agreement provides sub-distributors with the choice of online payment for their order with a payable service fee.

The Target Group engages an online payment service company to provide to the Target Group the online payment and fund settlement service relating to individual domestic bank cards and domestic enterprises' accounts, which enables the sub-distributors of the Target Group to make online payment for their orders. The online payment service company engaged by the Target Group, instead of the Target Group itself, operates the online payment system. Therefore, as advised by the legal advisers to the Company as to the PRC laws, the Target Group is not required under the PRC laws to obtain any governmental approvals for the online payment system.

(d) Product delivery

According to the agreements, for products of certain suppliers, the sub-distributors shall sign a product delivery form when the product is delivered to the sub-distributors. If the sub-distributor does not require installation service, the sub-distributors may request to inspect the product at the time of delivery and the product will then be packed again after inspection. The sub-distributors must reject the product or record the details if defects are found on the appearance of the products. If the sub-distributors require installation services by the Target Group or the supplier, the sub-distributors shall not inspect the product in the Target Group's absence, and if defects of the product are found under such circumstances, the Target Group bears no responsibility.

Under the new cooperation agreements, there are specific inspection procedures for specific products lines of IT corporate products upon product delivery. If the Target Group or the supplier does not provide installation services, the sub-distributor shall inspect the delivered goods within two days of delivery and sign an inspection report. If the Target Group or the supplier provides installation services, the sub-distributor shall notify the Target Group within two days of the goods delivery and inspect the goods in the presence of the Target Group or the supplier, and within two days after the installation of the product, the sub-distributor shall sign an inspection report.

(e) Return policy

According to the terms of the agreements, sub-distributors may return the purchased goods to the Target Group and subsequently to the supplier after the Target Group has given written approval. The return procedure must be completed within one month of receiving the purchased goods. The purchased goods must be complete and shall not have any missing parts. The packaging must be unopened and undamaged. The cost of the return including transportation and other related fees will be borne by the sub-distributor.

For details, please refer to the paragraph headed "Sub-distributor – Sales to sub-distributors – (d) Return policies" in this section.

(f) After-sales services

The responsibility of providing after-sales services depends on individual sub-distribution agreements and the agreements with the suppliers. The Target Group may be required to provide after-sales services to the end-user of the IT products to which the sub-distributor distributes if the product is returned after a period of days upon sales of the product to the end-user. According to the agreements for products of certain suppliers, after-sales services would be provided if the Target Group undertakes that the product's technical specifications are of the same standard as that of the supplier's. The sub-distributor must also only use the product in the PRC. For details, please refer to the paragraph headed "Sales to sub-distributors – (e) Repair and After-sales IT services" in this section.

(g) Sales support

The Target Group would provide to its sub-distributors up-to-date product, technical information and promotional information, inventory estimates as well as market information such as sales prediction analysis, market analysis regarding IT consumer products and IT corporate products from time to time. The Target Group would also provide training for the sub-distributors on the management and sales of the IT products. On the other hand, the sub-distributors should provide the Target Group with any changes in the market regarding the IT products and assist the Target Group in marketing campaigns for the IT products. Sub-distributors should submit statistics regarding the sales of the products at the request of the Target Group.

(h) Rights and obligations

While the legal title to the products will pass to the sub-distributors upon full payment of product price, the risks of loss to the products will transfer to the sub-distributors on the agreed delivery date, or, according to the new cooperation agreement, when the products are delivered to the sub-distributors. According to accounting policies on revenue recognition for the sales of the Target Group, revenue from the sales to the sub-distributors is recognised upon delivery of goods to the sub-distributors where the risks and rights of ownership of the products are transferred to the sub-distributors and the titles are treated to have been passed to the sub-distributors in substance.

(i) Penalty clauses

The Target Group may also terminate the cooperation agreement if a sub-distributor, amongst others, has a deteriorating business operation, transfer and remove their property to avoid repaying debts, affect the Target Group's marketing and sales strategies and refuse to rectify. If a sub-distributor cannot rectify the above situations within five days, the Target Group has the right to terminate all agreements signed with such sub-distributor.

If a sub-distributor breaches any terms of the cooperation agreement which causes loss to the Target Group, it is considered to be a breach of the cooperation agreement and the sub-distributor shall pay a penalty of 20% of the total purchase amount in the relevant year to the Target Group. If the amount does not fully cover the Target Group's loss, the sub-distributor

should pay the rest of the loss. If the loss is suffered as a direct result of the Target Group's negligence or breach of the cooperation agreement, the Target Group should pay compensation to the sub-distributors, up to a maximum amount equivalent to the payment made by the sub-distributors paid for the goods or services provided.

(j) Others

Under the new cooperation agreement, should there be legal actions between the parties, the party which the court ruled against shall bear the costs paid by the other party such as litigation fees, legal fees, costs for custody of property, investigation and travelling expenses arising out of custody and enforcement of the property.

(B) Cooperation agreements with terms provided by the sub-distributors

Sub-distributors entering into this type of agreement are e-commerce or chain store retailers. As confirmed by the directors of the Target Group, the cooperation agreements with terms provided by the sub-distributors entered into by the Target Group and the sub-distributors during the Track Record Period did not contain any restrictions or exclusivity on the geographic location for sales conducted by the sub-distributors, or any targets which the sub-distributors need to meet with regards to the amount of purchased products, or any minimum attainment clause.

(1) Sub-distribution agreements

For the seven months ended 31 July 2012, eight sub-distributors entered into the cooperation agreements with terms provided by the sub-distributors (excluding consignment agreements) ("**Sub-distribution Agreements**") with the Target Group. Four of them are entitled to return unsold goods, representing approximately 0.07% of all the Target Group's sub-distributors as at 31 July 2012.

The principal terms of the Sub-distribution Agreements are summarised as follows:

(a) Sales order

Sub-distributors may place an order for products by e-mail or by fax.

(b) Payment and credit terms

According to the agreements, the Target Group grants credit periods to these sub-distributors, which may start from the date on which the products are delivered to the sub-distributors.

(c) Product delivery

The Target Group shall bear the transportation cost for the delivery of the products to a designated location, which is given to the Target Group upon or after making the sales order.

(d) Return policy

Sub-distributors may return the goods to the Target Group if the goods, among other things, do not conform with PRC regulations and/or industry standards in relation to product outlook, functions or quality.

Save and except for four of the Sub-distribution Agreements, the sub-distributors are also entitled to return unsold goods to the Target Group if the goods cannot be sold after a period of time specified in individual sales agreements with the Target Group pursuant to the Sub-distribution Agreements. For details, please refer to the paragraph headed "Sales to sub-distributors – (d) Return policies" in this section.

The Target Group may be responsible for the arrangement and fees of the goods returned, or it may be borne by the Target Group, the sub-distributor or the supplier after negotiation, according to individual agreements.

(e) Term

The term of individual agreements varies, with Sub-distribution Agreements being valid for one year from the date of signing the agreement, or until a new agreement is signed, or until the end of one financial year.

(f) Pricing

The Target Group may grant price protection for the products sold to the sub-distributor for a limited or unlimited period of time after the goods have been delivered to the sub-distributor. The Target Group may also give a recommended base sales price to the sub-distributor and both parties may reach an agreed sales price.

(g) Termination

According to five Sub-distribution Agreements, either party may give a period of 30-60 days' notice to the other party before the initiating party can terminate the agreement. One agreement provided that both parties must consent to the termination of the agreement. In two of the agreements, both parties shall start to negotiate a new agreement one month before the existing agreement terminates should they wish to continue the cooperation. If both parties could not reach an agreement before the existing agreement terminates, the validity of the existing agreement automatically continues until the date of signing of the new agreement, but the extended period must not exceed three months.

(h) Rights and obligations

The risks of loss to the products will transfer to the sub-distributors when the products are delivered to the sub-distributors. According to one individual agreement, the rights of the products will pass to sub-distributors when the products are delivered to the sub-distributors. As advised by the legal advisers to the Company as to PRC laws, when

it is not stipulated in an agreement when the rights of the products will pass, the rights of the products transfer from the Target Group to the sub-distributors when the products are delivered to the sub-distributors. If the Target Group fails to deliver the products on the date agreed by the sub-distributors and the Target Group, the Target Group is liable to pay a penalty of a certain percentage of the total sales order, or a certain percentage of the total price of the undelivered products, or a fixed penalty for breaching terms of the agreement.

(i) After-sales service

The Target Group shall provide after-sales services according to the relevant suppliers' requirements and PRC laws and regulations, and the Target Group shall bear the repair cost of products within the warranty period, while the end-users shall bear the repair cost after the warranty period. However, there are no terms in the Sub-distribution Agreements that require the Target Group to provide repair or maintenance services.

(j) Penalty clauses

According to the agreements, during the term of the agreement, if either party causes damage to the reputation of the other party, the defaulting party shall pay the other party all losses suffered by the suffering party or a fixed penalty. According to four agreements, if the Target Group breaches certain terms in relation to sales order, sales delivery or legality of the products, or fails to handle the return of unsold goods, the Target Group shall pay a penalty of a certain percentage of the sales amount of the products or the sub-distributor is entitled to cancel the order and may request the Target Group to pay a certain percentage of the amount of the order as penalty, or the Target Group shall reimburse expenses paid by the sub-distributor for the failure to perform the agreed obligations. According to one agreement, if the Target Group breaches the terms of the agreement, the sub-distributor has the right to deal with the Target Group's products in the warehouse of the sub-distributor. If the Target Group fails to repay outstanding debts, the sub-distributor has the right to deal with the Target Group's products after 60 days of such default.

(C) Consignment agreements

During the Track Record Period, other than normal sales, the Target Group had also sold its products on consignment basis. The terms of the consignment agreements for sale of IT products through television shopping channels or chain stores were provided by the sub-distributors. Apart from television shopping channel and chain-store operators, the Target Group had entered into consignment agreements with 12 existing sub-distributors for sale of a new networking product on consignment basis. The terms of such consignment agreements were provided by the Target Group. For details, please refer to the paragraph headed "Sub-distributors – Consignment" in this section.

Sales to sub-distributors

The following are the processes that a sub-distributor goes through when it orders products from the Target Group:

(a) Submission of order

Customers sign sales agreements with the Target Group to place an order for products. They may submit their orders electronically through the Target Group's website or by fax. The Target Group may place purchase orders with the suppliers upon or before receiving the orders from the customers.

(b) Payment of order

The sales agreements between the Target Group and the customers may require the customer to settle payment for the products in installments. The date when the installments are due may be determined by the date of the execution of the agreement, proper functioning of the products from a specific period after installation, or inspection of the products.

(c) Delivery and logistics of the ordered products

The Target Group may arrange with the logistics companies for the delivery of the ordered products to a designated location specified by the customer. The costs of the delivery will be borne by the Target Group. According to individual agreements between the customer and the Target Group, the agreements may require the Target Group to transport the products in containers which match specifications such as well protected against dampness, moisture, shock and rust. The products should be inspected by the customer within a certain period of time after the Target Group has delivered the products to the designated location. According to the sales agreements, the customer needs to produce a product inspection report within a period of time or acknowledge receipt on the product's receipt after inspecting the products, confirming the goods are received with satisfaction. If the products are found to be damaged or faulty upon arrival, the Target Group may assist the customer in requesting the return of the product to the supplier to exchange the products without costs borne by the customer.

During the Track Record Period, part of the IT corporate products were shipped from overseas by the suppliers directly to the import and export agents or other companies, which are located in either Hong Kong or the PRC as nominated by the customers for import and delivery of the products to the end-users or sub-distributors in the PRC, and part of the IT corporate products were delivered directly to the warehouse(s) of the logistics companies engaged by the Target Group.

(d) Return policies

(i) Cooperation agreements with standard terms provided by the Target Group

According to cooperation agreements with standard terms provided by the Target Group, sub-distributors may return the purchased goods to the Target Group and subsequently to the supplier after the Target Group has given written approval. In practice, the Target Group will not accept return of unsold goods.

The return procedure must be completed within one month of receiving the purchased goods. The purchased goods must be complete and shall not have any missing parts. The packaging must be unopened and undamaged. For requests of goods return, the customers are required to sign a sales return contract for the products to be returned to the Target Group, and the sales return contract shall be approved by the relevant sales department of the Target Group. If the quality of the returned goods is not up to standard (e.g. the product is misconfigured or incomplete or defective on arrival), the approval of the supplier of the Target Group is needed before the products can be returned. The cost of the return including transportation and other related fees is borne by the sub-distributor.

(ii) Sub-distribution Agreements

As at 31 July 2012, a total of four sub-distributors of the Target Group were entitled to return unsold goods to the Target Group. For details, please refer to the table in relation to the number and proportion of the sub-distributors entitled to return unsold goods to the Target Group below. According to the terms of the Sub-distribution Agreements with four sub-distributors, a product which cannot be sold after a period ranging from 20 to 90 days upon delivery to the sub-distributor is defined as unsold goods, and may be returned to the Target Group for refund or replacement of other items of products during the term of the individual sales agreements. One of the sub-distributors is also allowed to return new products which could not be sold during a two-month trial sale period. As the Sub-distribution Agreements do not specify the return period for unsold goods, such sub-distributors may return unsold goods during the tenure of the Sub-distribution Agreements. As at the Latest Practicable Date, the terms of the Sub-distribution Agreements with the four sub-distributors were valid, and therefore, their rights to return unsold goods during the Track Record Period have not lapsed.

The following table sets forth the number and proportion of the sub-distributors entitled to return unsold goods to the Target Group and their related sales amount during the Track Record Period:

	For the year ended 31 December			For the seven months ended 31 July
	2009	**2010**	**2011**	**2012**
Number of sub-distributors entitled to return unsold goods	Nil	1	3	4
Approximate percentage of this type of sub-distributors to the total number of sub-distributors (%) *(Note 1)*	Nil	0.02	0.04	0.07
Total sales amount contributed by this type of sub-distributors (HK$) *(Note 2)*	Nil	159,806,310	549,313,272	446,936,382

Notes:

1. These sub-distributors are either e-commerce resellers or chain store retailer, one of which was the largest customer of the Target Group for the years ended 31 December 2010 and 2011 and the seven months ended 31 July 2012.

2. As confirmed by the directors of the Target Group, an increase in the amount of returned goods for this type of sub-distributors may affect the Target Group's sales.

The directors of the Target Group advise that the form of the Sub-distribution Agreements entered into between the Target Group and such sub-distributors were provided by the sub-distributors, and the Target Group accepts the terms of these cooperation agreements because the directors of the Target Group believe that the collaboration with such sub-distributors, one of which was the Target Group's largest customer for the years ended 31 December 2010 and 2011 and the seven months ended 31 July 2012, will enable the Target Group to broaden its customer base and expand its distribution channels in order to keep its market share in the highly competitive IT distribution market. As these sub-distributors are either e-commerce resellers or chain store retailer, the Target Group believes it may take advantage of the sales and retail ability and channels of these sub-distributors to increase the Target Group's sales of IT products.

The directors of the Target Group confirm that no unsold goods were returned to the Target Group by its sub-distributors either under the cooperation agreement with standard terms provided by the Target Group or under the Sub-distribution Agreements during the Track Record Period and up to the Latest Practicable Date, and the Target Group did not purchase any inventory of its sub-distributors during the Track Record Period.

As confirmed by the directors of the Target Group, during the Track Record Period, sales return of the Target Group comprises return of goods due to impairment at delivery (which shall be the logistic company's responsibility) and return of goods due to defect. During the Track Record Period, the amount of sales return was approximately HK$936,000, HK$2,554,000, HK$9,747,000 and HK$9,009,821 for the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively.

The directors of the Target Group confirm that there was no product recall during the Track Record Period and up to the Latest Practicable Date.

(e) Repair and after-sales IT services

The suppliers may provide repair services to the products for a certain period of time from the date the products are accepted by the customer. For IT consumer products and PC servers, after-sales services are provided by the supplier itself. For IT corporate products, after-sales services include installation, repair and staff training, and where it is provided in the sales agreement that the Target Group should provide repair services, the costs are borne by the supplier within the warranty period. Faulty products are returned to the supplier where the supplier bears the cost of the product. After the warranty period has passed, the Target Group may provide after-sales services, including inspection services, to the customer directly, where the costs are borne by the customer directly to the Target Group.

The legal advisers to the Company as to PRC laws advise that the cooperation agreements entered into between the Target Group and its five largest sub-distributors during the Track Record Period that were still effective as at the Latest Practicable Date are legally binding.

Consignment

For the two years ended 31 December 2010 and 2011 and for the seven months ended 31 July 2012, the Target Group had entered into consignment agreements with 24 sub-distributors with a term ranging from five months to three years. These sub-distributors include limited liability companies, stock corporations, joint-ventures, and a state-owned enterprise established in the PRC with a total registered capital ranging from RMB500,000 to RMB331 million. Under the consignment arrangement, the Target Group had sold its IT products on consignment basis to 12 sub-distributors through television shopping channels or chain stores. 10 of them are engaged in television shopping channel and/or online retailing business and two of them are engaged in retail chain-stores business. In addition to television shopping channel and chain-store operators, with a view to promoting a new networking product, the Target Group had entered into consignment agreements with 12 existing sub-distributors where the sub-distributors have agreed to sell a new networking product on consignment basis. As confirmed by the directors of the Target Group, these 12 sub-distributors are mainly engaged in sale of networking products.

The following table sets forth the turnover and the gross profit margin generated from the consignment sales during the Track Record Period:

	For the year ended 31 December			For the seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
Turnover (HK$)	nil	2,835,332	76,443,352	1,129,345	154,126,472
Gross profit margin (%)	nil	4.88	4.27	4.27	3.50

Principal terms of the consignment agreements

(1) Consignment agreements for sale of IT products through television shopping channels or chain stores

The principal terms of the consignment agreements with the sub-distributors engaging in television shopping channels and chain stores business are generalised as follows:

(a) Products delivery

The Target Group shall deliver products to the sub-distributors at the designated location and the minimum quantity of the products are set out in a supplemental agreement and/or the delivery instruction issued by the sub-distributors. Costs of delivery shall be borne by the Target Group.

(b) Payment terms

For the sales through television shopping channels, the sub-distributor shall remit to the Target Group the sales amount of the consigned products sold during the preceding months monthly or bi-monthly as agreed in the consignment agreement.

For the sales through chain stores, the sub-distributor shall settle the payment every 30 days which are calculated based on the sales price of the products sold for that period. If there is any price adjustment, the Target Group shall reimburse the sub-distributor for the difference between the original price and the reduced price of the remaining stocks kept by the sub-distributor. The price difference or any other payment for goods return will be deducted from the aforementioned payment.

(c) Consignment fees and other fees

For the sales through television shopping channels, the sub-distributor is entitled to receive an agreed percentage of retail price (inclusive of tax) of the consigned products as a consignment fee, which, as confirmed by the directors of the Target Group, was ranging from 7% to 11.5% during the Track Record Period, and the sub-distributors pay the net sales price to the Target Group after deducting the consignment fee from the retail price. As confirmed

by the directors of the Target Group, during the Track Record Period, the Target Group had not paid any other commission to consignment sub-distributors. The Target Group shall pay or reimburse to five sub-distributors other fees such as (i) the production fees for merchandising the consigned products; (ii) costs incurred from the promotional activities; (iii) fees for inspection of the consigned products. The said fees may be deducted from the sales of the consigned products or paid by the Target Group in other manner.

(d) After-sales service

The Target Group shall provide after-sales service to the sub-distributor within the warranty period. The Target Group may also be required to pay a product guarantee fee (質保金) to three sub-distributors, which are funds provided by the Target Group to reimburse for the sub-distributor's after-sales service, return of goods, maintenance, and damages paid with regard to the product provided by the Target Group. The amount of product guarantee fee paid by the Target Group to the sub-distributors were nil, nil, HK$61,280 and HK$74,520, respectively during the Track Record Period.

(e) Return of goods

The sub-distributors may return the products to the Target Group if the products are damaged. Five sub-distributors may return the products to the Target Group if the Target Group fails to provide after-sales service in a timely manner.

The total amount of goods returned by the consignment sub-distributors during the Track Record Period were nil, nil, HK$15,065,942 and HK$47,897,700, respectively. As confirmed by the directors of the Target Group, an increase in the amount of returned consignment goods will not have any material impact on the Target Group's sales since the sales under the consignment agreements are recognised upon sales to end-customers.

(f) Risk of loss and title to the consigned products

The Target Group shall be liable for the loss suffered by the sub-distributor or its customers due to the defects of the consigned products. For the sales through television shopping channels, the sub-distributor may elect to terminate the sales of any consigned products at its own discretion and return the consigned products to the Target Group at the expenses and costs of the Target Group. Seven consignment agreements provide that the Target Group shall retain the risk of loss of the consigned products and two consignment agreements stipulate that the Target Group shall retain the legal title of the consigned products. Pursuant to one consignment agreement, the Target Group shall retain the risk of loss and the legal title of the consigned products until the consigned products are delivered to the sub-distributors' customers.

(g) Penalty clauses

According to the agreements, if either party causes damage to the reputation of the other party, the defaulting party should pay the other party all losses suffered or a fixed penalty. The Target Group should pay a penalty of a fixed percentage of the sales amount of the goods to the sub-distributor for any delay in delivery of the products. If the Target Group breaches the terms of the agreement, the Target Group should pay a penalty which is a fixed sum or a percentage of the sales price of the products to the sub-distributor, whichever the case may be.

The directors of the Target Group confirm that there were no incidents that the Target Group was subject to material claims by the sub-distributors or its customers due to defects or products loss on the consigned products during the Track Record Period.

According to applicable accounting principles, sales under the consignment agreement were recognised upon sales to end-customers.

(2) Consignment agreements for sale of the new networking product

12 existing sub-distributors of the Target Group had entered into consignment agreements with the Target Group with the terms provided by the Target Group. Pursuant to the agreements, the Target Group had granted the 12 existing sub-distributors a non-exclusive right to sell a new networking product on consignment basis and such consignment agreements are effective from May 2012 till 31 December 2012. The principal terms of these agreements are summarised below:

(a) Pricing and payment terms

The sub-distributors shall sell the product at the price fixed by the supplier. If the consigned products have been sold to ultimate customers or could not be returned to the Target Group according to the agreement, the sub-distributors shall pay the purchase price set out in the agreement.

On the first day of each month, the sub-distributors shall settle the payment of the products sold.

(b) Product delivery

The Target Group shall deliver products to the sub-distributors at the location designated by the sub-distributors according to a delivery order at the costs of the Target Group.

(c) Return of goods

The sub-distributors may return the unused stock to the Target Group and the delivery costs shall be borne by the Target Group. However, the Target Group may refuse the return of any product if any of their parts are seriously damaged or missing, or the exterior of the product is damaged, or of which the model number does not match with that set out in a list of returned goods provided by the sub-distributors to the Target Group. The sub-distributors shall return all

unused stock within five working days to the Target Group when the consignment agreements are terminated or expire. If the sub-distributor fails to return the goods or the goods returned do not meet the requirement under the agreement, the sub-distributor shall be deemed to have agreed to purchase the goods at the agreed purchase price.

(d) Risk of loss and title to the consigned products

While the risk of loss of the consigned products will be passed to the sub-distributors upon the delivery of the products to the sub-distributors, the title to the products are retained by the Target Group until the products are sold to the sub-distributors' customers.

(e) Stock-take

The sub-distributors shall submit to the Target Group a list of consignment stocks at the beginning of each month and the Target Group will pass the list to the supplier. The supplier or the Target Group will perform stocktaking in the sub-distributors' warehouse or shops once a month.

(f) Penalty clause

If a sub-distributor fails to pay the Target Group for the consigned goods timely, the sub-distributor shall be subject to a daily penalty equivalent to 0.1% of the late payment, but in any event, the total amount of the penalty shall not exceed the total amount of the late payment.

As confirmed by the directors of the Target Group, after-sales service of the new networking product is provided by the supplier of the product. As confirmed by the directors of the Target Group, other than the purchase price of the goods, there are no other consignment fees or charges payable by the Target Group or the sub-distributors in accordance with these consignment agreements.

Inventory Management of the consignment sales

The Target Group differentiates products stored with the Target Group which are to be sold to sub-distributors, with products which are stored for consignment sub-distributors by categorising products for consignment sub-distributors as "consignment inventory" in the Target Group's internal system, which includes statistics regarding the Target Group's inventory.

The Target Group exercises controls over the inventory kept by the sub-distributors, which includes monitoring sales and stock level of the consignment sub-distributors via inventory monitoring systems provided by the sub-distributors and controlling physical product return to the Target Group at the time of settlement by calculating products delivered to the sub-distributors and quantity sold to end-customers. The Target Group may request the sub-distributors to pay the shortfall of the selling price between the goods returned to the Target Group and the actual amount of goods sold to end-customers.

The Target Group will confirm details of the products sold to end customers, which can be checked through the sub-distributors' electronic system, or verbally with the sub-distributors, at the end of each billing period, with a range of every half-month to every month, between the Target Group and the consignment sub-distributor. An invoice will be sent to the sub-distributors and will include details of the products sold to customers, date of payment and amount of the payment.

As at the Latest Practicable Date, the value of all the stock related to the consignment arrangement was approximately HK$29,277,854.

MANAGEMENT OF SUB-DISTRIBUTORS

Inventory Management

For the purpose of estimating its future sales of products to sub-distributors, to determine whether to launch sales and marketing activities based on its estimates of future sales of products to sub-distributors and sometimes at the request of the Target Group's suppliers, the Target Group implemented measures to monitor inventory of certain IT products at sub-distributor level. The directors of the Target Group advise that during the Track Record Period, the Target Group contacted sub-distributors of certain products by telephone to obtain data of their inventory level and/or sales figures on a weekly basis, or required sub-distributors to give a weekly report to the Target Group to provide inventory level and/or sales figures of certain products. Approximately 41% of the sub-distributors for the seven months ended 31 July 2012 had submitted their sales and inventory statistics to the Target Group. The Target Group has implemented further measures to improve tracking of inventories at sub-distributor level, including (i) requiring those sub-distributors who entered into cooperation agreements with terms provided by the Target Group to strictly follow the agreement term stipulating that sub-distributors must regularly submit sales figures required by the Target Group, which the Target Group has implemented since July 2012; (ii) collecting the relevant sales and inventory data from the sub-distributors weekly or monthly, which the Target Group has implemented since November 2012; and (iii) requiring sub-distributors which have a long term relationship with the Target Group to provide written sales and inventory data to the Target Group monthly or quarterly, which the Target Group has implemented since November 2012.

The Target Group also carries out physical stock-taking in the warehouses managed by the logistics companies from time to time to identify obsolete and slow-moving stocks. As at the Latest Practicable Date, the Target Group engaged nine logistics companies in carrying out logistics and warehouse services, among which they have conducted business with the Target Group from one year to seven years. All nine logistics companies are Independent Third Parties. The logistics companies are established in the PRC, with business scope including international logistics services and warehouse services.

The inventory turnover days are total inventory at the beginning of a given year/period plus total inventory at the end of a given year/period, divided by two, then divided by cost of sales and then multiplied by the number of days of the given year/period. The average turnover days of the Target Group's inventories were 29.5 days, 27.5 days, 30.8 days and 37.9 days for each of the three years ended 31 December 2011 and the seven months ended 31 July 2012 respectively.

Payment terms and credit policy

The Target Group has no particular requirement for new sub-distributors if they pay for their purchased products by cash. For new sub-distributors who requires the Target Group to grant trade credits to them, the Target Group requires these sub-distributors to fulfill certain requirements. The Target Group may grant trade credits to new sub-distributors after taking into account its trade volume, background, credit history and business relationship with the Target Group. New sub-distributors are required to submit business documents such as business licenses, identity cards of the authorised representative, and tax registration documents to the Target Group for application of the trade credit. According to the Target Group's internal policy, depending on the requested credit amount, heads of different departments and ultimately the credit control assessment department will review the application and approve the credit. The Target Group generally grants certain credit limit to the sub-distributors for a period of time. The Target Group may also grant one-off credit to the sub-distributor for individual orders it places. The sub-distributors may apply for extending the credit period or increasing the credit limit subject to the Target Group's approval through the Target Group's online system. The Target Group may also shorten the credit period or reduce the credit limit previously granted to a customer. During the Track Record Period, the Target Group allowed an average credit period of 30-180 days to the trade customers. Among the Target Group's sub-distributors, sub-distributors had applied for extending their credit periods, involving approximately HK$192,968,630, HK$152,922,930 and HK$37,066,598, respectively for the two years ended 31 December 2011 and the seven months ended 31 July 2012; sub-distributors had also applied for increasing the credit limit, involving approximately HK$33,475,754, HK$357,386,135 and HK$132,229,716 for the two years ended 31 December 2011 and the seven months ended 31 July 2012.

During the Track Record Period, the trade receivable turnover days of the Target Group (being the trade receivables at the beginning of a given year/period plus trade receivables at the end of a given year/period, divided by two, then divided by revenue during the given period and multiplied by the number of days of the given period) were approximately 25.2 days, 30.8 days, 26.0 days and 24.9 days, respectively.

Pricing

For prices that the Target Group charges its customers for the seven months ended 31 July 2012, 12 of the suppliers had set a fixed price or bottom price for a particular product, and 12 of them offered a guiding price. For the fixed-price products, the Target Group would strictly follow the fixed price set by the suppliers. For bottom price set by the suppliers, the Target Group would make reference to the said bottom price and the market condition to set the price of the products charged to its customers and the charged price will not fall below the bottom price. For products with only a guiding price or no restrictions on pricing, the Target Group would determine the prices charged to its customers with reference to the guiding price (if any) and the market situation.

As confirmed by the directors of the Target Group, the Target Group had complied with the fixed prices and the bottom prices set by the suppliers during the Track Record Period.

The directors of the Target Group confirm that the Target Group requires its customers to purchase a minimum value of RMB5,000 of products for each transaction for the purpose of covering the Target Group's logistics expenses. Save for the aforesaid, the directors of the Target Group confirm that there is no minimum purchase amount requirement for its sub-distributors. However, the Target Group may set purchase target for certain sub-distributors and give its sub-distributors rebate bonuses if the targets are achieved. For details, please refer to the paragraph headed "Sales and Marketing" of this section.

CUSTOMERS

Major customers of the Target Group of IT products are mainly sub-distributors. The Target Group also sells IT products to end-users. The customers may purchase IT products as well as request for IT solutions and IT technical support services for the IT products the Target Group distributes.

Sub-distributors

Sub-distributors buy IT consumer products and IT corporate products from the Target Group and sell the products to end-users for their own use or to local resellers such as television shopping channel for further sales to end-users. 1,440, 2,104, 2,738, and 2,201 sub-distributors, respectively during the Track Record Period were also engaged in system integration business. As at 31 July 2012, 20 sub-distributors were engaged in e-commerce, retail chain stores, television shopping channels and/or online retailing businesses. For details, please refer to the section headed "Business of the Target Group – Sub-distributors" of this circular.

During the Track Record Period, the Target Group recorded gross profit margin of approximately 6.65%, 5.36%, 4.70% and 4.66% from the sales to sub-distributors.

During the Track Record Period, the turnover derived from sales to sub-distributors amounted to approximately HK$4,981,128,000, HK$7,909,786,000, HK$13,088,825,000 and HK$8,203,359,000, respectively, representing approximately 95.71%, 97.46%, 97.99% and 97.20% of the total turnover of the Target Group during the Track Record Period.

End-users

While an insignificant amount of the turnover of IT consumer products are contributed by end-users including the Sichuan Changhong Group, the end-users of the IT corporate products that the Target Group sells to include enterprises, government authorities, financial institutions, health authorities, education institutions, railway companies and electricity companies in the PRC.

During the Track Record Period, the turnover derived from sales to end-users amounted to approximately HK$214,901,000, HK$202,659,000, HK$268,771,000 and HK$235,000,000, respectively, representing approximately 4.13%, 2.50%, 2.01% and 2.78% of the total turnover of the Target Group during the Track Record Period.

During the Track Record Period, the Target Group's five largest customers accounted for approximately 5.91%, 5.90%, 7.03% and 9.08% of the Target Group's total turnover for each of the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively. The Target Group's largest customer accounted for approximately 1.62%, 1.97%, 3.76% and 4.73% of the Target Group's total turnover for each of the three years ended 31 December 2011 and the seven months ended 31 July 2012, respectively. The Directors confirm that none of the Directors, their respective associates or, Shareholders (who own more than 5% of the issued Shares) had any interest in any of the five largest customers of the Target Group during the Track Record Period.

SALES AND MARKETING

As at the Latest Practicable Date, the Target Group had a sales and marketing team of 842 members serving 26 cities in the PRC including Beijing, Chengdu, Guangzhou, Nanjing, Hangzhou, Shanghai, Wuhan, Fuzhou, and Shenyang.

To promote the Target Group's distributed products and raise brand awareness of the distributed products, promotional activities targeted at sub-distributors are carried out and advertisements of the products are made to the public. The Target Group also provides annual training for retail managers, shop managers, holds conferences relating to IT products and conducts sales training program for its sub-distributors in order to improve the sales performance.

Among the promotional activities targeted at end-users, for the IT consumer products business, the Target Group has held rebate activities and offered free gifts; organised themed promotional activities to enhance sales of products through its sub-distributors and product exhibitions to introduce the product to the public. Advertisements were placed in newspapers, IT publications, search engines, IT-related websites, television shopping channels and exhibitions.

Rebates given to sub-distributors include (i) bonus given to sub-distributors fulfilling certain purchase targets, (ii) price protection guarantee for goods of which the actual selling price was lower than the expected sales price, (iii) rewards to sub-distributors for holding promotional activities and (iv) sales discount offered by the Target Group for goods paid by cash, details of which are set out below:

(i) For bonus given to sub-distributors fulfilling certain purchase targets, if the targets are achieved, the Target Group will calculate the amount of bonus based on a certain percentage of the sales amount of the products the sub-distributors purchased from the Target Group. The Target Group reviews the effectiveness of the bonus given to sub-distributors quarterly by comparing the sales target set out in the sub-distribution agreement made between the sub-distributor and the Target Group and the actual amount of purchases of the sub-distributor during the quarter period.

(ii) For price protection guarantee, the amount of reimbursement would be calculated with reference to the deduction in selling price and the quantity of products purchased by the sub-distributors and the prior approval from the Target Group's suppliers is required before the Target Group reimburses the sub-distributors.

(iii) For rewards to sub-distributors for holding promotional activities, the Target Group will offer certain amount of rewards to the sub-distributors which hold promotional activities of the distributed products. For instance, the amount of rewards given to the sub-distributors for promotion of certain products is based on the selling price of the promotional products purchased by the sub-distributors. The Target Group reviews the promotional activities initiated by the Target Group. For products promotion, the Target Group assesses the sales figures of the promotional products during the promotion period.

(iv) For sales discounts for goods paid by cash, certain discounts would be fixed by the Target Group.

The following table sets out the amount of sales rebate paid to the largest and smallest recipient of sales rebate for each of the three years ended 31 December 2011 and for the seven months ended 31 July 2012:

	For the year ended 31 December						For the seven months ended 31 July	
	2009		2010		2011		2012	
	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Bonus	3,675,399.29	20.49	2,513,682.42	12.88	5,672,858.10	14.71	5,232,849	1.16
Sales discount *(Note)*	721,386.58	4.32	670,611.42	0.01	919,852.91	2.89	324,033	8.88

Note: The rate of the sales discount offered by the Target Group during the Track Record Period was ranging from less than 0.01% to 2.00% of the sales price.

The directors of the Target Group advise that the costs for the bonus given to sub-distributors fulfilling certain purchase targets and the sales discount offered by the Target Group for goods paid by cash are borne by the Target Group while the cost for price protection is borne by the suppliers. For the rewards to sub-distributors for holding promotional activities, as advised by the directors of the Target Group, the rewards for the promotional activities initiated by the suppliers are given by the suppliers while the rewards for the promotional activities initiated by the Target Group are given by the Target Group.

The Target Group will send a confirmation to the relevant sub-distributors detailing the types and amount of the rebates. The sub-distributors are required to sign and affix their company chop to confirm the amount of the rebates and return a copy of the same to the Target Group. The amount of rebates given out during the Track Record Period were approximately HK$299,650,710, HK$302,864,732, HK$522,115,247 and HK$339,860,325, respectively. The rebates to customers have been recorded in the accountants' report on the Target Group by netting off in sales.

AWARDS AND RECOGNITION

The Target Group has been the recipient of various awards for its achievements in distribution of IT consumer products and IT corporate products in the PRC. The details of some of the awards are set out below:

Year of award	Award	Awarding organization
2008	2007 PRC Top 100 Enterprises – 4th place for IT distributors	中國計算機報 (China Computer News)
	best storage solutions provider	China Computer News
2009	2009 PRC Computer Business Top 500 Enterprises – best cooperation award	電腦商報(Computer Partner World)
	2009 PRC IT industry best business partner award	中國電子信息產業發展研究院 (PRC IT industry development centre)
2010	Yearly innovative industry award	China Computer News
	2010 PRC IT industry award	PRC IT industry development centre
2011	2010-2011 Top 10 Best Distributors –	計算機產品與流通 (spn.com.cn)
	Most promising corporation in the PRC IT industry	Computer Partner World

BUSINESS OUTLOOK AND COMPETITIVE MARKET

The Target Group faces competition from several large IT products distributors in the PRC. These large IT products distributors compete with the Target Group as main distributors for the multi-national supplier companies, on the number, types and models of products the Target Group can distribute. Distributors have limited bargaining power because most brand owners use more than one distributor. In the IT products market in China, competition follows a surge in popularity for certain products. This causes problems of homogeneity and fierce competition in pricing, advertising, promotions in distribution and at the end-user market. Such fierce competition in pricing results in declining pricing mark-ups and average unit price in IT products distribution. In addition to fierce competition, according to the Euromonitor Report, it is common that the selling price of IT products sold by a distributor to its sub-distributors or end-users are determined by the suppliers and hence the profit margin of a distributor is low. Please refer to the section headed "Industry Overview" of this circular for further information relating to the competitive market.

In fact, gross profit margins of the Target Group decreased from approximately 6.65% for the year ended 31 December 2009 to approximately 4.66% for the seven months ended 31 July 2012. The decrease of gross profit margin of the Target Group during the Track Record Period was mainly due to (i) the decline of the gross profit margin for distribution of IT products; and (ii) the higher contribution of sales from products with lower gross profit margin (such as tablet PCs and smartphones) for the years ended 31 December 2010 and 31 December 2011 and the seven months ended 31 July 2012. It is expected that such downward trend will persist due to market saturation and lower gross profit margin for IT consumer products and smartphones.

To minimise the impact of low profit margin for IT consumer products and smartphones, the Target Group will focus on the development of IT corporate products as its key development strategy in the future in view of a relatively higher gross profit margin for IT corporate products, which was approximately 8.01% for the seven months ended 31 July 2012 as compared to the gross profit margin for IT consumer products of approximately 3.35% for the same period. The Target Group will also enhance its cost control and improve its marketing capabilities in the future. In view of the above and the implementation plans as disclosed in the section headed "Statement of Business Objectives" of this circular, the Directors and the directors of the Target Group believe that the profit margins of the Target Group can be better managed. Please refer to the sections headed "Financial Information of the Target Group – Financial ratios" and "Appendix I – Accountants' report on the Target Group" of this circular for further information.

Further, despite the competition and declining pricing mark-ups, the IT product distribution market in general is in an appreciation trend. According to the Euromonitor Report, bolstered by urbanisation in PRC, emerging new technology and industry upgrading, IT product distribution market is forecasted to grow at a CAGR of 8.0% during 2012-2017, and IT corporate product distribution market is estimated to grow faster than IT consumer product distribution market with a CAGR of 15%. As urbanisation continues in PRC, the demand for IT products will expand geographically. With the economy of PRC expecting to increase rapidly over the next few years and computing and electronic products becoming a trend, the Target Group will strive to expand cooperation with different brands, increase distribution channels and broaden into overseas markets.

INTELLECTUAL PROPERTY RIGHTS

The Target Group conducts business under trademarks which are registered in the PRC. The Target Group is the registered owner of domain names in the PRC and a number of patents, trademarks and copyrights in the PRC in relation to products and technology developed by the Target Group. As confirmed by the Directors and the directors of the Target Group, there was no infringement of the Target Group's intellectual property rights by third parties or third parties' intellectual property rights by the Target Group during the Track Record Period and up to the Latest Practicable Date. The details of the trademarks, domain names, patents, wireless web names and copyright are set out in the paragraph headed "Intellectual property rights of the Target Group" under the section headed "Further information about the Enlarged Group" in Appendix V to this circular.

PROPERTY INTERESTS

As at the Latest Practicable Date, the Target Group owned one property located in the PRC, which are intended for sale and had leased 31 properties located in the PRC, all of which, except for one leased property used for residential purposes, are used as the Target Group's office. For details, please refer to the paragraph headed "Property interests and property valuation" set out in the section headed "Financial information of the Target Group" in this circular.

Defects of the Target Group's properties

As at the Latest Practicable Date, the defects of the Target Group's leased properties, all of which, save as one used for residential purpose, are used as offices of the Target Group, include:

(1) three leased properties had been mortgaged to banks before entering into the relevant lease agreements. One leased property had been mortgaged to banks but whether it had been mortgaged to banks before or after entering into the relevant lease agreement cannot be determined. As advised by the legal advisers to the Company as to PRC laws (assuming the fourth leased property had also been mortgaged to banks before entering into the lease agreement), if the mortgagee of any of the four abovementioned leased properties enforces its right under the mortgage and the relevant property is transferred to a third party, such third party has the right to terminate the lease.

(2) the lessors of 18 leased properties had provided the Target Group with the relevant valid building ownership certificates but the lease agreements of such properties had not been registered with relevant authorities. 10 of such leased properties did not have other legal defects or encumbrances other than the non-registration of the lease agreements with relevant authorities. Pursuant to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the relevant authorities may demand the parties to such lease agreements to register the lease agreements, failing which a fine of not more than RMB1,000 may be imposed on an individual and so, a fine of RMB1,000 to RMB10,000 may be imposed on an entity. As advised by the legal advisers to the Company as to PRC laws, the validity of the lease agreements shall not be affected by the non-registration thereof. There is no risk of forced relocation during the terms of the lease agreements for the 10 leased properties without other legal defects or encumbrances apart from the aforementioned defect. As at the Latest Practicable Date, the Target Group and the lessors had not received any order from relevant government authorities for rectification of the aforementioned defect.

(3) 13 leased properties are used by the Target Group as its offices which are in breach of the land use requirements for residential or industrial purposes as specified in the relevant title certificates or property sale and purchase contracts. According to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the relevant housing management authority may order the lessors and the Target Group to rectify the same within a prescribed time limit and impose a fine of up to RMB30,000 on the lessor. If they fail to rectify the same, the Target Group may not be able to rent the said property. If the damages are insufficient to cover the lessor's loss, the Target Group may not be able to continue the lease;

(4) lessors of 10 leased properties had not provided building ownership certificates to the Target Group. Third parties may seek to assert their ownership rights against the landlords or challenge the leases;

(5) one leased property located in Hangzhou leased by Changhong IT is shared with Changhong IT Digital as offices without the consent of the landlord. The landlord may challenge Changhong IT for sharing the premises with Changhong IT without its consent and request for termination of the lease.

All leased properties with defects are currently occupied by the Target Group for office purpose save for one which is used for residential purpose. The leased properties with defects are neither used as production facilities nor warehouses. As at the Latest Practicable Date, the Target Group may be required to relocate due to the legal defects of 19 leased properties. One of the lease agreements had expired and had not been renewed. The lessor had not objected to the Target Group's continuation in using the property. As advised by the legal advisers to the Company as to the PRC laws, the original lease is still effective until further notification from the lessor or the Target Group. In the event that the Target Group is required to relocate such leased properties, the directors of the Target Group do not foresee any obstacles to relocate to similar properties elsewhere. The directors of the Target Group are of the view that there is ample supply of office or residential premises for lease in the PRC. The Target Group also maintains close contact with the real estate agencies, which enables the Target Group to find a suitable office or residential premises within a week if the Target Group were required to relocate its the existing premises. The Target Group will choose to lease renovated premises and will arrange for removal during weekends whenever possible to minimise disruptions to the business operation. It is estimated that the Target Group will only take around one week for renovation and removal of an office premises. Further, as most of the internal and external communications and orders of goods of the Target Group are conducted electronically, relocation of office will not materially disrupt the operation of the Target Group. Therefore, other than relocation cost, the Target Group will not incur any significant loss of profits due to relocation. Assuming that the leased agreements of the Target Group are revoked due to the legal defects and the Target Group is required to relocate 19 of their leased properties, the relocation cost (including renovation cost and transportation cost) in aggregate is estimated to be approximately RMB4,311,299 (equivalent to approximately HK$5,359,000).

Based on the aforesaid and the fact that these properties are leased properties of the Target Group only, the Directors and the directors of the Target Group are of the view that the Target Group's properties with defects titles are not individually nor collectively crucial to the Target Group's operation and that the possible relocations would not affect the Target Group's business or financial position.

As advised by the legal advisers to the Company as to the PRC laws, if the relevant PRC government authorities take the view that the Target Group is at fault, the Target Group may be subject to penalty imposed by relevant government authorities for the failure to register the lease agreements for 28 leased properties. As advised by the legal advisers to the Company as to the PRC laws, the maximum amount of the aforesaid compensation and penalty is approximately RMB290,000 (equivalent to approximately HK$360,000).

Remedial actions

The Target Group has adopted the following measures since August 2012 to prevent re-ocurrence of these property defects: the administrative department of the Target Group checks with the usage of all leased properties on a monthly basis; communicates with the relevant lessors to find solutions regarding leased properties with defects; and reports the same to the management team.

Additionally, for those properties to be leased by the Target Group in the future, the administrative department and the in-house counsel of the Target Group will review the lease agreements, title certificates, ownerships of the leased properties before executing the lease agreements, so as to ensure the leases are in compliance with applicable PRC laws and regulations.

The Target Group will renew one of the lease agreements which will expire in 2012 and has already begun negotiations with the lessor provided that agreement to be renewed is in compliance with PRC laws and regulations.

Changhong (Hong Kong) Trading has entered into a deed of indemnity with and in favour of the Company for itself and on trust for its subsidiaries in which Changhong (Hong Kong) Trading has agreed that it will indemnify and at all times keep all and each of the members of the Enlarged Group fully indemnified on demand against all losses, costs (including all legal costs), expenses, penalties or other liabilities which any of the members of the Enlarged Group may incur in connection with any disputes to the Target Group's rights to lease or use any of the properties with defective titles for its business operations. Such indemnities will be recognised as a credit to equity as contribution from controlling shareholders in the financial statements of the Company.

As at the Latest Practicable Date, the Target Group had not been notified by the relevant authorities that (i) the lease agreements of the properties are invalid; or (ii) the Target Group should effect registration procedures with them.

INSURANCE

As at the Latest Practicable Date, the Target Group has insurance policies to cover the products during transportation. The Target Group has purchased credit insurance for account receivables with a foreseeable risk of non-payment. The directors of the Target Group confirm that the Target Group has not been subject to any material product liability claim from its customers during the Track Record Period. As advised by Euromonitor, product liability insurance service is normally provided by the logistics companies to help avoid the risk of damage or loss of product, and therefore, it is not the market practice of IT distributors to buy product liability insurance for distribution of IT products.

LITIGATION

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

REGULATORY COMPLIANCE

During the Track Record Period, there were incidents of non-compliance with the laws and regulations of the PRC relevant to the operation of the Target Group set out as follows:

(a) Social Insurance and Housing Provident Fund

Pursuant to the relevant PRC laws and regulations, the PRC subsidiaries of the Target Group are required to pay for its employees' social insurance (which includes pension, medical insurance, unemployment insurance, maternity insurance and occupational injury insurance) and housing provident fund.

As of 31 October 2012, the Target Group has directly engaged 27 employees. Besides, the Target Group entered into labour service agreements separately with two employment agencies (collectively, the "**Employment Agencies**"), each an independent third party labour service company, to provide contractual workers for its production. As of 31 October 2012, it had 1,102 contractual workers (the "**Contractual Workers**"). Pursuant to the labour service agreements, the Employment Agencies will instruct these Contractual Workers to follow the directions of Target Group's management for day-to-day work assignments. Each of the Employment Agencies has entered into employment agreements with Contractual Workers directly and is responsible for the payment of salary, social security contribution and housing fund for the Contractual Workers.

Changhong IT had been granted the social insurance registration certificate on 1 May 2012 and registered its housing provident fund with the local housing fund bureau as confirmed by the local housing fund bureau in November 2012. As confirmed by the local social insurance management bureau and the local employment management bureau in November 2012, Changhong IT Digital had registered its participation in the social insurance fund, and as confirmed by the local housing fund bureau in November 2012, Changhong IT Digital had registered its housing provident fund. Changhong IT Intelligence had been granted the social insurance registration certificate in 7 May 2012 and as confirmed by the Target Group, Changhong IT Intelligence had registered its housing provident fund with the local housing fund bureau. Besides, during the Track Record Period, the Target Group has made sufficient contributions to the housing provident fund and social insurance fund for all of its 27 employees directly appointed by the Target Group in a timely manner.

As regards the Contractual Workers, their remuneration comprises (i) the basic salary directly paid by the Employment Agencies under the employment contract made between the Employment Agencies and the Contractual Workers; and (ii) the monthly bonus and performance bonus (the "**Bonuses**") paid by the Target Group pursuant to the agreements made between the Target Group and the Contractual Workers. The Employment Agencies confirmed that they had made sufficient contributions to the housing provident fund and social insurance fund for their respective Contractual Workers on the basis of the basic salary the Employment Agencies paid to the Contractual Workers (excluding the Bonuses) and up to the Latest Practicable Date, they had not received any notice from the relevant housing provident fund or social securities authorities for non-payment of any social insurance contribution or housing provident fund.

However, the Target Group has not paid the social insurance contribution and housing provident fund for these Contractual Workers in respect of the Bonuses paid by the Target Group to these Contractual Workers under the agreements made between the Target Group and these Contractual Workers. Details of the non-compliance in respect of the social insurance and housing provident fund are set out below:

	Social Insurance	Housing Provident Fund
Reasons for non-compliance	The directors of the Target Group advised that such non-compliance occured because: (i) the Target Group has a different interpretation of the PRC laws in respect of social insurance and housing provident fund, and were not aware that the Bonuses amount should be included when calculating the social insurance and housing provident fund; (ii) according to the arrangement between the Target Group, the Employment Agencies and the Contractual Workers, (a) the Target Group paid salaries of the Contractual Workers through the Employment Agencies, from which the Employment Agencies paid the Contractual Workers; (b) the Employment Agencies registered social insurance and housing provident fund accounts at their local labour authorities and housing fund authorities, through which it will pay up the Contractual Workers' social insurance and housing provident fund; and (c) the Target Group paid the Bonuses directly to the Contractual Workers. In light of the above arrangement, the Employment Agencies were not entitled to include the Bonuses into the calculation of the social insurance and housing provident fund; and in turn the Target Group could not directly pay up the social insurance and housing provident fund calculated from the Bonuses. (iii) The Target Group and the Employment Agencies had not received any notice from the relevant housing fund or social security authorities ordering the Target Group to make outstanding payments or rectification, or any administrative penalties from the relevant authorities.	

	Social Insurance	Housing Provident Fund
Legal consequences	According to the Social Insurance Law of the PRC, (i) for the outstanding contribution in respect of the social insurance payable prior to 1 July 2011, the relevant local administrative authorities may require a company to pay the outstanding contributions within a prescribed time limit, failing which the Target Group would have to pay, in addition to its unpaid contribution, a maximum overdue penalty of 0.2% per day on the unpaid contribution from the date when the amount becomes overdue to the date when the full payment is made and a further fine may also be imposed on that company, its management or other persons with direct responsibilities; (ii) for the unpaid contribution since 1 July 2011, a company may be ordered to pay the unpaid contribution and an overdue penalty of 0.05% per day on the unpaid contribution from the date when the amount becomes overdue to the date when the full payment is made, and if that company fails to rectify it within the prescribed time limit, a further fine equivalent to not less than one time but not more than three times of the outstanding contributions.	According to the Regulation Concerning the Administration of Housing Provident Fund, if a company fails to pay up housing provident funds within the prescribed time limit, the housing provident fund management centre will order it to make up the payment within a prescribed time limit, and if the company fails to rectify it within the prescribed time limit, the housing provident fund management centre may apply to the court for enforcement of the unpaid contribution.

	Social Insurance	Housing Provident Fund
Unpaid amount recognised in the statement of comprehensive income during the Track Record Period (Please also refer to the "Accountants' Report on the Target Group" contained in Appendix I to this circular)	Approximately HK$4,396,000, HK$7,736,000, HK$14,914,000 and HK$2,750,000, respectively	Approximately HK$1,510,000, HK$2,637,000, HK$5,110,000 and HK$1,137,000, respectively
Maximum penalties	RMB178,665 (equivalent to approximately HK$222,000)	nil
Latest status	As at the Latest Practicable Date, the Target Group had not received any notice from the relevant housing provident fund or social security authorities ordering the Target Group to pay the unpaid amounts. The Target Group and the Employment Agencies will pay close attention to the requirement of relevant authorities. The Employment Agencies will notify the Target Group immediately after receiving any request from the relevant authorities for payment of the unpaid social insurance and housing provident fund and give assistance to the Target Group in this relation.	

	Social Insurance	Housing Provident Fund
Rectification actions taken/to be taken and measures to prevent any future breaches and ensure on-going compliance	To rectify the above non-compliance, the Target Group has implemented the following measures from February 2012: (i) For Contractual Workers who became employees of the Target Group since February 2012, their salary and bonus have been included in calculating their social insurance and housing provident fund and the Employment Agencies have paid up the Contractual Workers' social insurance and housing provident fund accordingly; (ii) For approximately 61.7% of the workers employed before February 2012, the Target Group adjusted the calculation of the social insurance payable after February 2012 according to the workers' salary and bonus and for approximately 12% of the workers who were employed before February 2012, the Target Group has adjusted the calculation of the housing provident fund payable after February 2012 according to the workers' salary and bonus; and (iii) The directors of the Target Group advised that as certain local labour authorities and housing fund authorities only accept applications for changes to the basis for calculation of social insurance and housing provident fund once a year, the Target Group does not have the opportunity to adjust its calculation of the social insurance and housing provident fund for all its employees yet. As confirmed by the directors of the Target Group, the Target Group will adjust its calculation of the social insurance and housing provident fund according to the requirements of the local labour authorities and housing fund authorities for the remaining workers who were employed before February 2012 by the end of December 2012, and they have arranged with the Employment Agencies to pay up the social insurance and housing provident fund payable after February 2012 and the calculation of which has been adjusted according to the new calculation scheme.	

The Target Group has already adopted the following measures from February 2012: the human resources department of the Target Group will verify the addition or reduction of Contractual Workers with the Employment Agencies on a monthly basis; the Target Group will check the social insurance and housing provident funds payment statuses of the Contractual Workers; review the social insurance and housing provident funds payment vouchers, receipts or other documents showing details of the social insurance and housing provident funds payment. The human resources department of the Target Group will report the aforesaid verification/review results to the management of the Target Group on a monthly basis.

The internal control consultant further recommended the Target Group of internal control measures to prevent the re-occurrence of the aforesaid non-compliance incidents, including (i) to revise the human resources policy regarding the requirements of social insurance and provident fund to comply with the PRC laws and regulations and to notify its staff of the new policy; (ii) to delegate responsible senior executives to oversee and review the salary and benefit calculations monthly to ensure they are justifiable; (iii) to delegate responsible senior executives to monitor the rectification progress to ensure new measures are adopted to all newly joined and existing employees of the Target Group; and (iv) to go through and consult legal department for appropriateness where business or labour contracts are drafted. The directors of the Target Group confirm that the Target Group had already adopted as its internal control measures the above recommendations (ii) and (iii) since February 2012 and recommendations (i) and (iv) since November 2012.

Changhong (Hong Kong) Trading has entered into a deed of indemnity with and in favour of the Company for itself and on trust for its subsidiaries in which Changhong (Hong Kong) Trading has agreed that it will indemnify and at all times keep all and each of the members of the Enlarged Group fully indemnified on demand against all losses, costs (including all legal costs), expenses, penalties or other liabilities which any of the members of the Enlarged Group may incur in connection with the non-compliance of PRC law and regulations in relation to social insurance and housing provident fund contributions. Such indemnities will be recognised as a credit to equity as contribution from controlling shareholders in the financial statements of the Company.

(b) PRC leased properties

The Target Group had 31 leased properties in the PRC as at the Latest Practicable Date. 29 of the leased properties are subject to encumbrances or defects. Please refer to the paragraph headed "Property interests" in this section for further details.

Save as disclosed above, as advised by the legal advisers to the Company as to PRC laws, the Target Group has obtained all the required licenses, permit and certificates for the Target Group to conduct its business; complied with all relevant laws and regulations of the PRC in its course of business, and terms and conditions set out in the relevant approvals or licenses granted to the Target Group.

(c) Direct loans from connected person

During the Track Record Period, Sichuan Changhong had extended loans (the "**Direct Loans**") to Changhong IT directly for Changhong IT's operational requirements. Each of the Direct Loans was unsecured, carried interest from 5.10% to 6.89% over the duration of each loan and were repayable within 6 or 12 months from the date of drawdown.

As at 31 December 2009, 31 December 2010, 31 December 2011 and 31 July 2012, the aggregate amount of Direct Loans which Sichuan Changhong extended to Changhong IT amounted to nil, HK$236,320,000, nil and nil, respectively. As at the Latest Practicable Date, there are no outstanding Direct Loans from Changhong IT to Sichuan Changhong. The directors of the Target Group confirm that after the Completion, it will not obtain direct loans from a connected person which is an enterprise without requisite licenses in the PRC.

Please refer to the section headed "Connected Transactions – Details of connected transactions to be discontinued upon completion – Financial assistance provided by the Sichuan Changhong Group and Sichuan Changhong Electric to Target Group" for further details.

As advised by the legal advisers to the Company as to PRC laws, enterprises without requisite licenses shall not provide financing or deposit business in the PRC. Enterprises may not carry out direct or disguised borrowing and lending services in violation of the relevant PRC regulations. The direct loan arrangement between Sichuan Changhong and the Target Group may be regarded as a violation of the restriction on the inter-enterprise loans set forth in the Lending Provisions. As at 31 July 2012, the Direct Loans from Sichuan Changhong had been fully settled. For the prevention of similar violation of the Lending Provisions, the Target Group will obtain financial assistance in the form of bank loans or other facilities as permitted by the PRC laws and regulations. As confirmed by the directors of the Target Group, the in-house counsel of the Target Group will review the loan agreements to be executed by the Target Group, so as to ensure the loans are in compliance with applicable PRC laws and regulations.

As advised by the legal advisers to the Company as to PRC laws, according to the Lending Provisions, as a borrower, the Target Group is not liable for any penalties imposed by relevant government authorities.

INTERNAL CONTROL MEASURES

The Directors and the directors of the Target Group, having taken into account that an independent internal control consultant have been engaged to review the internal control of the Target Group and certain deficiencies ("**Deficiencies**") of the internal control measures of the Target Group have been identified and that the Deficiencies have been or will be rectified by the Target Group before Completion, consider that the Target Group's internal control measures are adequate and effective under Rule 6A.15(5) of the GEM Listing Rules.

MATERIAL DEVELOPMENTS OCCURRING AFTER THE TRACK RECORD PERIOD

The Directors and the directors of the Target Group confirm that, up to the Latest Practicable Date, there was no material developments occurring after the Track Record Period which would adversely affect the business of the Target Group.

BUSINESS OBJECTIVES

With a solid foundation in the IT distribution business and a strong operational capability, the Target Group aims at becoming a leading market player in the IT product distribution industry in terms of its scale of operation, business structure, distribution channel coverage and IT services, and strives to enhance its position as a distinguished IT products distributor and service provider in the PRC.

The Target Group has focused on the IT product distribution business. With the economy of the PRC expecting to increase rapidly over the next few years and computing and electronic products becoming a trend, the Target Group will strive to expand its cooperation with different brands, increase distribution channels and broaden into overseas markets.

BUSINESS STRATEGIES

The Target Group intends to achieve its business objectives by adopting the following strategies:

(i) broadening of IT products range and procurement work;

(ii) strategic extension of sales network and coverage;

(iii) exploring expansion opportunities in Southeast Asia;

(iv) expansion of the IT service provision in the PRC; and

(v) enhancing employee performance and continuous training and development.

For details, please refer to the section headed "Business of the Target Group – Business Strategies".

IMPLEMENTATION PLANS

The Target Group's implementation plans for each of the six-month periods ending 31 December 2014 are set out below. Investors should note that the following implementation plans are formulated according to the bases and assumptions referred to in the paragraphs headed "Bases and Assumptions" below. These bases and assumptions are inherently subject to a number of uncertainties and unpredictable factors, particularly the risk factors set forth in the section headed "Risk Factors" of this circular.

For the period between the Latest Practicable Date to 31 December 2012

Broadening of IT products range and procurement work

The Target Group will focus on its business direction of cloud computing, mobile internet and smart terminals. The Target Group will actively plan the business direction of mobile internet devices, seek potential partners worldwide.

Strategic extension of sales network and coverage

The Target Group will expand the geographic coverage of its sales and technology support as well as its sales network to customers. By the end of 2012, it will allocate IT professionals of sales management as well as business and technology support in cities such as Chengdu, Nanjing, Hangzhou, Guangzhou and Shanghai; and enhance service quality as well as response efficiency. The Target Group will increase the number of salespersons.

Exploring expansion opportunities in Southeast Asia

To support its overseas exploration and development and to provide foreign clients with localised and quality services effectively, the Target Group plans to set up a company in Hong Kong which will be a wholly-owned subsidiary of the Target Group by the end of 2012. In the meantime, the Target Group has identified a number of suppliers in Hong Kong and plans to negotiate with them for main distributorships in Hong Kong. The said subsidiary will act as the core sales network of the Target Group in exploring overseas markets, driving the Target Group's development and management of its distributed products and services in overseas markets.

As advised by the legal advisers to the Company as to PRC laws, the Target Group is required to obtain approval from the relevant development and reform commission and the relevant commerce authority in the PRC, and to complete the relevant filing with the foreign exchange administration authority in the PRC for establishment of its subsidiary in Hong Kong. As at the Latest Practicable Date, the said establishment had already been approved by 綿陽市國有資產監督管理委員會 (Mianyang Municipality State-Owned Assets Supervision and Administration Commission) and the local bureau of commerce in Mianyang. The directors of the Target Group expect that the said company will be formally incorporated in Hong Kong by the end of 2012.

The Target Group has obtained requisite licenses and permits in the PRC to carry out import and export of goods, which enables the Target Group to explore expansion opportunities in overseas market.

Expansion of the IT service provision in the PRC

The Target Group will continue to expand its business in providing IT services, including provision of IT technical support services to end-users of IT corporate products and to enhance its own services, including troubleshooting, consultation, design and implementation of IT framework, training, on-site services, cloud framework and service segmentation. It will also develop tailor-made services based on existing applications with various industries by leveraging on the platform of a cloud demonstration centre.

Enhancing employee performance and continuing training and development

The Target Group will adopt a scheme to provide its staff members with a special fund to support specialised and personalised training. It will also establish a performance-assessment IT system to consolidate, share and analyse information of staff assessments in order to facilitate the management to better assess its staff performance.

For the six months ending 30 June 2013

Broadening of IT products range and procurement work

The Target Group intends to introduce two or three new brands, product lines or products including but not limited to self-developed products, and to enhance its position in the IBMS market by actively seeking potential partners worldwide in the area of IBMS construction, and to build up an effective industry chain of IBMS application by cooperating with the world's leading suppliers coupled with the Target Group's own advanced solutions and technology support capability.

Strategic extension of sales network and coverage

The Target Group will expand the coverage of its sales and technological support by establishing new offices. By the end of June 2013, the Target Group will set up offices in three locations in the PRC. Meanwhile, it will further its establishment of warehousing, logistics and distribution centres, with an aim to effectively cover more than 600 cities for delivery within 24 hours and more than 800 cities for delivery over 24 hours. It will also actively develop the business and provide relevant services in the peripheral markets of target cities, so as to furnish customers with more convenient and quality marketing services. The number of salespersons will continue to increase.

Exploring expansion opportunities in Southeast Asia

By capitalising on the newly-established Hong Kong subsidiary, the Target Group will formulate its foreign business development strategies, and streamline actions relating to its development in Southeast Asian markets, such as staff allocation, selection of suppliers for cooperation, negotiation and contract signing, as well as sales, implementation and provision of technology services in the market; establish an effective platform for business management and operation, and build up a well-based and localised team for overseas business development and services; and gradually explore the development of support networks in overseas markets for its products and services, so as to provide technology support with a view to expanding its overseas customer base effectively. The compliance of local rules and regulations will be handled by the local distributors.

Expansion of the IT service provision in the PRC

By leveraging on the Target Group's expertise in IT technology and experience in provision of IT services, the Target Group will commence technical cooperation with companies that are not IT product suppliers and provide services for individual projects obtained by suppliers from tenders. It will strive to complete the Project Management Professional ("**PMP**") certification process for its staff members in Beijing, Shanghai and Guangzhou. PMP is a credential for project management personnel, initiated by the Project Management Institute ("**PMI**"). According to PMI's website, obtaining the PMP demonstrates the credential holder to have the experience and competency to lead projects. The directors of the Targets Group confirm that the PMP qualification is not a mandatory or pre-requisite qualification for a company to carry out the project outsourcing businesses. However, as confirmed by the directors of the Target Group, obtaining the qualification may be useful in assessing the Target

Group's suitability for projects in the initial assessment by the Target Group's business partners, and this may also help the Target Group in developing the Target Group's outsourcing services. Having obtained the PMP qualifications, the Target Group will cooperate with suppliers to develop the project outsourcing business and expand technology coverage in the region, so as to enhance the overall delivery capability of IT services.

Enhancing employee performance and continuing training and development

The Target Group will engage professional training institutions to provide its staff members with training, so as to further improve the existing technology, enhance expertise and skills of the sales team and motivate key personnel to achieve better performance. The budget for training in 2013 will increase with the expansion of the scale of business. The assessment method of different business departments will be changed from assessment of accounts receivables to that of gross profit, so as to facilitate the enhancement of performance of different business departments.

For the six months ending 31 December 2013

Broadening of IT products range and procurement work

Two or three new brands or product lines or products including but not limited to self-developed products will be introduced. By effectively capitalising on the integrated design and construction qualifications obtained in the IBMS construction, the Target Group will develop the distribution of equipment in the IBMS construction and perform relevant projects, actively seek potential partners worldwide and launch cooperation with one or two basic network providers. The Target Group will also build professional teams of design, construction and relevant technology services and support for construction engineering and organise seminars regarding IBMS construction and hold marketing and promotional activities in cities in the PRC.

Strategic extension of sales network and coverage

The Target Group will continue to expand the geographic coverage of its sales and technology support in the PRC by establishing new offices, and expanding its sales network. By the end of December 2013, the Target Group will set up offices in three additional locations in the PRC. Meanwhile, it will actively develop the business and provide relevant services in the peripheral markets of the target cities with localised coverage, so as to furnish customers with more convenient and quality marketing services. The Target Group will continue to increase its number of salespersons.

Exploring expansion opportunities in Southeast Asia

By closely cooperating with renowned brand suppliers in the Hong Kong market, the Target Group plans to expand its market coverage in the region by actively launching negotiations with the existing cooperating IT suppliers, widening its market coverage in Hong Kong and Southeast Asian countries and expanding its market coverage in Southeast Asian countries.

Expansion of the IT service provision in the PRC

Based on its experience, the Target Group will categorise the IT characteristics of different industries, and provide IT services based on these characteristics and promote IT services and products with its sales network in the industry. The Target Group will provide training services in respect of various product lines. The Target Group will also establish training programmes, so as to develop its training business and train up IT engineers with practical operating skills.

Enhancing employee performance and continuing training and development

In addition to engaging professional training institutions to provide its staff members with training, the Target Group will continue the implementation of supporting schemes such as staff education and training funds, so as to furnish staff members with training assistance and learning opportunities, enriching their knowledge and enhancing their performance.

The Target Group will also follow up with those business departments whose assessment methods are adjusted on gross profit basis, and improve the assessment method with reference to feedbacks from staff members and supervisors and based on the business operations of different departments.

For the six months ending 30 June 2014

Broadening of IT products range and procurement work

Two or three new brands will be introduced. The Target Group will strengthen the new business direction in cloud computing; speed up the development of solutions and servicing capability in the value-added distribution business mainly for cloud computing and application to software providers and service providers in cloud computing applications. The Target Group will also cooperate with a number of renowned suppliers to establish a one-stop service, which provides various solutions such as data solutions, virtualisation solutions and disaster recovery solutions, as well as market consultation and technology support through the Target Group's cloud computing demonstration and training centres.

Strategic extension of sales network and coverage

The Target Group will expand the geographic coverage of its sales and technology support in the PRC by actively developing warehousing and transportation support in major cities across the PRC, so as to expand its sales network to customers. By the end of June 2014, the Company will establish warehousing and distribution centres in three additional cities in the PRC. It will also actively develop the business and provide relevant services in the peripheral markets of target cities with localised coverage, so as to furnish customers with more convenient and quality marketing services. The number of salespersons will increase by 10% over the same period of the previous year.

Exploring expansion opportunities in Southeast Asia

The Hong Kong subsidiary to be incorporated by the Target Group will facilitate its expansion to Southeast Asian and international markets. By capitalising on its experience in product distribution, branding, market, management and capital, and developing measures such as risk control and operation management, the Target Group will strengthen its communication and cooperation with more suppliers in the Southeast Asian market and appoint more professional staff around the world for its future business developments as well as technology and market support for its future performance growth. The Target Group will also increase its number of salespersons.

Expansion of the IT service provision in the PRC

The Target Group will set up a service delivery centre and develop IT outsourcing and advisory services based on its past experience and existing IT services, so as to identify demand among the existing users and renewed service users. The Target Group will also provide on-site or regular maintenance services and advisory services such as advices on system framework and system optimisation for users' IT system.

Enhancing employee performance and continuing training and development

The Target Group will continue to engage professional and quality training institutions to provide its staff members with training, comprehensively and systematically improve professional knowledge and skills of its staff members at all levels, so as to facilitate staff development and performance improvement. The budget for training in 2014 will continue to increase with the expansion of business scale.

The Target Group will timely adjust the relevant assessment methods and improve the IT system for performance assessment in light of its business development. It will also provide a basis for staff remuneration, position adjustment and training system.

For the six months ending 31 December 2014

Broadening of IT products range and procurement work

Two or three new brands will be introduced. The Target Group will further develop the business in cloud computing, mobile internet and IBMS business. The Target Group will also actively seek potential partners worldwide, increase efforts in building up professional teams of design, construction and relevant technology services and support for construction engineering, and continue to organise seminars regarding IBMS construction as well as marketing and promotional activities in various PRC cities.

Strategic extension of sales network and coverage

The Target Group will increase the number of warehousing centres, and allocate IT professionals in the areas of sales management, business support and technology support to serve across the PRC; actively develop its business and provision of services in the peripheral markets of target cities with localised coverage, so as to furnish customers with more convenient and quality marketing services.

Exploring expansion opportunities in Southeast Asia

Through the Hong Kong subsidiary to be incorporated by the Target Group, the Target Group will focus on Southeast Asian markets such as Singapore and Malaysia by effectively establishing market coverage in Southeast Asian countries and regions, and facilitate its communication and cooperation with the international markets. This will lay a solid foundation for the Target Group's international development through its effective coverage of Southeast Asian markets, facilitate mutual development and improvement in products, solutions, management and services for domestic and overseas markets, and enhance its competitiveness and profitability. The number of salespersons will continue to increase.

Expansion of the IT service provision in the PRC

Based on its past experience, the cloud demonstration centre will be upgraded to a cloud service centre, which will act as a system of integration of various existing IT services. Service targets include small and medium-sized enterprises which are unable to construct IT systems themselves due to lack of IT technology capability.

Enhancing employee performance and continuing training and development

In addition to engaging professional training institutions to provide the Target Group's staff members with training and implementing various assistance schemes such as staff education and training funds, the Target Group will fully develop and explore in-house training resources to provide its staff members with training assistance and learning opportunities, so as to widely and effectively increase and improve their knowledge and skills respectively, thus enhancing business performance. The Target Group will also follow up with those business departments applying the adjusted assessment methods, as well as improve the assessment method and the IT system of performance assessment.

The estimated costs (include funding needs) for the implementation plans are as below:

		For the period between the Latest Practicable Date to 31 December 2012 *(HK$'000)*	For the six months ending 30 June 2013 *(HK$'000)*	For the six months ending 31 December 2013 *(HK$'000)*	For the six months ending 30 June 2014 *(HK$'000)*	For the six months ending 31 December 2014 *(HK$'000)*	Total *(HK$'000)*
1	Broadening of IT products range and procurement work	–	2,465	184,905	12,327	36,981	236,678
2	Strategic extension of sales network and coverage	186	12,377	19,526	28,851	38,394	99,334
3	Exploring expansion opportunities in Southeast Asia	31	123	247	247	370	1,018
4	Expansion of the IT service provision in the PRC	36	1,659	3,082	4,385	4,901	14,063
5	Enhancing employee performance and continuing training and development	66	449	511	561	639	2,226
	Total	319	17,073	208,271	46,371	81,285	353,319

Exchange Rate: 1 RMB = 1.233 HKD

The Target Group plans to fund each implementation plan through (i) the Target Group's internal resources, (ii) operating cash flow or (iii) borrowings from banks and/or other financial institutions.

The higher estimated costs for the six months ending 31 December 2013 reflect the Target Group's plans to inject a larger amount of funds into its business operations with larger new brands and provision of new product lines or products including but not limited to self-developed products. The Target Group anticipates that business operations with larger new brands and the provision of new product lines or products will develop after the relevant staff and distribution outlets of those new product lines have been trained and developed respectively, and thus a larger amount of funds will be needed for the business operations of those product lines.

BASES AND ASSUMPTIONS

Potential investors should note that realisation of the business objectives of the Target Group depends on the following general and specific assumptions:

General Assumptions

(1) The Target Group is not subject to material or adverse impacts caused by the changes in current government policies or politics, laws (including the changes in the laws, rules or regulations), and financial markets or economic conditions in the PRC and Hong Kong where the Enlarged Group operates or will operate its business.

(2) The Target Group is not subject to material or adverse impacts caused by any changes in the bases or rates of taxation in the PRC or any other region where the Enlarged Group operates its business or is incorporated.

(3) The Target Group is not subject to material or adverse impacts caused by any inflation rate, interest rate or exchange rate that is different from the current prevailing rates.

Specific Assumptions

(1) The Target Group is not subject to adverse impacts caused by any risk factors set out in the "Risk Factors" of this circular.

(2) The Target Group maintains stable cooperation with suppliers and customers and has an ever-growing customer base who engage the Target Group to provide distribution services.

(3) The Target Group has sufficient financial resources to cover operating expenses and implement development plans during the period in connection with business targets.

(4) The Target Group's operation and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, epidemics or serious accidents.

OVERVIEW

As at the Latest Practicable Date, Sichuan Changhong beneficially owns in aggregate 111,368,000 Ordinary Shares (representing 33.34% of the issued ordinary share capital of the Company), of which 95,368,000 Ordinary Shares (representing approximately 28.55% of the issued share capital of the Company) is directly owned and 16,000,000 Ordinary Shares (representing approximately 4.79% of the issued share capital of the Company) is owned through its wholly-owned subsidiary, Changhong (Hong Kong) Trading. As at the Latest Practicable Date, approximately 23.19% of the equity interest of Sichuan Changhong is owned by Sichuan Changhong Electric, which accounts for Sichuan Changhong as its subsidiary under applicable PRC general accounting principles. Sichuan Changhong and Sichuan Changhong Electric are controlling shareholders of the Company under the GEM Listing Rules.

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Sichuan Changhong is a company established under the laws of the PRC with limited liability whose issued A-shares (stock code: 600839.SH) are listed on the Shanghai Stock Exchange. The Sichuan Changhong Group is principally engaged in the following businesses:

(i) the research and development, manufacture, sales and distribution of electrical appliances (including air-conditioners, refrigerators and washing machines) and consumer electronic products (including televisions, home theater systems and other audio and video products). Such products are distributed in the PRC under its own "Changhong" brand and in certain non-PRC overseas markets under its own "Changhong" brand or by way of OEM (original equipment manufacturing) ("**Changhong Electronic Business**");

(ii) the research and development, as well as the sales and distribution of mobile phones in the PRC under its own brands ("**Changhong Mobile Business**"); and

(iii) other businesses which are considered by the Directors not to be in competition with the businesses engaged by the Enlarged Group, including but not limited to the trading and manufacture of semi-finished products for electronic appliances, such as compressors and accessories, logistics and property development.

Sichuan Changhong markets and distributes its products through retailers, shops and chain-stores, which are its major customers. Its major suppliers are LCD/LED/PDP panel suppliers. As after sales services incidental to the sale of electrical appliances and consumer electronic products, Sichuan Changhong provides parts and components specifically for use in Sichuan Changhong's own-branded products ("**Changhong After Sales Parts**") to its authorized repair and maintenance service providers for the repair and maintenance of such products at costs when their warranty periods have expired. The Directors confirm that the sale of Changhong After Sales Parts will not or will not be likely to compete with the businesses currently conducted by the Enlarged Group.

According to the annual report of Sichuan Changhong in 2011, under the applicable accounting principles under PRC GAAP, Accounting Standards for Enterprises No. 33 – Consolidated Financial Statements, the Notice of the Ministry of Finance on Preparation of Annual

Reports for 2008 of Enterprises Implementing the Accounting Standards (Cai Kuai Han No. [2008]60) and Announcement No. 48 [2008] of the China Securities Regulatory Commission, upon the change of Directors on 6 March 2012, Sichuan Changhong is deemed to have control over the Board by having appointed four executive Directors (comprising a majority of the executive Directors on the Board) and the results of the Company should be consolidated into the accounts of Sichuan Changhong.

As at the Latest Practicable Date, the Sichuan Changhong Group has over 60,000 staff in total and recorded a revenue of approximately RMB52 billion, a net profit of approximately RMB323 million and a net profit attributable to shareholders of the listed company of approximately RMB406 million based on its published annual report for the year ended 31 December 2011. Based on the published financial statements of Sichuan Changhong for the financial year ended 31 December 2011, the revenue of Sichuan Changhong attributable to the Target Group accounted for approximately 20.96% of the total revenue of Sichuan Changhong for the year.

The principal business of Sichuan Changhong Electric is investment holding. Sichuan Changhong Electric Group holds interests in various businesses, including, among others the business of the manufacture and sales of consumer electronic appliances (holds through Sichuan Changhong) and property development business (holds through other business entities).

Effect of Completion

Immediately after Completion, Sichuan Changhong will, through its direct interest in the issued ordinary share capital of the Company and its interest in the entire issued capital of Fit Generation and Changhong (Hong Kong) Trading, be beneficially interested in approximately 52.53 % of the issued ordinary share capital of the Company. Hence, Sichuan Changhong, Sichuan Changhong Electronics and Fit Generation will be the controlling shareholders of the Company. It is the contemplation by the parties in the Acquisition Agreement that only the Target Group's businesses shall be injected into the Enlarged Group upon Completion and the Group is expected to benefit from the Acquisition for the reasons set out in the paragraph headed "Letter from the Board – Reasons for and Benefits of the Acquisition" in this circular. Hence, the Sichuan Changhong Group is not to be included in the Group upon Completion.

Following the Completion, the companies comprising the Target Group will become subsidiaries of the Company and the business of the Target Group will be undertaken as the business of the Enlarged Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the factors set out below the Directors are of the view that the business of the Sichuan Changhong Group (excluding the Enlarged Group) and the Sichuan Changhong Electric Group do not compete and will not compete with the business of the Enlarged Group in any material respect upon Completion:

Delineation of Business

After Completion, the Enlarged Group will have the following principal businesses:

(1) the Group's existing business comprising (i) the trading and sales of electronic parts and components (which are not Changhong After Sales Parts to be supplied to its authorized service providers for after sales services of Sichuan Changhong) such as LCD screens, PDP screens, cathode ray tubes, integrated circuits, plugs and sockets primarily in the PRC ("**CDB Component Business**") (for connected transactions in respect of the supply of IT products and electronic parts and components by the Enlarged Group to the Sichuan Changhong Group, please refer to the section headed "Connected Transactions" of this circular for further details); and (ii) the trading and sales of electrical appliances and consumer electronic products in non-PRC overseas markets (the "**CDB Electronic Business**" and together with the CDB Component Business, the "**CDB Existing Business**").

The total sales of the Company in the PRC for the years ended 2010 and 2011 respectively are derived from the sales of electronic parts and components. For further details, please refer to the section headed "Appendix II - Financial Information of the Group" of this circular.

(2) the Target Group's existing business comprising: (i) the distribution of IT consumer products and IT corporate products (the "**Target IT Business**"); and (ii) the distribution of smartphones in the PRC (the "**Target Mobile Business**" and together with the Target IT Business, the "**Target Existing Business**").

Set out below is the summary of the businesses which are principally engaged by each of the Enlarged Group and the Sichuan Changhong Group during the three financial years ended 31 December 2011 and the six months ended 30 June 2012 (the "**Relevant Period**"):

Business Engaged	**The Enlarged Group**	**The Sichuan Changhong Group**
Research and development and manufacture of electrical appliances and consumer electronic products	×	✓
Sales of electrical appliances and consumer electronic products in the PRC (excluding Hong Kong and Macau)	×	✓
Sales of electrical appliances and consumer electronic products in non-PRC overseas markets (including Hong Kong and Macau)	✓	✓
CDB Component Business	✓	×
Target IT Business	✓	×
Sales of mobile phones in the PRC (excluding Hong Kong and Macau)	✓	✓
Other businesses not in competition with the Enlarged Group	×	✓

Notes: "✓"– engaged, "×"– not engaged

During the Relevant Period, the following businesses of the Sichuan Changhong Group (the "**Overlapping Businesses**") overlapped with the businesses of the Enlarged Group:

- the sales and distribution of electrical appliances (including air-conditioners and refrigerators) and consumer electronic products (including televisions, home theater systems and other audio and video products) in non-PRC overseas markets (this overlapped with the CDB Electronic Business); and

- the sales and distribution of mobile phones in the PRC (this overlapped with the Target Mobile Business).

Below sets out the breakdown of the revenue generated by the Enlarged Group and the Sichuan Changhong Group in relation to the Overlapping Businesses during the Relevant Period, respectively:

	Enlarged Group				Sichuan Changhong Group[1]			
	Financial year ended 31 December 2009							
	PRC (excluding Hong Kong and Macau)	Non-PRC (including Hong Kong and Macau)	Total	Proportion to total sales revenue	PRC (excluding Hong Kong and Macau)	Non-PRC (including Hong Kong and Macau)	Total	Proportion to total sales revenue
	HK$'000	*HK$'000*	*HK$'000*	*(approximate %)*	*HK$'000*[2]	*HK$'000*[2]	*HK$'000*[2]	*(approximate %)*
Sales of electrical appliance and consumer electronic products in non-PRC overseas markets (including Hong Kong and Macau)	–	1,237,248	1,237,248	16%	–	2,454,097	2,454,097	7%
Sales of mobile phones	–	–	–	0%	2,020,720	128,865	2,149,585	6%
Non-overlapping business or products	6,466,288	76,100	6,542,388	84%	30,276,802	921,864	31,198,666	87%
Total[3]	6,466,288	1,313,348	7,779,636	100%	32,297,522	3,504,826[4]	35,802,348	100%

	Enlarged Group				Sichuan Changhong Group[1]			
	Financial year ended 31 December 2010							
	PRC (excluding Hong Kong and Macau)	Non-PRC (including Hong Kong and Macau)	Total	Proportion to total sales revenue	PRC (excluding Hong Kong and Macau)	Non-PRC (including Hong Kong and Macau)	Total	Proportion to total sales revenue
	HK$'000	*HK$'000*	*HK$'000*	*(approximate %)*	*HK$'000*[2]	*HK$'000*[2]	*HK$'000*[2]	*(approximate %)*
Sales of electrical appliance and consumer electronic products in non-PRC overseas markets (including Hong Kong and Macau)	–	1,418,134	1,418,134	13%	–	3,503,093	3,503,093	7%
Sales of mobile phones	10,685	–	10,685	0%	1,790,117	158,441	1,948,558	4%
Non-overlapping business or products	9,208,825	92,296	9,301,121	87%	41,699,207	1,706,184	43,405,391	89%
Total[3]	9,219,510	1,510,430	10,729,940	100%	43,489,324	5,367,718[5]	48,857,042	100%

	Enlarged Group				Sichuan Changhong Group[1]			
	Financial year ended 31 December 2011							
	PRC (excluding Hong Kong and Macau)	Non-PRC (including Hong Kong and Macau)	Total	Proportion to total sales revenue	PRC (excluding Hong Kong and Macau)	Non-PRC (including Hong Kong and Macau)	Total	Proportion to total sales revenue
	HK$'000	*HK$'000*	*HK$'000*	*(approximate %)*	*HK$'000*[2]	*HK$'000*[2]	*HK$'000*[2]	*(approximate %)*
Sales of electrical appliance and consumer electronic products in non-PRC overseas markets (including Hong Kong and Macau)	–	973,472	973,472	6%	–	3,600,462	3,600,462	6%
Sales of mobile phones	276,913	–	276,913	2%	1,607,011	50,868	1,657,879	3%
Non-overlapping business or products	14,697,037	134,651	14,831,688	92%	55,332,084	3,144,854	58,476,938	91%
Total[3]	14,973,950	1,108,123	16,082,073	100%	56,939,095	6,796,184[6]	63,735,279	100%

	Enlarged Group				Sichuan Changhong Group[1]			
	For the six months ended 30 June 2012							
	PRC (excluding Hong Kong and Macau)	Non-PRC (including Hong Kong and Macau)	Total	Proportion to total sales revenue	PRC (excluding Hong Kong and Macau)	Non-PRC (including Hong Kong and Macau)	Total	Proportion to total sales revenue
	HK$'000	*HK$'000*	*HK$'000*	*(approximate %)*	*HK$'000*[2]	*HK$'000*[2]	*HK$'000*[2]	*(approximate %)*
Sales of electrical appliance and consumer electronic products in non-PRC overseas markets (including Hong Kong and Macau)	–	454,469	454,469	5%	–	1,919,573	1,919,573	7%
Sales of mobile phones	418,447	–	418,447	5%	567,471	664	568,135	2%
Non-overlapping business or products	7,623,229	107,379	7,730,608	90%	24,338,372	1,864,099	26,202,471	91%
Total[3]	8,041,676	561,848	8,603,524	100%	24,905,843	3,784,336[7]	28,690,179	100%

Notes:

1. The figures of Sichuan Changhong Group included Target Group's consolidated figures.

2. The reporting currency of the Sichuan Changhong Group was RMB. The exchange rates used for conversion of RMB reporting currency to HKD in the Relevant Period are: 1.1381 (being average exchange rate during 2009), 1.1713 (being average exchange rate during 2010), 1.2256 (being average exchange rate during 2011), 1.2358 (being average exchange rate during the six months ended 30 June 2012).

3. The total revenue of each of the Group and Sichuan Changhong Group during the Relevant Period has been made available in respective annual reports and interim reports. The total revenue of the Target Group during the three financial years ended 31 December 2011 represented the total revenue of the Target Group which has been made available in the Target Group's accountants' report at Appendix I of this circular and the total revenue of the Target Group for the six months period ended 30 June 2012 was extracted from the unaudited management accounts of the Target Group of the same period.

4. This figure represents the main operation revenue of RMB3,047,963,615.78 (approximately HK$3,468,887,391.11) and other operation revenue of RMB31,578,137.12 (approximately HK$35,939,077.85). The amount of RMB3,047,963,615.78 (approximately HK$3,468,887,391.11) disclosed in the audited financial statements of Sichuan Changhong only represents the main operation revenue of sales in Non-PRC overseas markets.

5. This figure represents the main operation revenue of RMB4,433,311,475.02 (approximately HK$5,192,737,730.69) and other operation revenue of RMB149,389,912.00 (approximately HK$174,980,403.92). The amount of RMB4,433,311,475.02 (approximately HK$5,192,737,730.69) disclosed in the audited financial statements of Sichuan Changhong only represents the main operation revenue of sales in Non-PRC overseas markets.

6. The figure represents the main operation revenue RMB5,451,476,932.48 (approximately HK$6,681,330,128.44) and other operation revenue RMB93,712,273.38 (approximately HK$114,853,762.25). The amount of RMB5,451,476,932.48 (approximately HK$6,681,330,128.44) disclosed in the audited financial statements of Sichuan Changhong only represents the main operation revenue of sales in Non-PRC overseas markets.

7. This figure represents the main operation revenue of RMB2,670,861,382.43 (approximately HK$3,300,650,496.40) and other operation revenue of RMB391,394,034.14 (approximately HK$483,684,747.39). The amount of RMB2,670,861,382.43 (approximately HK$3,300,650,496.40) disclosed in the audited financial statements of Sichuan Changhong only represents the main operation revenue of sales in Non-PRC overseas markets.

Based on the above, the total amount of revenue of the Enlarged Group generated from the sales of electrical appliances and consumer electronic products in non-PRC overseas market represented approximately 16%, 13%, 6% and 5% of the total sales revenue of the Enlarged Group for the three financial years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, respectively, in a downward trend.

The total sales of the Enlarged Group's Overlapping Businesses in the non-PRC overlapped countries only represented approximately 4% of the total revenue from sales of the Enlarged Group as at the 30 June 2012.

Geographical Delineation

To minimize competition between the Sichuan Changhong Group (excluding the Enlarged Group) and the Enlarged Group after Completion for overlapping business conducted in overlapped non-PRC countries, it has been agreed between the Company and Sichuan Changhong that they will segregate the current overlapping non-PRC overseas markets for the sales and distribution of electrical appliances and consumer electronic products on the basis that either the Company or the Sichuan Changhong Group shall each give up its market in an overlapped country where its total amount of sales revenue derived is smaller when compared to that derived by the other party during the Relevant Period. In this regard, the Company will focus its CDB Electronic Business in the following countries:

Australia, Egypt, Kenya, South Africa, Libya, Mauritius, Dominica, Ecuador, Venezuela, Uruguay, Portugal, Ukraine, Philippines, Thailand, Brunei, Uzbekistan and South Korea (collectively, "**CDB's Markets**")

For the non-PRC overseas markets of the Changhong Electronic Business, the Sichuan Changhong Group will focus in the following countries:

Algeria, Brazil, Peru, Chile, Russia, Lithuania, Romania, Spain, Pakistan, Myanmar, Indonesia, Saudi Arabia, Israel, Jordan, the United Arab Emirates, Iraq, North Korea and Kyrgyzstan (collectively, "**Changhong's Markets**")

Pursuant to the Deed of Non-competition Undertaking, Sichuan Changhong has undertaken that it will cease its Changhong Electronic Business in CDB's Markets within 18 months upon the Completion. The Company will also cease its CDB Electronics Business in Changhong's Markets within 18 months upon the Completion. Based on the below reasons, the Directors consider that such arrangement will not restrict the future growth of the Enlarged Group's electronic business:

- given that the Directors consider no further investments should be made in the overlapped countries where the growth and performance of businesses of the Company is limited, the Company gave up Changhong's Market on the basis that the total amount of sales revenue derived by the Company in an overlapped country should be smaller when compared to that derived by the Sichuan Changhong Group in the same overlapped country during the Relevant Period; for further details, please refer to the paragraph headed "Geographical Delineation" in this section of this circular; and

- after the Completion, the Enlarged Group will also focus on the Target Existing Business and shall implement the development plan as stated in the section headed "Statement of Business Objectives" of this circular.

For any market opportunity in relation to the sales and distribution of electrical appliances and consumer electronic products in non-PRC overseas markets (the "**Market Opportunity**"), it has been agreed that the Enlarged Group shall have the right of first refusal to pursue such market opportunity. In deciding whether to pursue a Market Opportunity, the Company will seek approval from its independent non-executive Directors. The material terms relating to the Market Opportunity will be reviewed by the independent non-executive Directors. Accordingly, there is clear geographical delineation between the overlapped non-PRC markets for the sales and distribution of electrical appliances and consumer electronic products following the Completion.

Price Segment and Brand Delineation

It has been agreed that any competition between the Changhong Mobile Business and the Target Mobile Business will be minimized upon Completion through price segment and brand delineation in mobile phones, pursuant to which the Sichuan Changhong Group and the Enlarged Group will focus on mobile products in different price segments. The Sichuan Changhong Group will continue to focus in own-branded products while the Enlarged Group will focus in smartphones of other brands.

Pursuant to the Deed of Non-Competition, after the Completion, the Enlarged Group will focus in the distribution of smartphones with the unit retail price equal to or above RMB2,500 and the Sichuan Changhong Group (excluding the Enlarged Group) will focus in the distribution of mobile phones with the unit retail price equal to or below RMB1,500.

Accordingly, there is price and brand delineation between the Changhong Mobile Business and the Target Mobile Business.

Basis of the business delineation

The above-mentioned delineations are determined after arms length negotiation between the Enlarged Group and the Sichuan Changhong Group with reference to, including but not limited to, the sales revenue derived by each of the Enlarged Group and the Sichuan Changhong Group in each of the overlapping countries during the Relevant Period. The overlapped business between the Sichuan Changhong Group and the Enlarged Group in the sales and distribution of electrical appliances and consumer electronic products in non-PRC overseas market will be delineated by countries by reference to the historical proportion in the total sales revenue between the Sichuan Changhong Group and the Enlarged Group in each of the overlapped countries. The overlapped mobile business between the Sichuan Changhong Group and the Enlarged Group will be delineated by marketing and pricing strategies in the sales of mobile phones.

Others

In the circumstances and reinforced by the Controlling Shareholders' undertakings set out in the paragraph "Non-compete Undertakings" below, there is sufficient delineation between the businesses of the Controlling Shareholders and the Enlarged Group and there will be no competition in any material respect between the Enlarged Group and the Sichuan Changhong Group (excluding the Enlarged Group) after the Completion.

CORPORATE GOVERNANCE MEASURES

The Enlarged Group will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of the Shareholders:

(i) the business of the Enlarged Group will be conducted independently from the Controlling Shareholders according to geographical delineation for the sales and distribution of electronic appliances and consumer electronic products in non-PRC overseas markets and price segment and brand delineation for the distribution of mobile phones in the PRC, which are further reinforced by the Deed of Non-Competition;

(ii) the Directors shall ensure that the Non-exempt Continuing Connected Transactions to be conducted by the Enlarged Group will be in compliance with all applicable GEM Listing Rules and the Enlarged Group will strictly abide the terms in the New Master Purchase Agreement and the New Master Supply Agreement; and

(iii) as regards corporate governance, the Group has established its corporate governance practice manual that the Enlarged Group will adopt, review and update from time to time and pursuant to which an independent board committee will be established to deal with matters involving conflict of interests.

Directors' Competing Interests

Mr. Yu Xiao (the executive chairman of the Company) is the financial controller of Sichuan Changhong Electric, whom the Company considers to be an associate of Sichuan Changhong and hence a connected person of the Company. In addition, Mr. Yu Xiao is also currently a supervisor of Hefei Meiling Co., Ltd, a company listed on the Shenzhen Stock Exchange (stock code: 000521) and in which Sichuan Changhong has an approximate 24.88% equity interest in as at the Latest Practicable Date.

Mr. Tang Yun (an executive Director of the Company) is also an executive director in each of Changhong (Hong Kong) Trading (a wholly-owned subsidiary of Sichuan Changhong), Changhong (Hong Kong) Enterprises (a wholly-owned subsidiary of Target Co BVI) and Target Co BVI. Mr. Tang Yun does not receive any remuneration from the aforesaid companies.

In the interests of good corporate governance, Mr. Yu Xiao and Mr. Tang Yun has not voted (or counted in the quorum) on any resolution of the Board approving among other things, the Acquisition, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions. Save for Mr. Yu Xiao and Mr. Tang Yun who are required to abstain from voting, none of the Directors have any material interest in the Acquisition, the Whitewash Waiver and the Non-exempt Continuing Connected Transactions.

Mr. David Ji Long Fen (an executive Director of the Company) is a shareholder of Apex Digital, Inc. (a US-incorporated company) ("**Apex Digital, Inc. US**") which was engaged in wholesaling business of consumer electronic products, a business which is similar to that currently carried on by the Group. Apex Digital, Inc. US filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code on 17 August 2010. Apex Digital, Inc. US continues to operate its business as a debtor in possession. The Directors confirm that the Group or the Target Group had not made any sales to Apex Digital, Inc. US during the Track Record Period. The Group or the Target Group had not entered into any business with Apex Digital, Inc. US during the Track Record Period.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor their respective associates is a director or shareholder of any business apart from the business of the Enlarged Group which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

Non-compete Undertakings

Sichuan Changhong, Sichuan Changhong Electric and Fit Generation (the "**Covenantors**"), the controlling shareholders of the Company, have entered into a deed of non-competition (the "**Deed of Non-Competition**"), pursuant to which each of them has undertaken, subject to the exceptions mentioned below, that it:

(i) shall not, directly or indirectly (whether as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise) carry on, engage, invest or be interested or otherwise involved in the CDB Existing Business and the Target Existing Business ("**Restricted Business**") except that:

(a) the Sichuan Changhong Group (excluding the Enlarged Group) may continue to conduct its Changhong Electronic Business in Changhong's Markets;

(b) the Sichuan Changhong Group may continue to conduct its Changhong Mobile Business and the mobile phones to be distributed shall be at the retail unit price equal or below RMB1,500 each, subject to annual review by the independent non-executive Directors in accordance with the official inflation rate of the PRC for each year; and

(c) Sichuan Changhong may continue to supply its Changhong After Sales Parts to its authorized repair and maintenance service providers for the repair and maintenance of Sichuan Changhong's products.

(ii) when it and/or any of its associate are offered or become aware of any new project or business opportunity directly or indirectly to engage or become interested in a Restricted Business or a business opportunity for the distribution of electrical appliances and consumer electronic products in a non-PRC overseas market which neither Sichuan Changhong nor the Enlarged Group has already developed, (i) it shall promptly notify the Company in writing, refer such project or business opportunity to the Company for consideration first and provide such information as may be reasonably required by the Company to make an informed assessment of such project or business opportunity; and (ii) shall not, and procure that its associates shall not, invest or participate in any such project or business opportunity unless the right of first refusal to pursue such project or business opportunity shall have been rejected by the Company and the principal terms of which it and/or its associates invest or participate are no more favourable that those made available to the Company. In deciding whether to pursue such market opportunity, the Company will seek approval from its independent non-executive Directors, who shall, review all material terms thereof.

The aforesaid undertakings do not apply to the holding of or interests in shares or other securities by Covenantors and/or their respective associates in any company which conducts or is engaged in any Restricted Business, provided that, in the case of such shares, they are listed on a stock exchange and the total number of the shares held by the relevant Covenantor and its associates or in which they are together interested does not amount to more than 5% of the issued shares of that class of that company, provided that the relevant Covenantor and its associates, whether acting singly or jointly, are not entitled to appoint majority of directors of that company and that at all times there is a holder of such shares holding (together, where appropriate, with its associates) a larger percentage of the shares in question that the relevant Covenantor and its associates together hold.

(iii) Sichuan Changhong will procure that within 18 months upon the Completion, Sichuan Changhong shall cease its Changhong Electronic Business in CDB's Markets. Company will cease its CDB Electronics Business in Changhong's Markets within 18 months upon the Completion.

(iv) The Company shall procure the Enlarged Group to focus in the distribution of smartphones with the unit retail price equal to or above RMB2,500. Sichuan Changhong shall procure the Shchuan Changhong Group (excluding the Enlarged Group) to focus in the distribution of mobile phones with the unit retail price equal to or below RMB1,500.

(v) Each of the Covenantors shall keep the Directors (including its independent non-executive Directors) informed of any matter of actual or potential conflict of interests between the Covenantors (including their respective associates) and the Group, in particular, a transaction between any of the Convenantors (including their respective associates) and the Group.

The Deed of Non-Competition and the rights and obligations of the Covenantors thereunder are subject to and conditional upon the Completion.

The obligations of the Covenantors under the Deed of Non-Competition will remain in effect until:

(i) the date on which the Ordinary Shares ceased to be listed on any of the stock markets of the Stock Exchange; or

(ii) the date on which the Covenantors ceased to own less than 30% of the issued share capital of the Company directly or indirectly;

whichever occurs first.

For good corporate governance practices, in relation to compliance with the terms of the Deed of Non-Competition, the Company has adopted the following measures:

- the Controlling Shareholders will make an annual declaration on compliance with the Deed of Non-Competition in the annual report of the Company in accordance with the principle of voluntary disclosure in the corporate governance report;

- the independent non-executive Directors will review, at least on an annual basis, the information provided by the Controlling Shareholders in respect of the compliance and enforcement of the Deed of Non-Competition;

- the Controlling Shareholders undertakes to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition; and

- the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition, including the decision to decline the right of first refusal in relation to a Market Opportunity and the basis such decisions are made, either through the annual report or by way of announcements to the public.

INDEPENDENCE FROM CONTROLLING SHAREHOLDER

Having considered the following factors, the Directors are of the view that the Enlarged Group will be able to conduct its businesses independently of the Sichuan Changhong Group (excluding the Enlarged Group) and the Sichuan Changhong Electric Group upon completion of the Acquisition.

Independence of Board and Management

The Board will remain consisting of 11 Directors immediately after completion of the Acquisition.

Certain Directors and directors of the Target Group hold concurrent directorships and positions in the Sichuan Changhong Group and/or the Sichuan Changhong Electric Group.

Set out below is a table summarizing the positions held by the Directors and the directors of Target Group in the Sichuan Changhong Group and/or Sichuan Changhong Electric Group as at the Latest Practicable Date.

Name	Position with the Company or Target Group as at the Latest Practicable Date	Position(s) with Sichuan Changhong Group as at the Latest Practicable Date	Position(s) with Sichuan Changhong Electric Group as at the Latest Practicable Date
Mr. Yu Xiao (余曉)	Executive Director and Chairman of the Company	Supervisor of Hefei Meiling Co. Ltd	Financial controller of Sichuan Changhong Electric
Mr. Tang Yun (唐雲)	Executive Director and Managing Director of the Company	Executive director of Changhong (Hong Kong) Enterprises	
		Executive director of Changhong (Hong Kong) Trading	
		Executive director of Target Co BVI	
Mr. Zhao Yong (趙勇)	Chairman of board of directors of Changhong IT	Chairman of the board of directors of Sichuan Changhong	Chairman of the board of directors of Sichuan Century Shuanghong Display Devices Co., Ltd. (四川世紀雙虹顯示器件有限公司)
	Chairman of board of directors of Changhong IT Digital	Chairman of the board of directors of Sichuan COC Display Devices Co., Ltd. (四川虹歐顯示器件有限公司)	
	Chairman of board of directors of Changhong IT Intelligence	Director of A'HONG Communication and Digital Information Group Co., Ltd. (綿陽國虹通訊數碼集團有限責任公司)	Chairman of the board of directors of Sichuan Changhong Electric

Name	Position with the Company or Target Group as at the Latest Practicable Date	Position(s) with Sichuan Changhong Group as at the Latest Practicable Date	Position(s) with Sichuan Changhong Electric Group as at the Latest Practicable Date
Mr. Wu Yingjian (巫英堅)	Director of Changhong IT Director of Changhong IT Digital Director of Changhong IT Intelligence	Director deputy general manager and the supervisor of the research and development centre of Sichuan Changhong Chairman of the board of directors of Panovasic Technology Co. Ltd (四川虹微技術有限公司) Chairman of board of directors of Sichuan CCO Display Technology Co., Ltd (四川虹視顯示技術有限公司) Chairman of board of directors of ORION OLED CO., LTD. Director of Shanxi IRICO Electronic Glass Co. Ltd. (陝西彩虹電子玻璃有限責任公司) Director of Electra lnvestments B.V. Director of Shanghai National Engineering Research Center of Digital Television Co., Ltd.) (上海數字電視國家工程研究中心有限公司)	Chairman of the board of directors of STEROPE Investments B.V. Director of ORION PDP CO.,LTD.
Mr. Tan Mingxian (譚明獻)	Director of Changhong IT Director of Changhong IT Digital Director of Changhong IT Intelligence	Secretary and deputy general manager of Sichuan Changhong	Supervisor of Great Wall Securities Co., Ltd. (長城證券有限責任公司) (a company in which Sichuan Changhong Electric has an approximate 2% interest)

Name	Position with the Company or Target Group as at the Latest Practicable Date	Position(s) with Sichuan Changhong Group as at the Latest Practicable Date	Position(s) with Sichuan Changhong Electric Group as at the Latest Practicable Date
Mr. Ye Honglin (葉洪林)	Director of Changhong IT Director of Changhong IT Digital Director of Changhong IT Intelligence	Chief Financial Officer of Sichuan Changhong Supervisor of Hefei Meiling Co., Ltd. (合肥美菱股份有限公司) (a company listed on the Shenzhen Stock Exchange and in which Sichuan Changhong has an approximate 24% interest) Director of Sichuan COC Display Devices Company Limited (四川虹歐顯示器件有限公司) Director of A'HONG Guohong Communications and Digital Information Group Co., Ltd. (綿陽國虹通訊數碼集團有限責任公司) Chairman of the board of directors of Sichuan Changhong Real Estate Co., Ltd (四川長虹置業有限公司) Director of Sichuan Changhong Venture Capital Co., Ltd. (四川長虹創新投資有限公司) Chairman of the board of directors of Chengdu Changhong Electronic Science and Technology Co., Ltd. (成都長虹電子科技有限責任公司) Director of Guangdong Changhong Electronics Co., Ltd. (廣東長虹電子有限公司) Director of Changhong (Hong Kong) Trading	
Mr. Zhu Jianqiu (祝劍秋)	Director and general manager of Changhong IT Director and general manager of Changhong IT Digital Director and general manager of Changhong IT Intelligence		Director of Sichuan Changhong Electric

The Board believes that the Enlarged Group would benefit from the above individuals' experience and expertise in the consumer electronics and IT industry, in particular in formulating strategic development and planning for the ongoing business development of the Enlarged Group.

Notwithstanding the concurrent positions held by certain Directors and directors of the Target Group, the Directors believe that these individuals are able to perform their respective roles in the Enlarged Group independently and the Enlarged Group will be capable of managing its business independently of the Sichuan Changhong Group and the Sichuan Changhong Electric Group after completion of the Acquisition for the following reasons:

(1) the independence of the two Directors who also hold concurrent directorships and/or senior management positions in the Sichuan Changhong Group and the Sichuan Changhong Electric Group will not be affected by their concurrent positions since the business of the Company has been and will continue to be managed by the Board as a whole. Mr. Yu Xiao currently allocates approximately 40% of his working time to manage the business of the Company whereas Mr. Tang Yun allocates approximately 80% of his working time to manage the business of the Company. Mr. Yu Xiao is not involved the day-to-day operations of the Company. His main roles are to lead the Board, to ensure good corporate governance practices and procedures, to formulate the overall strategic directions and plans of the Company, to formulate polices relating to the key business and financial objectives and budgets of the Company, to ensure the systems of financial controls, compliance and risk management in place, and to develop the corporate structure.

    The day to day operations of the Company are delegated to be managed by Mr. Tang Yun, Mr. Wu Xiangtao and Mr. Rong Dong, who are the Directors and the full-time employees of the Company.

    The Board is of the view that as the Company is managed by the Board as a whole, the fact that these two Directors allocate resources between their directorships and their concurrent directorships and senior management position in the Sichuan Changhong Group and the Sichuan Changhong Electric Group would not affect the discharge of their duties as Directors.

(2) Other than Mr. Zhu Jianqiu, the other executive directors of Changhong IT and its subsidiaries who hold concurrent directorships and/or senior management position(s) in the Sichuan Changhong Group and Sichuan Changhong Electric Group are not involved in the day-to-day business operations of Changhong IT and its subsidiaries but instead are primarily responsible for the formulation of development strategies and overall project and investment plans of Changhong IT and its subsidiaries. The day-to-day operations of Changhong IT and its subsidiaries have been and will continue to be managed by Mr. Zhu Jianqiu, Mrs. Su Huiqing, Mr. Dong Qiang and Mrs. Zhanghong, who are vice general managers and all full-time employees of Changhong IT. Most members of the senior management of Changhong IT and its subsidiaries have, for all or substantially all of the three years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012, undertaken senior management supervisory responsibilities in its business. The responsibilities of the senior management team of Changhong IT and its subsidiaries

include dealing with operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategy of Changhong IT and its subsidiaries. This ensures the independence of the daily management and operations of Changhong IT and its subsidiaries from those of the Sichuan Changhong Group.

(3) The independent non-executive Directors will be responsible for deciding whether or not to take up a business opportunity referred to the Company under the Deed of Non-competition, and the independent non-executive Directors may, at the cost of the Company, appoint an independent financial adviser as they consider necessary to advise them on the terms of taking such business opportunity.

(4) The Board has established corporate governance procedures of the decision-making mechanism of the Board to avoid conflicts of interest of the Directors by providing, among other things, that (i) each Director is entitled to one vote at board meetings and decisions of the Board are passed by a majority of votes; and (ii) in the event of any conflict of interests, such as where it involves the passing of resolutions in relation to transactions where any Director is materially interested, the relevant Director will abstain from voting and will not be counted in the quorum.

(5) None of the Directors has any equity interest in the Sichuan Changhong Group and the Sichuan Changhong Electric Group.

On the basis of the foregoing, the Directors believe that the Board as a whole, together with the directors and senior management of the Enlarged Group, are able to manage the Enlarged Group independently.

During the three years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012, other than Mr. Zhu Jianqiu, all the other executive directors in Changhong IT have received remuneration from the Sichuan Changhong Group or the Sichuan Changhong Electric Group.

No changes to the composition of the Board will be proposed prior to completion of the Acquisition for the following reasons:

(1) It is a requirement under Rule 7 of the Takeovers Code that except with the consent of the Executive, none of the Directors may resign until the Independent Shareholders have voted on the Whitewash Waiver. Even after the Independent Shareholders have approved the Whitewash Waiver, there remain other conditions precedent to fulfill. The Acquisition may or may not proceed to completion, but the normal business operation of the Company will go on as usual regardless of such completion. As at the Latest Practicable Date, none of the Directors have any intention to resign after the Completion.

(2) As the Acquisition may or may not proceed to Completion, it may not be in the interests of the Company to consider the appointment of any additional Director prior to Completion. The abilities, skills and knowledge required of any additional Director may vary significantly, depending on whether the Acquisition will proceed to Completion. Accordingly, the Company will only consider whether to appoint any additional Director after Completion.

Independence of Business Operations

Operational Independence

The operations of the Enlarged Group carried out are separate and distinct from that of the businesses of the Sichuan Changhong Group and the Sichuan Changhong Electric Group.

The Enlarged Group holds all relevant licences and assets necessary to operate its businesses, and has its own organizational structure comprising of independent departments as well as business and administrative units, each with specific areas of responsibility.

The Group does not share any resources with the Sichuan Changhong Group in procuring its supplies and services.

Although the Enlarged Group leases the Mianyang Property, the Shenzhen Property and the Beijing Property from members of the Sichuan Changhong Group or the Sichuan Changhong Electric Group as at the Latest Practicable Date, such arrangement does not affect the ability of Changhong IT to operate independently as Changhong IT has not shared its operational resources, such as, customers, marketing, sales and general administration with the Sichuan Changhong Group and the Sichuan Changhong Electric Group and its associates during the Track Record Period. Apart from the provision of research and development services and settlement services by the Sichuan Changhong Group, further details of which are set out in the section headed "Connected Transactions" of this circular, no other services are intended to be provided by Sichuan Changhong and its associates to the Enlarged Group upon completion of the Acquisition.

Save as disclosed above, the Enlarged Group has not and will not in any way be dependent on the Sichuan Changhong Group or the Sichuan Changhong Electric Group in its business operations upon completion of the Acquisition.

Customer and Supplier Independence

During the Track Record Period, the Enlarged Group purchased certain consumer electronic from the Sichuan Changhong Group and also supplied certain consumer electronic products, IT products, and electronic parts and components to the Sichuan Changhong Group. The Enlarged Group purchased products from and supplied products to the Sichuan Changhong Group as the Sichuan Changhong Group is an established manufacturer of such products and is able to supply the products at competitive prices.

For the three years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012, the Enlarged Group's total purchases from the Sichuan Changhong Group amounted to approximately HK$1,164,620,000, HK$1,327,183,000, HK$924,757,000 and HK$492,406,000 respectively, and accounted for approximately 15.56%, 12.66%, 5.73%. and 5.19% of the Enlarged Group's total purchases for the same periods.

For the three years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012, the Enlarged Group's total sales to the Sichuan Changhong Group amounted to approximately HK$1,789,638,000, HK$1,576,893,000, HK$2,009,860,000 and HK$1,014,022,000 respectively, and accounted for approximately 23.00%, 14.70%, 12.50% and 10.20% of the Enlarged Group's total sales for the same periods.

Save as disclosed above, during the Track Record Period, the Enlarged Group had established its own client bases and negotiated and concluded agreements with their clients independently (other than the Sichuan Changhong Group), and did not rely on Sichuan Changhong and its associates for access to customers. In addition, the Enlarged Group also has an extensive network of suppliers who are independent from the Sichuan Changhong Group and is thus not dependent on the Sichuan Changhong Group for its suppliers, or for sourcing suppliers.

Financial Independence

The Group and the Target Group have historically had, and the Enlarged Group will, following completion of the Acquisition, continue to have their own respective internal control and accounting systems, its own finance departments responsible for discharging the treasury function for cash, receipts and payments, accounting, reporting and internal control functions independent from the Sichuan Changhong Group.

Prior to the Completion, the Target Group had received financial assistance in the form of entrustment loans, direct loans from Sichuan Changhong, guarantees provided to suppliers by Sichuan Changhong and Sichuan Changhong Electric and guarantees provided to third party banks and financial institutions from Sichuan Changhong. For further details, please refer to the section headed "Connected Transactions" for this circular.

It is expected that the Target Group will, procure all guarantees given by Sichuan Changhong and Sichuan Changhong Electric to its suppliers to be replaced by bank guarantees or commercial acceptance pledges prior to Completion. Guarantees given by Sichuan Changhong to banks and financial institutions have been released. Outstanding entrustment loans and direct loans taken by the Target Group from Sichuan Changhong had been fully settled as at 31 July 2012.

Undertakings by Sichuan Changhong Electric, Sichuan Changhong and Fit Generation

Sichuan Changhong Electric, Sichuan Changhong and Fit Generation, will remain the controlling shareholders of the Company upon completion of the Acquisition under the GEM Listing Rules, and have each undertaken to the Stock Exchange that, save as provided under Rule 13.18 of the GEM Listing Rules:

(1) during the period commencing from the date of completion of the Acquisition up to the expiration of the first six-month period (the "**First Six-month Period**"), will not and not to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Ordinary Shares held by it (including but not limited to the New Ordinary Shares and the Conversion Shares) or any of the New Convertible Preference Shares or any beneficial or other interests therein;

(2) during the period of six months immediately following the expiration of the First Six-month Period, will not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Ordinary Shares held by it (including but not limited to the New Ordinary Shares and the Conversion Shares) or any of the New Convertible Preference Shares or any beneficial or other interests therein if, immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company under the GEM Listing Rules;

(3) when it pledges or charges any of their respective direct or indirect interest in the relevant securities of the Company under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in sub-paragraphs (1) and (2) above, it must pursuant to Rule 13.19 of the GEM Listing Rules inform the Company in writing immediately thereafter, disclosing the details as specified in the GEM Listing Rules; and

(4) in the event of it having pledged or charged any of its respective interests in the relevant securities of the Company under sub-paragraph (3) above then when it becomes aware that the pledgee or charge has disposed of or intends to dispose of such interest, it will pursuant to Rule 13.19 of the GEM Listing Rules immediately inform the Company of such indications and the number of Ordinary Shares affected.

The Company undertakes that it will publish an announcement upon receipt of such notification(s).

The Company also undertakes that it will not, within the First Six-month Period, save for the issue of the Conversion Shares, and as provided under the exceptions to Rule 17.29 and Rule 13.16A of the GEM Listing Rules or permitted under the terms of the grant of waiver from the Stock Exchange dated 7 December 2012 for strict compliance with Rule 17.29 of the GEM Listing Rules and a consequential waiver from strict compliance of Rule 13.16A of the GEM Listing Rules, issue or agree to issue any shares or any other security in the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, Ordinary Shares or any other securities of the Company.

CONNECTED PERSONS

The Sichuan Changhong Group and its associates

As at the Latest Practicable Date, Sichuan Changhong had an interest in an aggregate of 111,368,000 Ordinary Shares, of which it directly owns 95,368,000 Ordinary Shares and its wholly-owned subsidiary, Changhong (Hong Kong) Trading owns 16,000,000 Ordinary Shares representing 28.55% and 4.79%, respectively of the voting rights of the Company.

Immediately following completion of the Acquisition, Sichuan Changhong will, through Changhong (Hong Kong) Trading and Fit Generation be beneficially interested in approximately 52.53% of the issued share capital of the Company as enlarged by the allotment and issue of the New Ordinary Shares (assuming none of the New Convertible Preference Shares are converted) and hence, will remain as a connected person of the Company under the GEM Listing Rules.

Sichuan Changhong Electric is an associate of Sichuan Changhong and hence a connected person of the Company.

DETAILS OF CONNECTED TRANSACTIONS TO BE DISCONTINUED UPON COMPLETION

Financial Assistance provided by the Sichuan Changhong Group and Sichuan Changhong Electric to Target Group

Prior to the Completion, the Target Group had received financial assistance in the form of entrustment loans and direct loans from Sichuan Changhong, guarantees provided to suppliers from Sichuan Changhong and Sichuan Changhong Electric and guarantees provided to third party banks and financial institutions from Sichuan Changhong (collectively, the "**Financial Assistance**"). As at 31 July 2012, all outstanding entrustment loans and direct loans taken by the Target Group from Sichuan Changhong had been fully settled. Prior to Completion, the Target Group will procure all guarantees given by Sichuan Changhong and Sichuan Changhong Electric to suppliers to be replaced by bank guarantees or commercial acceptance pledges. Guarantees given by Sichuan Changhong to banks and financial institutions in respect to Changhong IT's obligation had been released. Further details of the Financial Assistance transactions are set out below.

(i) Entrustment Loans

During the Track Record Period, Sichuan Changhong had provided credit support to Changhong IT by way of acting as the trustee under certain agreements entered into between itself, Changhong IT and the relevant banks and financial institutions to obtain entrustment loan(s) from these banks and financial institutions designated by Changhong IT (the "**Entrustment Loans**") due to restrictions under PRC laws on inter-enterprise loans.

As at 31 December 2009, 31 December 2010, 31 December 2011 and 31 July 2012, the aggregate amount of Entrustment Loans provided by banks and financial institutions to Changhong IT amounted to approximately HK$341,550,000, HK$277,676,000, HK$665,550,000 and nil, respectively.

The Directors have confirmed that the financial assistance provided by Sichuan Changhong in the form of the Entrustment Loans have been carried out in the ordinary course of business of Changhong IT and on normal commercial terms.

As at 31 July 2012, the Entrustment Loans had been fully settled.

(ii) Direct Loans

During the Track Record Period, Sichuan Changhong had also extended loans (the "**Direct Loans**") to Changhong IT directly for Changhong IT's operational requirements. Each of the Direct Loans was unsecured, carried interest from 5.10% to 6.89% over the duration of each loan and were repayable within 6 or 12 months from date of drawdown.

As at 31 December 2009, 31 December 2010, 31 December 2011 and 31 July 2012, the aggregate amount of Direct Loans which Sichuan Changhong extended to Changhong IT amounted to nil, HK$236,320,000, nil and nil respectively. As at 31 July 2012, the Direct Loans had been fully settled.

The Directors have confirmed that the financial assistance provided by Sichuan Changhong under the Direct Loans have been carried out in the ordinary course of business of Changhong IT and on normal commercial terms.

As advised by the PRC legal advisers to the Company, enterprises without requisite licenses shall not provide financing or deposit business in the PRC. Enterprises may not carry out direct or disguised borrowing and lending services in violation of the relevant PRC regulations. The direct loan arrangement between Sichuan Changhong and the Target Group may be regarded as a violation of the restriction on the inter-enterprise loans set forth in the Lending Provisions.

According to the Lending Provisions, as a borrower, the Target Group is not liable for any penalties imposed by relevant government authorities.

The Target Group will obtain financial assistance in the form of bank loans or other facilities as permitted by the PRC laws and regulations.

(iii) Guarantees to suppliers and banks and financial institutions

Guarantees to suppliers

During the Track Record Period, Sichuan Changhong and Sichuan Changhong Electric had given guarantees to the suppliers (the "**Suppliers' Guarantees**") from whom Changhong IT purchases IT products and other products. The Suppliers' Guarantees were used to secure Changhong IT's payment obligations under the various supply agreements with the suppliers.

As at 31 December 2009, 31 December 2010, 31 December 2011 and 31 July 2012, the aggregate amount secured under the Suppliers' Guarantee given by Sichuan Changhong and Sichuan Changhong Electric in favour of suppliers amounted to approximately HK$699,223,000, HK$1,234,084,000, HK$1,890,007,000 and HK$1,579,370,000 respectively.

Based on information available to the Directors, the financial assistance provided by Sichuan Changhong and Sichuan Changhong Electric in the form of providing the Suppliers' Guarantees have been carried out in the ordinary course of business of Changhong IT and on normal commercial terms.

Guarantees to banks and financial institutions

During the Track Record Period, Changhong IT had from time to time, obtained letters of credit from banks and financial institutions whereby Sichuan Changhong acted as the guarantor to these banks and financial institutions ("**Bank Guarantees**") with respect to Changhong IT's obligations under the various financial arrangements.

As at 31 December 2009, 31 December 2010, 31 December 2011 and 31 July 2012, the aggregate amount under the Bank Guarantees assumed by Sichuan Changhong to banks and financial institutions amounted to approximately HK$135,026,000, HK$177,240,000, HK$184,875,000 and HK$121,490,000 respectively. As of the Latest Practicable Date, there is no outstanding Bank Guarantees.

Based on information available to the Directors, the financial assistance provided by Sichuan Changhong in the form of providing the Bank Guarantees have been carried out in the ordinary course of business of Changhong IT and on normal commercial terms.

CONNECTED TRANSACTION EXEMPT FROM THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Financial Assistance provided by the Sichuan Changhong Group to the Group

During the Track Record Period, COD (a subsidiary of the Company) had also entered into loan agreements with Changhong (Hong Kong) Trading (a subsidiary of Sichuan Changhong) for general corporate purposes. The facility was unsecured, carried interest of between 2.5% to 3.5% on the outstanding sum and was repayable upon the expiration and could be extended to another term upon mutual agreement. The said facility constitutes financial assistance provided by Changhong (Hong Kong) Trading for the Group's benefit, and is on normal commercial terms and does not involve the granting of any security over the Company's asset.

As at each of the three years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012, the aggregate balance of the loan amounted US$8,000,000, US$20,000,000, US$5,000,000 and US$5,000,000 respectively. The outstanding balance due under the loan from the Company to Changhong (Hong Kong) Trading as of the Latest Practicable Date was approximately US$5,000,000.

Accordingly, the US$5,000,000 facility constitutes a continuing connected transaction exempt from the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 20.65 of the GEM Listing Rules.

DETAILS OF THE CONTINUING CONNECTED TRANSACTIONS

Following completion of the Acquisition, the Enlarged Group will continue to have certain transactions that constitute connected transactions within the meaning of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

Provision of research and development services by Sichuan Changhong to Changhong IT

Sichuan Changhong has since 2008 been providing, and will continue to provide from time to time, research and development services such as hardware and software design and planning, product performance and reliability testing, technical support, assembly processing and overall application software development, etc to develop certain IT products which Changhong IT has identified either through its own observations of market trends or demands or through discussions with customers that have market potential. The provision of such research and development services are carried out by Sichuan Changhong at the research and development centre operated by it and located at Chengdu Technology Centre at Suite 215-216, 5th Floor, No. 1480 Tian Fu Avenue North, Chengdu High Technology Zone, Chengdu, Sichuan, PRC.

Pursuant to an agreement dated 18 February 2011 and another agreement dated 18 February 2011 (as supplemented by a supplemental agreement dated 11 April 2012) entered into by Changhong IT and Sichuan Changhong, it was agreed that Changhong IT will carry out the overall planning and structural development of the design of location-based services navigation products for the use by cars, elderlies and children ("**LBS Products**") as well as the marketing of LBS Products. Sichuan Changhong will carry out the planning and development of hardwares and softwares, testing, production and technical support of the LBS Products according to specifications provided by Changhong IT and to provide continual technical support and advice to Changhong IT where required after the LBS navigation product prototypes have been approved for bulk-manufacturing (collectively, the agreements referred to as "**R&D Agreements**"). All intellectual property rights subsisting in the LBS Products belong to Sichuan Changhong and Changhong IT jointly. The R&D Agreements are valid for a period of two years.

For each of the years ended 31 December 2009, 31 December 2010 and 31 December 2011 and seven months ended 31 July 2012, the amounts paid by the Target Group for the provision of such research and development services by Sichuan Changhong amounted to approximately HK$146,000, HK$45,000, HK$310,000 and HK$156,000 respectively.

The amount of fees which Changhong IT expects to pay for research and development services for the financial years ending 31 December 2013, 31 December 2014 and 31 December 2015 will not exceed HK$365,000, HK$438,000 and HK$525,000 respectively (the "**R&D Caps**"). The R&D Caps have been determined by reference to actual plan for the LBS Products development, the market rate

of the provision of similar services, the estimated volume of the relevant business and the expected increase of demand in the research and development services by our target customers. As each of the applicable percentage ratios of the continuing connected transaction under the GEM Listing Rules on an annual basis for the respective annual caps are less than 5% and the annual consideration for each of the three years ending 31 December 2015 is less than HK$1,000,000, the provision of research and development services by Sichuan Changhong to Changhong IT fall within the de minimis threshold under Rule 20.33(3) of the GEM Listing Rules and will be exempt from all the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

The Directors, including the independent non-executive Directors, consider that the provision of research and development services by Sichuan Changhong will help the Enlarged Group utilize the technological expertise of Sichuan Changhong in developing new products according to its customers' requirements and enhance the Enlarged Group's competitive edge by identifying products which have market potential and which can complement its current IT product portfolio as well as enriching its product offerings to meet the various IT requirements of its customers.

Provision of settlement services by Sichuan Changhong to Changhong IT

As Changhong IT had to settle its overseas accounts payable through an entity which has the import and export status, such as Sichuan Changhong, Changhong IT has utilised since 2011, and will continue to utilise from time to time settlement services provided by Sichuan Changhong in respect of their overseas payment. Sichuan Changhong will settle the accounts payable of Changhong IT to its overseas customers in foreign currencies which is repayable by Changhong IT in RMB or issue letters of credit for Changhong IT. Pursuant to the settlement services agreement dated 1 December 2010 (as supplemented by a supplemental agreement dated 8 May 2012) (the "**Settlement Services Agreement**"), it was agreed that Sichuan Changhong shall provide certain settlement services to Changhong IT, such as foreign exchange bank settlement and the issue of letters of credit at a monthly fee of RMB$4,500 in addition to the services fees being charged for services provided. The Settlement Services Agreement is valid from 1 January 2012 to 31 December 2012.

For the year ended 31 December 2011 and seven months ended 31 July 2012, the amounts paid by Changhong IT to Sichuan Changhong for the provision of such settlement and letter of credit services, including the monthly fees, amounted to approximately HK$81,000 and HK$180,000 respectively.

The fees which Changhong IT expects to pay Sichuan Changhong for such settlement services for the financial years ending 31 December 2013, 31 December 2014 and 31 December 2015 will not exceed HK$716,000, HK$781,000 and HK$852,000 respectively (the "**Settlement Services Caps**"). The Settlement Services Caps have been determined by reference to the historical transaction volume of the settlement services, the expected increase in the demand of settlement services, the estimated volume of the import business of Changhong IT and the fixed monthly fee of RMB4,500. As each of the applicable percentage ratios of the continuing connected transaction under the GEM Listing Rules on an annual basis for the respective annual caps are less than 5% and the annual consideration for each of the three years ending 31 December 2015 is less than HK$1,000,000, the provision of cash settlement services by Sichuan Changhong to Changhong IT fall within the de minimis threshold under Rule 20.33(3) of the GEM Listing Rules and will be exempt from all the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

The Directors, including the independent non-executive Directors, are of the view that the provision of such settlement services is for commercial convenience and the foregoing agreement is on normal commercial terms and in the ordinary and usual course of business of the Enlarged Group.

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT BUT SUBJECT TO REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS

Description of transactions and background

(1) Mianyang Lease

Changhong IT had entered into a lease agreement with Sichuan Changhong on 28 December 2011 pursuant to which Changhong IT agreed to renew its lease of the premises located at Room 501, 35 East Mianxing Road, High-Tech Park, Mianyang, Sichuan, PRC (the "**Mianyang Property**") commencing from 1 January 2012 to 31 December 2014, with a total area of approximately 72 square metres from Sichuan Changhong (the "**Mianyang Lease**"). The Mianyang Property is used as Changhong IT's office premises. A monthly rental of RMB1,142 (approximately HK$1,406), equivalent to annual rental of RMB13,704 (approximately HK$16,878) is payable by Changhong IT to Sichuan Changhong under the Mianyang Lease.

(2) Shenzhen Lease

COD had also entered into a lease agreement with Shenzhen Changhong, a subsidiary of Sichuan Changhong Electric on 1 July 2011 pursuant to which COD agreed to lease the premises located at Room 2507, Level 25, Changhong Technology Centre No. 12, Technology Road South, Nanshan District, Shenzhen PRC (the "**Shenzhen Property**") commencing from 1 July 2011 to 30 June 2014, with a total area of approximately 134 square metres (the "**Shenzhen Lease**"). The Shenzhen Property is used as the Group's representative office in Shenzhen, PRC. A monthly rental of RMB8,375 (approximately) HK$10,315), equivalent to annual rental of RMB100,500 (approximately) HK$123,776) payable by COD to Shenzhen Chonghong under the Shenzhen Lease.

(3) Beijing Lease

Changhong IT also entered into a lease agreement with Beijing Changhong Electronic Science and Technology Co., Ltd. (北京長虹科技有限責任公司) ("**Beijing Changhong**"), a subsidiary of Sichuan Changhong dated 16 May 2012 as supplemented by a supplement agreement dated 6 July 2012, pursuant to which Changhong IT agreed to lease the premises located at 7th-12th floor, Beijing Changhong Technology Building, Block 26, District 18, No. 188 South 4th Ring West Road, Fengtai Beijing (the "**Beijing Property**") for a term of five years, with an option to terminate by Changhong IT upon three years after its commencement on 1 June 2012, with a total area of approximately 6,348 square metres from Beijing Changhong (the "**Beijing Lease**"). The Beijing Property is used as Changhong IT's headquarters office in Beijing. The annual rent to be paid by Changhong IT to Beijing Changhong under the Beijing Lease is RMB5,256,000 (approximately HK$6,473,290). Pursuant to Rule 20.35 of the GEM Listing Rules, the duration of the Beijing lease must not exceed three years, except in special circumstances which are limited to cases where the nature of the transactions

requires the agreement to be of duration longer than three years, in which case the Independent Financial Adviser is required to explain why the leasing period for the Beijing Lease is required to be more than three years, and to confirm that it is normal business practice for these types of leasing contracts to be of such duration. The Independent Financial Adviser is of the view that the Beijing Lease with duration of more than three years is required, and is normal business practice for these types of leasing contracts to be of such duration, and the entering into of the Beijing Lease is fair and reasonable so far as the Independent Shareholders are concerned, and are in the interest of the Company and Shareholders as a whole.

The respective rental under the Existing Lease Agreements were determined with reference to the then prevailing market rental, negotiated on an arm's length basis. Based on the aggregate monthly rental under the Existing Tenancies, it is expected that the aggregate amount payable under the Existing Lease Agreements for the year ending 31 December 2013 will be RMB5,370,205 (approximately HK$6,675,165).

Historical Transaction Figures

The following table sets out the approximate historical annual rental paid by Changhong IT and COD to the Sichuan Chonghong Group respectively for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 and seven months ended 31 July 2012.

	Historical transaction figures			
Transaction	**For the year ended 31 December 2009**	**For the year ended 31 December 2010**	**For the year ended 31 December 2011**	**For seven months ended 31 July 2012**
Rental of Mianyang Property	HK$30,000	HK$16,000	HK$17,000	HK$8,000
Rental of Shenzhen Property	Not applicable	Not applicable	HK$159,000	HK$72,000
Rental of Beijing Property	Not applicable	Not applicable	Not applicable	HK$1,080,000

Any continuing property leases entered into between members of the Enlarged Group and the Sichuan Changhong Group upon completion of the Acquisition will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules.

Reasons for such transactions

Changhong IT and COD started leasing the Mianyang Property and the Shenzhen Property from the relevant members of the Sichuan Changhong Group since 2008 and 2011 respectively and have decided to continue to lease their respective premises as relocation will cause unnecessary disruptions to its operations and incur unnecessary costs.

Changhong IT decided to enter into the Beijing Lease as the Enlarged Group can continue to expand in the spacious office of the Beijing Property and the effect of any significant fluctuations in rental rates in the PRC can be minimized with a stable term of five years. In addition, the rental payable by Sichuan Changhong for the Beijing Property is also on competitive market terms.

Proposed annual caps

Pursuant to Rule 20.25 of the GEM Listing Rules, the continuing connected transactions contemplated under the Existing Tenancies will be aggregated, as they were entered into by the Enlarged Group with the same group of connected persons who are parties connected or otherwise associated with one another. Accordingly, the maximum consideration payable by the Enlarged Group to the Sichuan Changhong Group and Sichuan Changhong Electric under the Existing Tenancies per annum for the financial years ending 31 December 2013, 31 December 2014 and 31 December 2015 will not exceed RMB5,370,205, RMB5,319,955 and RMB5,256,000 respectively (the "**Lease Annual Caps**"). The Lease Annual Caps have been determined by reference to the current market rental of other similar properties in the respective neigbouring areas under the Existing Tenancies and the upward trend of the general PRC property market.

The Directors (including the independent non-executive Directors) are of the view that the Existing Tenancies (together with the Lease Annual Caps for 2013, 2014 and 2015) were entered into in the ordinary and usual course of business of the Enlarged Group, and the Existing Tenancies have been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of these agreements are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the independent property valuer, has confirmed that the Lease Annual Caps for the rental payable under the Existing Tenancies respectively are comparable to the prevailing market rate for similar premises in the vicinity of the Mianyang Property, the Beijing Property and Shenzhen Property respectively and are fair and reasonable.

As the applicable percentage ratios on an annual basis calculated with reference to the Lease Annual Caps are more than 0.1% but less than 5%, the Existing Tenancies and the Lease Annual Caps are subject to reporting and announcement requirements set out in Rules 20.45 to 20.47 of the GEM Listing Rules but are exempted from the approval of Independent Shareholders under Chapter 20 of the GEM Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

(1) Supply of consumer electronic products, IT products and electronic parts and components by the Enlarged Group to the Sichuan Changhong Group

Description of transactions and background

The Target Group has, in the ordinary and usual course of its business, supplied various consumer electronic products and IT products such as servers, notebooks, storage devices and network equipment (the "**Target Group Supply Products**") to certain members of the Sichuan Changhong Group.

The Group has also, in the ordinary and usual course of its business, supplied electronic products and components such as LCD screens, PDP screens, integrated circuits, cathode ray tubes, voltage regulators, plugs and sockets etc. (the "**Group Supply Products**") to the Sichuan Changhong Group under the Existing Master Supply Agreement.

Historical transaction values

The following table sets out the respectively approximate historical aggregate value of the products supplied by the Target Group and the Group to the Sichuan Changhong Group for each of the three years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012.

	Historical transaction figures			
Transaction	**For the year ended 31 December 2009**	**For the year ended 31 December 2010**	**For the year ended 31 December 2011**	**For seven months ended 31 July 2012**
Supply of the Target Group Supply Products	HK$12,958,000	HK$23,305,000	HK$18,598,000	HK$26,946,000
Supply of the Group Supply Products	HK$1,776,680,000*	HK$1,553,588,000*	HK$1,991,262,000*	HK$987,076,000

Note:

* The historical transaction figures for the supply of the Group Supply Products are disclosed in accordance with the Company's published annual reports.

The supply of the Target Group Supply Products by the Target Group to the Sichuan Changhong Group after the Completion will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules as Sichuan Changhong is and will remain a connected person of the Company under Rule 20.11 of the GEM Listing Rules.

The Company had on 20 November 2009 entered into the Existing Master Supply Agreement in relation to the supply of the Group Supply Products to certain members of the Sichuan Changhong Group on an ongoing basis, which agreement will expire on 31 December 2012.

New Master Supply Agreement

In order to regulate the relationship between the Enlarged Group and the Sichuan Changhong Group with respect to the supply of products by the Enlarged Group to the Sichuan Changhong Group in the future after completion of the Acquisition, the Company and Sichuan Changhong have entered into the New Master Supply Agreement.

The New Master Supply Agreement shall replace the Existing Master Supply Agreement (with effect from the Completion Date) and prescribes the framework terms upon which the Company shall and shall procure the relevant members of the Enlarged Group to provide, and

Sichuan Changhong shall and shall procure the relevant members of the Sichuan Changhong Group to purchase the Target Group Supply Products and the Group Supply Products (collectively, referred to as the "**Enlarged Group Supply Products**") and such other products as the Company and Sichuan Changhong may agree from time to time commencing on Completion Date and ending on 31 December 2015.

Date:	7 December 2012
Parties:	(i) Sichuan Changhong as the purchaser (for itself and on behalf of certain subsidiaries) (ii) The Company as the supplier (for itself and on behalf of certain members of the Enlarged Group)
Subject:	The Enlarged Group Supply Products
Term:	With effect from Completion to 31 December 2015
Price:	Terms of supply of the Enlarged Group Supply Products shall be determined and negotiated based on normal commercial terms and with reference to the prevailing fair market prices of comparable products, and such prices shall be no less favourable to the Enlarged Group than that available from third parties.
Payment Terms	Depends on the products to be supplied and volume and time of delivery for each transaction, it is generally expected that payment shall be made by telegraphic transfer within 35 to 45 days from the date of delivery or irrevocable letter of credit.

There are no minimum orders and it is not necessary for the Enlarged Group to supply the Sichuan Changhong Group products unless order are made by members of the Sichuan Changhong Group.

Reasons for such transactions

The Sichuan Changhong Group is currently one of the largest PRC consumer electronics products providers specialising in research and development, manufacturing and marketing of consumer electronic products. As of 31 December 2011, the Sichuan Changhong Group imported more than US$1 billion worth of electronic parts and components from overseas via independent agents, and purchased more than HK$20 million worth of IT products from other independent suppliers (after deduction of such purchases made by the Target Group). The Enlarged Group has established long term and solid relationships with various suppliers of products that are required by the Sichuan Changhong Group.

The Directors believe that the Enlarged Group can capitalize on such relationships to procure the products required by the Sichuan Changhong Group and in turn increase the income of the Enlarged Group with a committed source of purchase orders from the Sichuan Changhong Group through the New Master Supply Agreement.

Proposed annual caps

In accordance with Rule 20.25 of the GEM Listing Rules, the proposed annual caps of the aggregated transactions contemplated under the New Master Supply Agreement for the three years ending 31 December 2013, 2014 and 2015 will not exceed HK$2,431,931,000, HK$2,675,124,000 and HK$2,942,637,000 respectively.

The proposed aggregate annual caps for 2013, 2014 and 2015 for the supply of the Enlarged Group Supply Products have been determined with reference to: (i) the total historical amount of HK$2,009,860,000 for the year ended 31 December 2011 in respect of the supply of Enlarged Group Supply Products from the Enlarged Group to the Sichuan Changhong Group; (ii) the historical transaction amounts in respect of the Enlarged Group's supply of products to the Sichuan Changhong Group; (iii) the decrease in the total supply of the Enlarged Group Supply Products from the Target Group and the Group to the Sichuan Changhong Group from 2009 to 2010 at approximately 11.9% and the increase in the total supply of the Enlarged Group Supply Products from the Target Group and the Group to the Sichuan Changhong Group from 2010 to 2011 at approximately 27.5%; (iv) the Target Group's estimated approximate 10% year-on-year increase in annual sales of IT products to the Sichuan Changhong Group based on the Sichuan Changhong Group's expected needs and projected increase in revenue and growth of its business in view of the increase in demand and the expansion of customer base in the consumer electronics and IT products markets in the PRC; (v) the value of the actual supply by the Group to the Sichuan Changhong Group in 2010 and 2011 under the Existing Master Supply Agreement in the amount of approximately HK$1,553,588,000 and HK$1,991,262,000 respectively; and (vi) the anticipated increase in demand by the Sichuan Changhong Group assuming that the supply of electronic components and products to the Sichuan Changhong Group by the Enlarged Group in the three years ending 31 December 2015 will have an increase of approximately 10% per year.

The annual caps for 2013, 2014 and 2015 under the New Master Supply Agreement represent a decrease of 3.83% and an increase of 5.78% and 16.36% respectively as compared with the annual cap for 2012 under the Existing Master Supply Agreement as it takes into account the actual supply to Sichuan Changhong Group by the Group in the year ended 31 December 2011 and the projected value of transactions of the Target Group with respect to the supply of the Target Group Supply Products to the Sichuan Changhong Group for the three years ending 31 December 2015 upon Completion.

As each of the applicable percentage ratios (under Rule 19.07 of the GEM Listing Rules) for the respective annual caps for 2013, 2014 and 2015 under the New Master Supply Agreement do not fall under the exemption in Rules 20.33 and 20.34 of the GEM Listing Rules, the transactions under New Master Supply Agreement constitute continuing connected transactions of the Company which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 20.45 to 20.54 of the GEM Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the New Master Supply Agreement has been entered into on normal commercial terms and in the ordinary course of business of the Enlarged Group, and that the terms of the New Master Supply Agreement (together with the aggregate annual caps for 2013, 2014 and 2015) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As Sichuan Changhong is a party to the New Master Supply Agreement, Sichuan Changhong and its associates are required under the GEM Listing Rules to abstain from voting on the resolutions to be proposed to approve the Non-exempt Continuing Connected Transactions at the SGM to be convened. The votes of the Independent Shareholders at the SGM will be taken by a poll.

The Directors (including the independent non-executive Directors whose opinion have been rendered taking into account the advice from the Independent Financial Adviser) are of the view that the New Master Supply Agreement has been entered into on normal commercial terms and in the ordinary course of business of the Enlarged Group, and that the terms of the New Master Supply Agreement (together with the annual caps for 2013, 2014 and 2015) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Save for Mr. Yu Xiao and Mr. Tang Yun who are required to abstain from voting, none of the Directors have any material interest in the Non-exempt Continuing Connected Transactions.

(2) Purchase of consumer electronic products by the Enlarged Group from the Sichuan Changhong Group

Description of transactions and background

The Target Group has in the ordinary and usual course of its business purchased from the Sichuan Changhong Group consumer electronic products and LBS Products manufactured at its specific request from time to time as part of its own-brand products division of its business (the "**Target Group Purchase Products**") for sales in the PRC.

The Group has also in the ordinary and usual course of its business purchased certain consumer electronic products such as televisions, air-conditioners and fridges (the "**Group Purchase Products**") from the Sichuan Changhong Group under the Existing Master Purchase Agreement.

The following table sets out the respective historical aggregate value of purchase of products by the Target Group and the Group from the Sichuan Changhong Group for each of the three years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012.

Transaction	Historical transaction figures			
	For the year ended 31 December 2009	For the year ended 31 December 2010	For the year ended 31 December 2011	For seven months ended 31 July 2012
Purchase of the Target Group Purchase Products	HK$4,570,000	HK$4,121,000	HK$495,000	HK$19,000
Purchase of the Group Purchase Products	HK$1,160,050,000*	HK$1,323,062,000*	HK$924,262,000*	HK$492,387,000

Note:

* The historical transaction figures for the purchase of the Group Purchase Products are disclosed in accordance with the Company's published annual reports.

The purchase of the Target Group Purchase Products by the Target Group from the Sichuan Changhong Group will constitute continuing connected transactions under Rule 20.14 of the GEM Listing Rules upon completion of the Acquisition as Sichuan Changhong is a connected person of the Company under Rule 20.11 of the GEM Listing Rules.

The Company had on 20 November 2009 entered into the Existing Master Purchase Agreement in relation to the purchase of the Group Purchase Products from certain members of the Sichuan Changhong Group on an ongoing basis, which agreement will expire on 31 December 2012.

In order to regulate the relationship between the Enlarged Group and the Sichuan Changhong Group with respect to the purchase of products by members of the Enlarged Group from members of the Sichuan Changhong Group in the future after completion of the Acquisition, the Company and Sichuan Changhong have entered into the New Master Purchase Agreement.

The New Master Purchase Agreement shall replace the Existing Master Purchase Agreement (with effect from the Completion Date) and prescribes the framework terms upon which Sichuan Changhong shall and shall procure the relevant members of the Sichuan Changhong Group to provide, and the Company shall and shall procure the relevant members of the Enlarged Group (which includes Changhong IT) to purchase the Target Group Purchase Products and the Group Purchase Products (collectively, referred to as the "**Enlarged Group Purchase Products**") and such other products as the Company and Sichuan Changhong may agree from time to time commencing on the Completion Date and ending on 31 December 2015.

Key terms of the New Master Purchase Agreement

Date:	7 December 2012
Parties:	(i) Sichuan Changhong as the supplier (for itself and on behalf of certain members of the Sichuan Changhong Group) (ii) The Company as the purchaser (for itself and on behalf of certain members of the Enlarged Group)
Subject:	The Enlarged Group Purchase Products
Term:	With effect from Completion to 31 December 2015
Price:	Terms of purchase of the Enlarged Group Purchase Products shall be determined and negotiated based on normal commercial terms and with reference to the prevailing fair market prices of comparable products, and such prices shall be no less favourable to the Enlarged Group than that available from third parties.
Payment Terms	Depends on the products to be purchased and volume and time of delivery for each transaction, it generally expected that payment shall be made by telegraphic transfer within 35 to 45 days from the date of delivery or by transferable letter of credit.

Reasons for such transactions

As one of the established manufacturers of consumer electronic products in the PRC, Sichuan Changhong and its subsidiaries can supply a range of consumer electronic products at a very competitive basis. Annually, Sichuan Changhong and its subsidiaries export more than US$250 million worth of consumer electronic products overseas and to the designated markets.

Based on previous experience, the Company believes that the Sichuan Changhong Group has been consistently able to meet the demands of the relevant members of the Enlarged Group for high product quality and timely delivery and is able to supply the Enlarged Group Purchase Products at competitive prices.

As the Company considers that having reliable and cooperative suppliers and competitively-priced source of supply of products is important and beneficial to the Enlarged Group, purchasing from the Sichuan Changhong Group allows the Enlarged Group to secure essential control over most of the key products in its business by being able to ensure timely delivery of such products while maintaining product quality and price-competitiveness.

Furthermore, the Company believes that with a committed source of supply of products through the New Master Purchase Agreement, the Enlarged Group would now be able to source for more customer orders and improve its sales orders and expand its business.

Proposed annual caps

Based on historical transaction values of the purchases of products by the Enlarged Group and the expected expansion of the business of the Enlarged Group, it is expected that the aggregate amount of purchase of the Enlarged Group Purchase Products to be made by the Enlarged Group under the New Master Purchase Agreement for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 will not exceed HK$1,118,956,000, HK$1,230,852,000 and HK$1,353,937,000 respectively.

The proposed aggregate annual caps for 2013, 2014 and 2015 for the purchase of the Enlarged Group Purchase Products have been determined with reference to: (i) the total historical amount of HK$924,757,000 for the year ended 31 December 2011 in respect of the purchase of the Enlarged Group Purchase Products by the Enlarged Group from the Sichuan Changhong Group; (ii) the historical transaction amounts in respect of the Enlarged Group's purchase of the Enlarged Group Purchase Products from the Sichuan Changhong Group; (iii) the increase in the total purchase of the Enlarged Group Purchase Products by the Enlarged Group from the Sichuan Changhong Group from 2009 to 2010 at approximately 14% and the decrease in the total purchase of the Enlarged Group Purchase Products by the Enlarged Group from the Sichuan Changhong Group from 2010 to 2011 at approximately 30%, which was mainly due to the European debts crisis which caused the Group's sales to European markets decrease significantly 2011; (iv) the Enlarged Group's overall projected demand for products from the Sichuan Changhong Group based on its business expansion plans; (v) the value of the actual purchase by the Group from the Sichuan Changhong Group in 2010 and 2011 under the Existing Master Purchase Agreement in the amount of approximately HK$1,323,062,000 and HK$924,262,000 respectively; and (vi) the anticipated increase in demand by the Group's customers assuming that the purchase of electronic products from the Sichuan Changhong Group by the Enlarged Group in the three years ending 31 December 2015 will have an increase of approximately 10% per year.

Each of the annual caps for 2013, 2014 and 2015 under the New Master Purchase Agreement represent an decrease of 32.75%, 26.02% and 18.62% respectively as compared with the annual cap for 2012 under the Existing Master Purchase Agreement as it takes into account the actual purchase from Sichuan Chonghong Group by the Group for the year ended 31 December 2011 and the projected value of transactions of the Target Group with respect to the purchase of the Target Group Purchase Products from the Sichuan Changhong Group upon completion of the Acquisition.

As each of the applicable percentage ratios (under Rule 19.07 of the GEM Listing Rules) for the respective annual caps for 2013, 2014 and 2015 under the New Master Purchase Agreement do not fall under the exemption in Rules 20.33 and 20.34 of the GEM Listing Rules, the transactions under the New Master Purchase Agreement constitute continuing connected transactions of the Company which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 20.45 to 20.54 of the GEM Listing Rules.

As Sichuan Changhong is a party to the New Master Purchase Agreement, Sichuan Changhong and its associates are required under the GEM Listing Rules to abstain from voting on the resolutions to be proposed to approve the Non-exempt Continuing Connected Transactions at the SGM to be convened. The votes of the Independent Shareholders at the SGM will be taken by a poll.

The Directors (including the independent non-executive Directors whose opinion have been rendered taking into account the advice from the Independent Financial Adviser) are of the view that the New Master Purchase Agreement has been entered into on normal commercial terms and in the ordinary course of business of the Enlarged Group, and that the terms of the New Master Purchase Agreement (together with the annual caps for 2013, 2014 and 2015) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Save for Mr. Yu Xiao and Mr. Tang Yun who are required to abstain from voting, none of the Directors have any material interest in the Non-exempt Continuing Connected Transactions.

DIRECTORS

The following sets out certain information of the Directors and senior management of the Company immediately following completion of the Acquisition.

List of Directors

Name	Age	Position	Appointment Date	Roles and Responsibilities
Mr. Yu Xiao (余曉)	44	executive Director and chairman	9 November 2006	Overseeing the strategies and directions of the Group
Mr. Tang Yun (唐雲)	47	executive Director and managing director	9 November 2006	Managing the overall operation and capital management of the Company
Mr. Wu Xiangtao (吳向濤)	38	executive Director and deputy managing director	21 May 2008	Managing the Group's trading business of consumer electronic products
Mr. Xiang Chaoyang (向朝陽)	55	executive Director	9 November 2006	Managing the PRC legal affairs of the Company
Mr. David Ji Long Fen (季龍粉)	60	executive Director	30 June 2003	Managing the Group's business operations in the United States of America
Ms. Shi Ping (石平)	50	executive Director	2 October 2007	Managing the investment and business merger of the Group
Mr. Rong Dong (容東)	35	executive Director and assistant to managing director	1 June 2011	Managing the Group's trading business of electronic parts and components
Mr. Jonathan Chan Ming Sun (陳銘燊)	40	independent non-executive Director	12 February 2007	As independent director
Mr. Robert Ip Chun Chung (葉振忠)	56	independent non-executive Director	12 February 2007	As independent director
Mr. Sun Dongfeng (孫東峰)	44	independent non-executive Director	12 February 2007	As independent director
Mr. Cheng Yuk Kin (鄭煜健)	37	independent non-executive Director	27 November 2012	As independent director

Executive Directors

Mr. YU Xiao (余曉) ("Mr. Yu"), aged 44, was appointed as executive Director and chairman in 9 November 2006. Mr. Yu is a senior accountant according to the certificate of accounting professional issued by Ministry of Finance of the PRC. Mr. Yu is responsible for overseeing the strategies and directions of the Group. He graduated from Sichuan University in the PRC in July 1990 and holds a Bachelor Degree in Economics with major in National Economic Management and has more than

21 years of experience in financial and economic management. He has been responsible for the financial and economic management since he has joined Sichuan Changhong Electric in 1990. Mr. Yu is currently the financial controller of Sichuan Changhong Electric and is responsible for financial control and management.

Mr. TANG Yun (唐雲) ("Mr. Tang"), aged 47, was appointed as executive Director and managing Director on 9 November 2006. Mr. Tang is in charge of the overall operation and capital management of the Company. He obtained a Master Degree in Applied Physics from University of Electronic Science and Technology of China in the PRC in February 1989 and has more than 22 years of experience in research and development and marketing in consumer electronic industry. Mr. Tang has joined Sichuan Changhong since 1989 and has been responsible for the products development and the marketing and management of consumer electronic products in both PRC and overseas. He was also appointed as the general managing and director of Changhong (Hong Kong) Trading which is a trading company in 2008 and was responsible for its operation and management.

Mr. WU Xiangtao (吳向濤) ("Mr. Wu"), aged 38, was appointed as executive Director and deputy managing director on 21 May 2008. Mr. Wu is responsible for the Group's trading business of consumer electronic products. He obtained a Master Degree in Business Administration from Southwestern University of Finance and Economics in June 2004 and a Bachelor Degree in International Economics from Shandong University in the PRC in July 1996 and obtained a Master Degree in Business Administration from University of Glasgow, United Kingdom in December 2011. He has more than 15 years of experience in consumer electronic industry. He has obtained the International Business Qualified Certificate approved by the Ministry of Personnel of the PRC in November 2001. Prior to joining the Company as Vice President in March 2008, Mr. Wu joined Sichuan Changhong in 1996 and held various positions including sourcing of imported materials, overseas purchasing, components material-outsourcing and marketing. During the period from March 2001 to April 2002, he was the project manager of Components Materials Outsourcing Sector of Sichuan Changhong. From April 2002 to January 2003, Mr. Wu was Export Project Manager in American Market Sector in Overseas Sales Division of Sichuan Changhong. From January 2003 to September 2006, he was Chief Representative of U.S. branch of Sichuan Changhong. From September 2006 to March 2008, he was the director of Integrated Product Development Promotion Office in the Technology and Quality Control Sector of Sichuan Changhong.

Mr. XIANG Chaoyang (向朝陽) ("Mr. Xiang"), aged 55, was appointed as executive Director on 9 November 2006. Mr. Xiang is responsible for the PRC legal affairs of the Company. He obtained a Master Degree in Criminal Law of China from Sichuan University in the PRC in July 1988 and a Bachelor Degree of Law from Southwest University of Political Science and Law in the PRC in July 1985. Mr. Xiang is a practising lawyer in the PRC and has passed the Legal Qualifications Examination in November 1988. He has been practising as a lawyer since 1989 in Sichuan, PRC and has found Sichuan Chuanda Law Firm with other partners in 1998. In 2008, he became the Chief Cooperation Lawyer and was promoted as the director of the Management Committee. He has more than 23 years of experience in law.

Mr. David JI Long Fen (季龍粉) ("Mr. Ji"), aged 60, was appointed as executive Director on 30 June 2003. Mr. Ji is principally responsible for the Group's business operations in the United States of American ("USA"). He graduated from the Department of Foreign Languages of Fudan University in Shanghai, the PRC in July 1975 and obtained a Master Degree in Business Administration in International Business from Pacific States University in USA in September 1991. He has more than 20 years of experience in the consumer electronics industry in USA, including sourcing and wholesale operations. Prior to joining the Group, Mr. Ji has been director and secretary of United Delta Inc. (a former beneficial shareholder of the Company) and the chief executive officer, chief financial officer and secretary of Apex Digital Inc. US since 1992 and 1997, respectively. Mr. Ji is also a shareholder of Apex Digital, Inc. US. Apex Digital, Inc. US was incorporated in the State of California in the United States on 27 August 1997 and was engaged in the wholesale business of distributing consumer home electronics items in the United States. Apex Digital Inc. US filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code on August 17, 2010 (the "Chapter 11 Proceeding"). As at the Latest Practicable Date, the Chapter 11 Proceeding is pending in the United States Bankruptcy Court for the Central District of California, Los Angeles Division.

Ms. SHI Ping (石平) ("Ms. Shi"), aged 50, was appointed as executive Director on 2 October 2007. Ms. Shi is principally responsible for the investment and business merger of the Group. She obtained a Master Degree in Managerial Economics in April 2007 from Nanyang Technological University in Singapore, a Master Degree in Industrial Management Engineering from Chengdu University of Science and Technology in the PRC in March 1991 and a Bachelor Degree in Chemical Engineering from Hunan University in the PRC in July 1983 and has more than 21 years experience in economics and engineering management. Ms. Shi has been awarded as the Senior Economist by the Leading Group of Title Reform of Sichuan Province. Ms. Shi was the Chief Engineer of the Industrial Project Department of Sichuan Provincial Investment Company which is an investment company from March 1991 to February 1997, the Deputy General Manager of Sichuan Provincial Investment Industrial which is an investment company and Technology Development Investment Company which is an investment company from March 1997 to December 2001, the General Manager of Sichuan Provincial Investment Asset Management Company Limited which is an investment company from January 2002 to December 2008 and the Manager of the Asset Operation and Management Department of Sichuan Provincial Investment Group Co., Ltd which is an investment company from June 2003 to December 2008.

Mr. RONG Dong (容東) ("Mr. Rong"), aged 35, was appointed as executive Director and Assistant to the Managing Director on 1 June 2011. Mr. Rong is in charge of the Group's trading business of electronic parts and components. He obtained a Master Degree of Business Administration in Industrial Management from Sheffield Hallam University in United Kingdom in October 2004 and diploma in Economics and Trade English from Hunan Institute of Engineering in the PRC in July 1998 and has more than 13 years experience in operation management. Prior to joining the Company, Mr. Rong joined Sichuan Changhong Electrics in 1998.

Independent non-executive Directors

Mr. Jonathan CHAN Ming Sun (陳銘燊) ("Mr. Chan"), aged 40, joined the Company as independent non-executive Director on 12 February 2007. Mr. Chan is an Associate Director of Go-To-Asia Investment Limited. Mr. Chan also holds the following positions in the companies listed on the Main Board of the Stock Exchange:

- independent non-executive director of Xiangyu Dredging Holdings Limited (stock code: 871) since November 2012;
- independent non-executive director of Hao Tian Resources Group Limited (stock code: 474) since March 2012; and
- independent non-executive director of Shenyang Public Utility Holdings Company Limited (stock code: 747) since February 2009.

He was an independent non-executive director of Capital VC Limited (formerly known as Sino Katalytics Investment Corporation and China Northern Enterprises Investment Fund Limited *(see Note (1)*) (stock code: 2324) during the period from August 2004 to April 2012. He obtained his Bachelor Degree of Commerce in Accounting and Computer Information Systems from University of New South Wales, Australia in June 1995. He is also a member of Hong Kong Institute of Certified Public Accountants from October 2011 and Certified Practising Accountants, Australia from February 1995. He has over 13 years of experience in investment and corporate finance. From April 1995 to October 2000, Mr. Chan worked for Ernst and Young and held various positions, including staff accountant and senior accountant.

Note:

(1) In November 2005, the SFC prosecuted China Northern Enterprises Investment Fund Limited ("**China Northern**") and its director Mr. Yau Chung Hong ("Mr. Yau") under Part XV of the SFO (the "**Incident**"). China Northern was a substantial shareholder of Ningbo Yidong Electronic Company Limited ("**Ningbo**") and pleaded guilty to four summonses relating to its failure to notify within the prescribed period the Stock Exchange and Ningbo regarding its trading in Ningbo's shares on 14 November 2003 and 25 November 2003 respectively, pursuant to which China Northern would cease to have a notifiable interest in Ningbo. In addition, Mr. Yau pleaded guilty to four summonses relating to his failure to ensure that China Northern made the above-mentioned disclosures. China Northern and Mr. Yau was fined a total of HK$12,000 and HK$8,000 respectively and Mr. Yau was ordered to pay the SFC an investigation costs of HK$17,000. Mr. Chan was not involved and was not a party to the Incident and was not the subject of investigation/prosecution by the SFC in the Incident.

Subsequent to the above, Mr. Yau was ruled by the Market Misconduct Tribunal that he shall not act as a director of any listed company for the period of two years from 20 August 2012 due to his false trading, price rigging and stock market manipulation misconduct in 2009 as an executive director of Sino Katalytics Investment Corporation (now known as Capital VC Limited) ("SKIC"). Mr. Chan was not related to Mr. Yau's misconduct in 2009.

Mr. Robert IP Chun Chung (葉振忠) ("Mr. Ip"), aged 56, has joined the Company as independent non-executive Director on 12 February 2007. Mr. Ip is a practising solicitor in Hong Kong and has been an independent non-executive director from January 2001 to July 2004 and non-executive director since July 2004 of Continental Mariner Investment Company Limited, later renamed as Poly (Hong Kong) Investments Limited (now known as Poly Property Group Co., Limited) (stock code: 119), a company listed on the Main Board of the Stock Exchange. Mr. Ip has also been an independent non-executive director of Value Convergence Holdings Limited (stock code: 821), a company listed on the Main Board of the Stock Exchange since March 2012. He held the following positions in companies listed on the Main Board of the Stock Exchange:

- independent non-executive director of Recor Holdings Limited, later renamed as Ecopro Hi-Tech Holdings Limited (now known as China Gogreen Assets Investment Limited) (stock code: 397) from November 1999 to October 2000;
- non-executive director of Sen Hong Resources Holdings Limited (now known as South Sea Petroleum Holdings Limited) (stock code: 76) from January 2000 to August 2003;
- executive director of Wing Lee International Holdings Limited (now known as Asia Resources Holdings Limited) (stock code: 899) from February 2000 to October 2000;
- independent non-executive director of Kin Don Holdings Limited (now known as Polytec Asset Holdings Limited) (stock code: 208) from March 2000 to July 2000;
- independent non-executive director of Poly Investments Holdings Limited (now known as China Yunnan Tin Minerals Group Company Limited) (stock code: 263) from January 2001 to July 2002; and
- independent non-executive director of New Rank City Development Limited (now known as New City Development Group Limited) (stock code: 456) from March 2001 to March 2002.

Mr. Ip is a member of The Law Society of Hong Kong and The Law Society of England and Wales. He is the sole-proprietor of Messrs. Robert C.C.Ip & Co. and a consultant at Cheng, Yeung & Co.

Mr. SUN Dongfeng (孫東峰) ("Mr. Sun"), aged 44, was appointed as independent non-executive Director on 12 February 2007. Mr. Sun is currently a senior partner of Guantao Law Firm in the PRC as well as a legal advisor for a numbers of companies. He graduated from China University of Political Science and Law in the PRC in July 1991. He has over 20 years of experience in legal aspects.

Cheng Yuk Kin (鄭煜健), ("Mr. Cheng"), aged 37, was appointed as an independent non-executive Director on 27 November 2012. Mr. Cheng has 15 years of experience in corporate finance and audit. Mr. Cheng is currently an executive director of Ivory Capital Private Limited ("Ivory Capital"). Prior to joining Ivory Capital, from May 2002 to March 2004 he worked at Deloitte & Touche Corporate Finance Ltd in Hong Kong and from 2000 to 2002 at Emerging Markets Partnership, the principal advisor to AIG Asian Infrastructure Fund L.P.. Mr. Cheng obtained a Bachelor of Business

Administration in Finance from the Hong Kong University of Science and Technology in November 1997 and a Master of Business Administration from the George Washington University School of Business in the United States of America in January 2002. He was admitted as a member of the American Institutional Certified Public Accountants in September 1998.

Senior Management

Mr. LEE Wing Lun (李永倫) ("Mr. Lee"), aged 53, is the financial controller and Company Secretary of the Company and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lee is an independent non-executive director of Vinco Financial Group Limited (stock code: 8340), a GEM-listed company. He graduated from Australian National University with a Bachelor Degree in Commerce in April 1995 and obtained a Master Degree of Corporate Governance and Postgraduate Diploma in Corporate Administration from Polytechnic University of Hong Kong in October 2009 and November 2001 respectively. He is a member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since January 1999, the Australian Society of Certified Practising Accountants since August 1998, the Hong Kong Institute of Company Secretaries since May 2001 and the Institute of Chartered Secretaries and Administrators in the United Kingdom since May 2001. He has over 17 years of working experience in auditing, accounting and finance matters including over 6 years in several audit firms and has been the financial controller of a trading group.

Mr. LIU Jianhua (劉建華) ("Mr. Liu"), aged 35, is the financial controller of the Company's subsidiaries and is responsible for the financial and accounting management of the Company's subsidiaries. Mr. Liu is also responsible for the proper implementation of the internal control measures of the Group. He obtained a Bachelor Degree in International Finance from Sichuan University in the PRC in July 2001 and has more than 11 years of experience in accounting and financial management. Prior to joining the Company in July 2007, Mr. Liu joined Sichuan Changhong in July 2001 and has held various positions in its finance department since January 2002. From April 2007 to July 2007, Mr. Liu was the head of risk management in the shareholding finance department of Sichuan Changhong.

Mr. ZHU Jianqiu (祝劍秋) ("Mr. Zhu"), aged 50, is an executive director and the President of Changhong IT and was appointed on 13 October 2004. He is mainly responsible for the daily management of Changhong IT. Mr. Zhu is also responsible for the proper implementation of the internal control measures of the Target Group. He is also a director of Sichuan Changhong Electronics Group Co., Ltd. In 1998, he worked at Founder Technology Group Corporation (a company listed on the Shanghai Stock Exchange with a stock code 600601 and formerly known as Shanghai Founder Yanzhong Technology Group Inc. which engages in computers business) as Director, Vice Chairman and President. Prior to joining the Group, in 2001, Mr. Zhu served as a director and the President of Zarva Technology (Group) Co., Ltd. (a company listed on the Shengzhen Stock Exchange with a stock code 000688 which engages in the distributions of IT products). Prior to joining of our Group, in 2002, He was appointed as a director of Sichuan Xichang Electric Power Co. Ltd. (a company listed on the Shanghai Stock Exchange with a stock code 600505 which engages in the businesses of electric power generation and distribution businesses). Mr. Zhu graduated from Northeast University in the PRC (formerly known as Northeast University of Technology) and obtained a Bachelor's Degree in 1984. In 2007, he obtained a Doctor's Degree in economics at Renmin University of China. Mr. Zhu has nearly 13 years of experience in management in the IT industry.

Company Secretary

Mr. Lee was appointed as the Company Secretary of the Company on 10 December 2006. Mr. Lee is employed on a full time basis and is also a member of senior management. Mr. Lee's biographical details are set out above in the paragraph titled "Senior Management" in this section.

OTHER DISCLOSURES UNDER RULE 17.50(2) OF THE GEM LISTING RULES

Except as disclosed above, none of the Directors or senior management had any other directorship in any other listed company during the three years preceding the date of this circular. Except as disclosed above, none of the senior management had any service contract or interest in the Ordinary Shares within the meaning of Part XV of the SFO. Except as disclosed in this section, the section headed "Relationship with the Controlling Shareholders", note 12 to the Accountants' report on the Target Group set out in Appendix I to this circular headed "Staff costs, including directors' remuneration" and sub-sections headed "5. Disclosure of interests", "7. Miscellaneous" and "11. Service contracts" in Appendix V to this circular, there is no other information required to be disclosed in relation to any of the Directors pursuant to Rule 17.50(2) of the GEM Listing Rules.

As at the Latest Practicable Date, the Group had a total of 18 full-time employees. Immediately upon completion of the Acquisition, it is expected that the Enlarged Group will have approximately 1,219 full-time employees. A breakdown of the number of employees by function of (i) the Group as at the Latest Practicable Date and (ii) the Enlarged Group immediately upon completion of Acquisition is as follows:

Function	**The Group (as at the Latest Practicable Date)**	**The Enlarged Group (upon completion of Acquisition)**
Management	5	9
Sales and marketing	10	852
Administrative and financial personnel	3	139
Technical personnel (including research and development)	–	219
Total	18	1,219[(1)]

Note:

(1) As at 31 October 2012, the Target Group had 1,102 contractual workers who were provided by two independent third party labour service companies (collectively, the "Employment Agencies") pursuant to labour service agreements entered into between the Target Group and the Employment Agencies. For further details, please refer to the sections on "Risk Factors" and "Business of the Target Group" of this circular.

The total employees cost (including Directors' emoluments and contributions under retirement benefit schemes) for the year ended 31 December 2011 was approximately HK$8.32 million. As an equal opportunity employer, the remuneration and bonus policies of the Group are determined with reference to the performance, qualifications and experience of individual employee and prevailing market rates. Other benefits include contributions to the statutory mandatory provident fund scheme to employees in Hong Kong.

During the Track Record Period, the Group has not experienced any significant difficulty in recruiting employees, and have not experienced any significant staff turnover or labour disputes. The Company believes that employee relations are satisfactory in general.

RETIREMENT SCHEMES

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, (Chapter 485 of the Laws of Hong Kong).

The Group has joined the Mandatory Provident Fund Scheme ("**MPF Scheme**") for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) in Hong Kong.

The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. For the year ended 31 December 2011, contributions of the Group under the MPF Scheme amounted to approximately HK$147,000.

The Directors confirm that the Company has complied with all the relevant laws and regulations on employees benefit schemes.

REMUNERATION POLICY FOR DIRECTORS

Currently, the remuneration policy of the Company for Directors is to maintain fair and competitive packages under a formal and transparent procedure to attract and retain Directors.

The emolument payable to Directors were determined based on the Directors' experience, performance and time committed to the Company and prevailing market rates.

The aggregate emolument paid to the Directors in the term of fees, salaries and allowances, retirement benefits Scheme Contributions, performance related incentive payments for the year ended 31 December 2011 is approximately HK$3,132,000.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

During the Track Record Period, the Company has been in compliance with the Corporate Governance Code in Appendix 15 of the GEM Listing Rules, save for the deviations which are explained below.

Five executive Directors and three independent non-executive Directors were unable to attend the annual general meeting of the Company held on 4 May 2012 due to their other business engagements.

Upon the Completion, the Enlarged Group will comply with the Corporate Governance Code in Appendix 15 of the GEM Listing Rules and the associated GEM Listing Rules on or prior to their respective effective date.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") pursuant to Rule 5.28 of the GEM Listing Rules with written terms of reference. Currently, the Audit Committee is chaired by Mr. Jonathan Chan Ming Sun, who possesses professional accounting and financial qualifications. Its other members are Mr. Robert Ip Chun Chung, Mr. Sun Dongfeng and Mr. Cheng Yuk Kin. All of the above four Directors are independent non-executive Directors, and none of them is a former partner of the external auditor of the Group.

The Audit Committee's primary responsibilities are: (1) make recommendation to the Board on the appointment, reappointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and to deal with any questions of its resignation or dismissal; (2) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; (3) to develop and implement policy on engaging external auditors to supply non-audit services; (4) to monitor integrity of the Company's financial statements and the annual report and accounts, interim report and quarterly reports, and to review significant financial reporting judgments contained in them; and (5) to oversee the Company's financial reporting system and internal control procedures.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "**Remuneration Committee**") on with written terms of reference. Currently, the Remuneration Committee is chaired by Mr. Jonathan Chan Ming Sun and its other members are Mr. Yu Xao, Mr. Robert Ip Chun Chung and Mr. Sun Dongfeng, the majority of whom are independent non-executive Directors.

The Remuneration Committee's primary responsibilities are: (1) to formulate the remuneration policy for all the executive Directors and the senior management; (2) to determine the remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors; (3) to make recommendations to the Board on the Company's policy and structure for remuneration of all employees including salaries, incentive schemes and other share option schemes, and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and (4) to report to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions.

NOMINATION COMMITTEE

The Company established a nomination committee (the "**Nomination Committee**") with written terms of reference. Currently, the Nomination Committee is chaired by Mr. Yu Xiao, the chairman of the Board. Its other members are Mr. Jonathan Chan Ming Sun, Mr. Robert Ip Chun Chung and Mr. Sun Dongfeng, the majority of whom are independent non-executive Directors.

The Nomination Committee's primary responsibilities are: (1) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least once a year and make recommendations on any proposed changes to the board to complement the Company's corporate strategies; (2) to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; (3) to assess the independence of independent non-executive Directors; (4) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer; and (5) to report to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions.

COMPLIANCE OFFICER

Mr. Tang Yun is the current compliance officer of the Company and he was appointed on 5 July 2007. Mr. Tang Yun's biographical details are set out above in the paragraph titled "Directors" in this section.

COMPLIANCE ADVISER

The Company has appointed Platinum Securities Company Limited as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules to advise the Company on the following matters in accordance with Rule 6A.23 of the GEM Listing Rules:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(3) where the listed issuer proposes to use the proceeds of the initial public offering in a manner different from that detailed in the listing document or where the business activities, developments or results of the listed issuer deviate from any forecast, estimate, or other information in the listing document; and

(4) where the Exchange makes an inquiry of the listed issuer under Rule 17.11 of the GEM Listing Rules.

This section should be read in conjunction with the financial statements and accompanying notes of the Target Group prepared in accordance with HKFRS for the three years ended 31 December 2011 and for the seven months ended 31 July 2012 set out in Appendix I to this circular.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Such risk and uncertainties include, without limitation, those discussed in the section headed "Risk Factors" of this circular.

FINANCIAL INFORMATION OF THE TARGET GROUP

The selected financial data set forth below has been extracted from the financial data of the Target Group which is set forth in the Accountants' Reports on the Target Group included as Appendix I to this circular (the "Financial Information"). As more fully described in Appendix I, the Financial Information has been prepared in accordance with the accountant policies in conformity with HKFRS and in compliance with the disclosure requirements of the GEM Listing Rules.

BASIS OF PRESENTATION

Target Co BVI was incorporated in the BVI on 28 March 2011 with limited liabilities. The address of its registered office is at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands and is a wholly owned subsidiary of Fit Generation, which was also incorporated in the BVI with limited liabilities.

Sichuan Changhong is a company incorporated under the laws of the PRC and listed on the Shanghai Stock Exchange. Prior to the completion of the reorganisation discussed below, Sichuan Changhong owned a 90% equity interest in Changhong IT, a company established in the PRC.

Target Co BVI is an investment holding company. The principal activities and details of the companies in this combined financial statements are set out in note 15 of Appendix I – Accountants' Reports on the Target Group" to this circular.

The Financial Information is presented in HK$. The functional currency of Target Co BVI and its subsidiaries is RMB.

The Target Group underwent the Reorganisation, as detailed in the sub-section headed ''The Reorganisation'' in the section headed "History and Background of the Target Group" to this circular. Upon completion of the Reorganisation, Target Co BVI became the holding company of Changhong IT and its subsidiaries on 5 March 2012. The companies that took part in the Reorganisation were controlled by the same ultimate equity shareholder, namely Sichuan Changhong (referred to as ''the controlling shareholder'') during the Track Record Period or since their respective date of incorporation or establishment where this is a shorter period up to 31 July 2012.

As there was no change in controlling shareholder before and after the Reorganisation, the Financial Information has been prepared as a reorganisation of business under common control. The Financial Information relating to the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for the Track Record Period includes the results of operations of Changhong IT and its subsidiaries as if the current group structure had been in existence and remained unchanged throughout the Track Record Period or since their respective dates of incorporation or establishment where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2009, 2010 and 2011 and 31 July 2012 have been prepared to present the combined assets and liabilities of Changhong IT and its subsidiaries as if the current group structure had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on combination.

The above acquisition is subject to the approvals from the shareholders of the Company and the relevant authorities.

The directors of Target Co BVI are of opinion that, after the completion of the Reorganisation, the Target Group will conduct its business in the same manner and scale as the Changhong IT business before the Reorganisation.

FACTORS AFFECTING RESULTS OF OPERATION AND FINANCIAL CONDITION OF THE TARGET GROUP

Economic development and demand for IT products in the PRC

For the three years ended 31 December 2011 and the seven months ended 31 July 2012, 98.73%, 99.85%, 99.59% and 99.39% of the Target Group's revenue was derived from sales in the PRC. The business of the Target Group is broadly affected by the demand of IT products in the PRC. This will affect the financial condition and results of the Target Group.

Cost of sales

Cost of IT consumer products constitutes a significant portion of the cost of sales of the Target Group. Cost of sales consists primarily of cost of purchasing personal computers. The business of the Target Group is broadly affected by the price fluctuation of the cost of IT consumer products. This will affect the financial condition and results of the Target Group.

Staff and labour cost

Staff cost represents approximately 1.54%, 1.46%, 1.32% and 0.90% of total turnover of the Target Group for the three years ended 31 December 2011 and the seven months ended 31 July 2012. Inflation and competition in the IT product industry will lead to the rise in staff cost of the Target Group and this will affect the financial position of the Target Group.

Changes in IT technology, suppliers' technologies and consumer preference

The market for the products of the Target Group's suppliers is characterized by rapidly-changing IT technology and introduction of new products. The demand for IT products and services are also subject to business cycles, which may rise or fall along with overall economic growth and business investment environment. The success of the Target Group will depend upon its technical know-how on these new IT technologies, product features and implementation methods, its ability to respond and adapt quickly to IT technology change and business cycles, as well as its capability to understand the changing needs, preferences and requirements of its customers.

If the Target Group fails to keep updates on IT technology change and introduction of new products, or keep pace with new developments and trends in the IT market and the demands of its customers, its ability to respond effectively to customer demands may be affected, which may undermine the Target Group's future development and have an adverse impact on the Target Group's business and financial results.

Seasonality

The Target Group's revenue is affected by seasonality factor. The Target Group experienced higher sales in second half of the year as the demand and consumption of IT Products are higher in the PRC due to higher demand during summer holidays and year end.

The following table sets forth the turnover of the Target Group in the first half year and second half year for each of the three financial years ended 31 December 2009, 2010 and 2011, respectively.

	2009		2010		2011		2012
	Six months ended 30 June	Six months ended 31 December	Six months ended 30 June	Six months ended 31 December	Six months ended 30 June	Six months ended 31 December	Six months ended 30 June
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnovers	1,942,109	3,262,249	3,487,545	4,628,211	5,733,596	7,624,147	7,319,303

SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Financial Information has been prepared in accordance with HKFRS issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the GEM Listing Rules of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of combination

The Financial Information incorporates the financial information of Target Co BVI and entities controlled by Target Co BVI (its subsidiaries) now comprising the Target Group. Control is achieved where Target Co BVI has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less any identified impairment loss on Target Co BVI's statement of financial position.

Merger accounting for business combinations involving entities under common control

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

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

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

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful life and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An item of plant and machinery is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the derecognition of the asset (calculating as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined statement of comprehensive income in the period in which the item is derecognised.

Impairment losses on tangible assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each reporting date subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables and pledged bank deposits, bank balances and cash and amount due from ultimate holding company) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss of financial assets below).

Impairment loss of financial assets

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

For all financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Target Group and Target Co BVI's financial liabilities are generally classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities, including trade and bills payables, other payables, dividend payables, amount due to a subsidiary, amount due to ultimate holding company, bank overdraft and bank, and other borrowings, are subsequently measured at the amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Target Co BVI are recorded at the proceeds received, net of direct issue costs.

Derecognition

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

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

On derecognition of a financial asset other than in its entirety, the Target Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Equity-settled share-based payment transactions – share options granted to employees after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the Financial Information until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Properties held for sale

Properties classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Retirement benefit costs

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the assets is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in the profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has passed in substance, at which time all the following conditions are satisfied:

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

Service income is recognised when services are provided.

Compensation income is recognised when the right to receive payment is established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in the profit or loss in the period in which they become receivable.

Leasing

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

The Target Group as lessee

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

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is changed to profit or loss in the period in which it is incurred.

Inventories

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

Cash and cash equivalents

Bank balances and cash in the Financial Information comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the combined statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above net of bank overdraft.

Foreign currencies

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

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

For the purpose of presenting the Financial Information, the assets and liabilities of the Target Group's foreign operations are translated into presentation currency of the Target Group (i.e. Hong Kong Dollar) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

SELECTED INCOME STATEMENT ITEMS

Turnover

Turnover represents net amount received and receivable for sale of different types of IT products and self developed products and provision of professional integrated IT solutions and services, net of discounts and corresponding sales related taxes.

For the three years ended 31 December 2011 and the seven months ended 31 July 2012, turnover of the Target Group amounted to HK$5,204,358,000, HK$8,115,756,000, HK$13,357,743,000 and HK$8,439,564,000 respectively, representing a CAGR of approximately 60.2%. The increase in turnover of the Target Group for the Track Record Period was primarily due to the increase in product lines and sales volume of personal computers and digital products and increase in suppliers and sub-distributors of the Target Group.

The amounts of each significant category of revenue recognised in turnover during the Track Record Period are as follows:

	Year ended 31 December						Seven months ended 31 July			
	2009		2010		2011		2011		2012	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000* (Unaudited)	*% of total*	*HK$'000*	*% of total*
IT Consumer Products	3,630,074	69.75	5,742,855	70.76	9,960,361	74.57	5,052,053	74.72	5,629,792	66.70
IT Corporate Products	1,540,105	29.59	2,328,465	28.69	3,083,142	23.08	1,526,594	22.58	2,357,718	27.94
Others	34,179	0.66	44,436	0.55	314,240	2.35	182,913	2.70	452,054	5.36
	5,204,358	100.00	8,115,756	100.00	13,357,743	100.00	6,761,560	100.00	8,439,564	100.00

The Target Group derived its turnover primarily from the sales of IT Consumer Products. During the Track Record Period, the Target Group was also engaged in the business of IT Corporate Products and other products including LBS, smart phones and service income, but the turnover generated from these businesses were less significant compared with those generated from the business of IT Consumer Products.

The following table sets out the number of product lines of personal computer and digital products of the Target Group for the Track Record Period:

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
Number of product lines for personal computers and digital products	12	22	39	32	51

Cost of sales and services provided

Cost of sales and services provided mainly includes cost of sales on products, business tax (營業税), urban maintenance and construction tax(城建税), educational surtax and local educational surtax (教育費附加及地方教育費附加) and provision for inventory.

Below is the breakdown of cost of sales and services provided for the Track Record Period:

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Cost of sales of products	4,852,651	7,665,718	12,710,707	6,421,303	8,032,412
Business tax	1,293	1,598	1,977	698	887
Urban maintenance and construction tax	2,984	3,575	6,566	3,091	3,561
Educational surtax and local educational surtax	1,512	2,043	4,527	2,168	2,511
Provision of inventory	–	8,120	6,147	–	12,045
Reversal of provision of inventory	–	–	–	–	(5,061)
Total	4,858,440	7,681,054	12,729,924	6,427,260	8,046,355

Gross profit

Gross profit represents turnover net of cost of sales. Gross profit margins are calculated using gross profit divided by turnover.

Gross profit margins of the Target Group for the three years ended 31 December 2011 and for the seven months ended 31 July 2012 were 6.65%, 5.36%, 4.70% and 4.66%, respectively. The decrease of gross profit margin of the Target Group during the Track Record Period was mainly due to (i) the decline of the gross profit margin for distribution of IT products; and (ii) the higher contribution of sales from products with lower gross profit margin (such as tablet PCs and smartphones) for the year ended 31 December 2010, the year ended 31 December 2011 and the seven months ended 31 July 2012.

The table below sets out the amount and percentage of the gross profits and gross profit margins of the Target Group generated from each of its three main product segments for the three years ended 31 December 2011 and seven months ended 31 July 2012:

	Year ended 31 December						Seven months ended 31 July			
	2009		2010		2011		2011		2012	
	HK$'000	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
							(Unaudited)			
Gross profit										
IT Consumer Products	221,076	63.91	258,109	59.38	380,162	60.55	207,636	62.11	188,687	47.98
IT Corporate Products	120,788	34.92	170,332	39.18	231,005	36.80	118,015	35.30	188,850	48.03
Others	4,054	1.17	6,261	1.44	16,652	2.65	8,649	2.59	15,672	3.99
TOTAL	345,918	100.00	434,702	100.00	627,819	100.00	334,300	100.00	393,209	100.00
Gross profit margin (%)										
IT Consumer Products	6.09%		4.49%		3.82%		4.11%		3.35%	
IT Corporate Products	7.84%		7.32%		7.49%		7.73%		8.01%	
Others	11.86%		14.09%		5.3%		4.72%		3.47%	

In particular, the decrease in gross profit margin of "Others" during the Track Record Period was mainly due to the increased contribution of sales from smartphones. Smartphones has a low gross profit margin of 3.50% in the year of 2011, and sales of smartphones increased from HK$10,685,000 in 2010 to HK$276,913,000 in 2011, representing a percentage to total sales of "Others" from 24.05% in 2010 to 88.12% in 2011. For the seven months ended 31 July 2012, the gross profit margin of smartphones was 3.04%, and the sale of smartphones increased from HK$168,748,000 for the seven months ended 31 July 2011 to HK$434,257,000 for the corresponding period in 2012, representing a percentage to sales of "Others" from 92.26% for the seven months ended 31 July 2011 to 96.06% for the corresponding period in 2012.

Other income

Other income mainly include bank interest income, exchange gain, penalty and compensation income and government subsidies.

Below is the breakdown of other income for the Track Record Period:

		Year ended 31 December			Seven months ended 31 July	
		2009	**2010**	**2011**	**2011**	**2012**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Reversal of impairment on trade receivables		–	256	–	–	–
Bank Interest income		1,161	1,233	1,874	1,003	631
Exchange gain		118	2,161	4,248	2,844	–
Penalty and compensation income	*(1)*	285	1,094	1,876	202	289
Government subsidies						
– utilisation/amortisation of deferred income for the year	*(2)*	–	–	–	–	198
– grants related to expenses recognised as other gains	*(3)*	–	2,876	10,451	7,698	456
Gain on disposal of plant and equipment		–	7	250	42	–
Sales of scrap inventories		84	26	–	–	–
Waiver of other payable	*(4)*	–	–	1,111	–	–
Others		127	127	243	–	–
		1,775	7,780	20,053	11,789	1,574

Notes:

(1) Penalty income represents penalty on delay in delivery from logistic companies and certain overdue trade receivables, where compensation income is the amount received from logistic companies for broken packaging;

(2) During seven months ended 31 July 2012, the Target Group received government grants of approximately HK$4,711,000 towards the research and development expenditure of the project namely "城市室內外高精度定位導航關鍵技術與服務系統" 主體項目. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. This policy has resulted in a credit to income in the current period of approximately HK$198,000.

(3) The government subsidies in 2011 mainly comprised of an one-off subsidy of RMB5,000,000 grant from the PRC government to the Target Group for the project of "基於衛星導航和無線電通訊的系列化位置信息服務終端研發及產業化示范工程", which represented 71% of the total government grants to the Target Group for the year of 2011, the government subsidies for the seven months ended 31 July 2012 was a financial support granted to the Target Group for the self-development of technology; and

(4) Represents the waiver of other payables due to long outstanding and loss of contact.

Selling and distribution expenses

The following table shows the breakdown of Target Group's selling and distribution expenses during the Track Record Period:

		Year ended 31 December						Seven months ended 31 July			
		2009		2010		2011		2011		2012	
	Notes	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
								(Unaudited)			
Salary and benefits	*(1)*	54,088	49.76	78,092	48.64	105,560	46.60	49,803	43.46	58,959	43.45
Travelling, communication and entertainment expenses	*(2)*	13,385	12.32	20,455	12.74	29,886	13.19	12,442	10.86	13,444	9.91
Storage and logistic expenses	*(3)*	25,320	23.30	38,472	23.96	61,877	27.32	36,840	32.14	45,775	33.73
Stamp duty		1,904	1.75	3,448	2.15	5,746	2.54	3,650	3.18	4,672	3.44
Marketing expenses		9,054	8.33	12,493	7.78	14,836	6.55	6,773	5.91	6,724	4.96
Miscellaneous	*(4)*	4,936	4.54	7,588	4.73	8,595	3.80	5,099	4.45	6,118	4.51
Total		**108,687**	**100.00**	**160,548**	**100.00**	**226,500**	**100.00**	**114,607**	**100.00**	**135,692**	**100.00**

Notes:

(1) Include outsourcing labor cost, outsourcing labor bonus, salaries, bonus and allowances for sales and marketing staff;

(2) Include communication expenses, entertainment expenses and travelling expenses;

(3) Include storage expenses, transportation expenses and insurance expenses;

(4) Include research and development expenses, depreciation expenses and after sales service fee and others.

Selling and distribution expenses mainly include salary and benefits, travelling, communication and entertainment expenses, storage and logistic expenses, stamp duty, marketing expenses and miscellaneous.

For the three years ended 31 December 2011 and the seven months ended 31 July 2012, the selling and distribution expenses represented approximately 2.09%, 1.98%, 1.70% and 1.61% of total turnover respectively.

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
Number of sales and marketing staff*	478	632	774	701	959

* *Include contractual workers*

Administrative expenses

The following table shows the breakdown of Target Group's administrative expenses during the Track Record Period:

		Year ended 31 December						Seven months ended 31 July			
		2009		2010		2011		2011		2012	
	Notes	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*	*HK$'000*	*% of total*
								(Unaudited)			
Salary and benefits	*(1)*	25,831	61.12	40,634	66.35	70,855	75.89	22,140	61.25	16,921	43.87
Traveling and communication expenses	*(2)*	2,055	4.86	3,264	5.33	3,530	3.78	1,726	4.78	2,170	5.62
Rental expenses		5,391	12.76	6,110	9.98	6,765	7.25	3,747	10.37	3,873	10.04
Depreciation expenses		3,595	8.50	3,813	6.23	3,826	4.10	2,034	5.63	2,820	7.31
Miscellaneous	*(3)*	5,393	12.76	7,415	12.11	8,389	8.98	6,497	17.97	12,789	33.16
Total		**42,265**	**100.00**	**61,236**	**100.00**	**93,365**	**100.00**	**36,144**	**100.00**	**38,573**	**100.00**

Notes:

(1) Include outsourcing labor cost, outsourcing labor bonus, salaries, bonus and allowances for staff other than the sales and marketing staff;

(2) Include communication expenses and travelling expenses;

(3) Include exchange loss, office expense, research fees, legal expenses, bank charges and others.

Administrative expenses mainly include salary and benefits, traveling and communication expenses, rental expenses, depreciation expenses and miscellaneous.

The significant increase in the salaries and benefits of administration expenses of the Target Group from year 2009 to 2010 was mainly due to the increase of bonus for year 2010.

The significant increase in the miscellaneous expenses of the administration expense of the Target Group for the seven months ended 31 July 2012 compared with the corresponding period in 2011 was mainly due to significant increase in (1) exchange loss from nil for the seven months ended 31 July 2011 to HK$2,359,000 for the corresponding period of 2012, due to the fact that the exchange loss was mainly derived from trade payables of the Target Group whilst RMB depreciated against USD from March 2012 to July 2012; (2) bank charge from HK$386,000 for the seven months ended 31 July 2011 to HK$1,515,000 for the corresponding period of 2012, due to the fact that the Target Group's enhanced financing activities from 31 July 2011 to 31 July 2012; (3) office expense from HK$683,000 for the seven months ended 31 July 2011 to HK$1,226,000 for the corresponding period of 2012, due to the fact that the Target Group's enlarged operating activities such as newly entered into a lease agreement in Beijing since 16 May 2012; (4) research fee from HK$943,000 for the seven months ended 31 July 2011 to HK$1,374,000 for the corresponding period of 2012; and (5) courier expenses from HK$248,000 for the seven months ended 31 July 2011 to HK$593,000 for the corresponding period of 2012.

For the three years ended 31 December 2011 and the seven months ended 31 July 2012, administrative expenses represented approximately 0.81%, 0.75%, 0.70% and 0.46% of total turnover respectively.

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
Number of staff other than the sales and marketing staff*	129	134	192	180	204

* *Include contractual workers*

Finance costs

Finance costs include interest on borrowings wholly repayable within five years, interest expense on discount of bills receivables and guarantee charges paid to a substantial shareholder of the ultimate holding company in respect of guarantee granted to suppliers, bank and financial institution. For the three years ended 31 December 2011 and the seven months ended 31 July 2012, finance cost represented approximately 0.22%, 0.25%, 0.24% and 0.38% of total turnover respectively.

Income tax

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

No provision for Hong Kong Profits Tax has been made for subsidiaries established in Hong Kong as these subsidiaries did not have any assessable profits subject to Hong Kong Profits Tax during the Track Record Period.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Changhong IT, Changhong IT Digital and Changhong IT Intelligence is 25% for the Track Record Period.

During the Track Record Period, the effective income tax rate was approximately 27%.

RESULTS OF OPERATIONS

The following table sets out the consolidated statements of comprehensive income of the Target Group as extracted from the Accountants' Report of the Target Group which is set out in Appendix I to this circular.

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Turnover	5,204,358	8,115,756	13,357,743	6,761,560	8,439,564
Cost of sales and services provided	(4,858,440)	(7,681,054)	(12,729,924)	(6,427,260)	(8,046,355)
Gross profit	345,918	434,702	627,819	334,300	393,209
	6.65%	5.36%	4.70%	4.94%	4.66%
Other income	1,775	7,780	20,053	11,789	1,574
Selling and distribution expenses	(108,687)	(160,548)	(226,500)	(114,607)	(135,692)
Administrative expenses	(42,265)	(61,236)	(93,365)	(36,144)	(38,573)
Finance costs	(11,642)	(20,554)	(31,983)	(9,421)	(31,660)
Profit before tax	185,099	200,144	296,024	185,917	188,858
Income tax	(50,008)	(57,544)	(87,390)	(46,340)	(51,313)
Profit for the year/period	135,091	142,600	208,634	139,577	137,545
Other comprehensive income for the year/period:					
Exchange differences arising on translation of foreign operations	2,556	17,844	24,720	16,201	(10,479)
Total comprehensive income for the year/period	137,647	160,444	233,354	155,778	127,066

For the seven months ended 31 July 2012 compared with the seven months ended 31 July 2011

Turnover

Turnover increased by approximately 24.81% from approximately HK$6,761,560,000 for the seven months ended 31 July 2011 to approximately HK$8,439,564,000 for the corresponding period in 2012. The increase in turnover was primarily due to the increase in sales of IT Corporate Products of approximately 54.44% for the seven months ended 31 July 2012.

Turnover derived from IT Consumer Products increased by approximately 11.43% from approximately HK$5,052,053,000 for the seven months ended 31 July 2011 to approximately HK$5,629,792,000 for the corresponding period in 2012 was mainly due to (i) an increase in product lines of personal computers and digital products from 32 product lines for the seven months ended 31 July 2011 to 51 product lines for the seven months ended 31 July 2012; and (ii) an increase of approximately 904 sub-distributors of the Target Group of IT Consumer Products.

Turnover derived from IT Corporate Products increased by approximately 54.44% from approximately HK$1,526,594,000 for the seven months ended 31 July 2011 to approximately HK$2,357,718,000 for the corresponding period in 2012 was mainly due to increase in sales volume of storage products, networking products PC Servers and IBMS due to increase in product lines and sales volume of storage products, networking products, PC Servers and IBMS and increase in suppliers and sub-distributors of the Target Group.

Turnover derived from others increased by approximately 147.14% from approximately HK$182,913,000 for the seven months ended 31 July 2011 to approximately HK$452,054,000 for the corresponding period in 2012 was mainly due to increase in sales volume of smart phone as a result of increase in sub-distributors of the Target Group.

Cost of sales and services provided

Cost of sales and services provided of the Target Group increased by approximately 25.19% from approximately HK$6,427,260,000 for the seven months ended 31 July 2011 to approximately HK$8,046,355,000 for the corresponding period in 2012. The increase was primarily due to increase in cost of inventory due to increase in turnover.

Gross profit

Gross profit increased by approximately 17.62% from approximately HK$334,300,000 for the seven months ended 31 July 2011 to approximately HK$393,209,000 for the corresponding period in 2012. The increase was primarily due to increased amount in turnover outweigh increased amount in cost of sales and services provided. Gross profit margin decreased from approximately 4.94% for the seven months ended 31 July 2011 to approximately 4.66% for the corresponding period in 2012, by approximately 5.67% for the first seven months in 2012 due to higher contribution of sales from products with lower gross profit margin for the seven months ended 31 July 2012.

Other income

Other income decreased by approximately 86.65% from approximately HK$11,789,000 for the seven months ended 31 July 2011 to approximately HK$1,574,000 for the corresponding period in 2012. The decrease was primarily due to the decrease in (i) bank interest income; (ii) exchange gain; and (iii) government subsidies (grant related to expenses recognized as other gains) for the seven months ended 31 July 2012.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 18.40% from approximately HK$114,607,000 for the seven months ended 31 July 2011 to approximately HK$135,692,000 for the corresponding period in 2012. The increase was primarily due to increase in salary and benefits, travelling, communication and entertainment expenses, stamp duty and storage and logistic expenses for the seven months ended 31 July 2012 due to increase in number of sales and marketing staff and business expansions. As a percentage of revenue, the Target Group's selling and distribution expenses decreased to approximately 1.61% in 2012 from approximately 1.69% in 2011.

Administrative expenses

Administrative expenses increased by approximately 6.72% from approximately HK$36,144,000 for the seven months ended 31 July 2011 to approximately HK$38,573,000 for the corresponding period in 2012. The increase was primarily due to increase in salary and benefits for staff other than sales and marketing staff, travelling and communication expenses and miscellaneous due to increase in staff other than sales and marketing staff and increase in business scale. As a percentage of revenue, the Target Group's administrative expenses decreased to approximately 0.46% in 2012 from approximately 0.53% in 2011.

Finance costs

Finance costs increased by approximately 236.06% from approximately HK$9,421,000 for the seven months ended 31 July 2011 to approximately HK$31,660,000 for the corresponding period in 2012. The increase was primarily due to increase in (i) guarantee charges in respect of guarantees from a substantial shareholders of the ultimate holding company to suppliers, banks and other financial institution; (ii) bank and other borrowings and overdrafts wholly repayable within five years; and (iii) amount due to ultimate holding company.

Income tax

Income tax increased by approximately 10.73% from approximately HK$46,340,000 for the seven months ended 31 July 2011 to approximately HK$51,313,000 for the corresponding period in 2012. The increase was primarily due to increase in profit before tax and non-deductable expenses for the first seven months in 2012.

Profit for the period

Profit for the period decreased by approximately 1.46% from approximately HK$139,577,000 for the seven months ended 31 July 2011 to approximately HK$137,545,000 for the corresponding period in 2012. The decrease was primarily due to increase in taxation for the first seven months in 2012.

For the year ended 31 December 2011 compared with the year ended 31 December 2010

Turnover

Turnover increased by approximately 64.59% from approximately HK$8,115,756,000 for the year ended 31 December 2010 to approximately HK$13,357,743,000 for the year ended 31 December 2011. The increase in turnover was primarily due to the increase in sales of IT Consumer Products of approximately 73.44% for the year ended 31 December 2011.

Turnover derived from IT Consumer Products increased by approximately 73.44% from approximately HK$5,742,855,000 for the year ended 31 December 2010 to approximately HK$9,960,361,000 for the year ended 31 December 2011 was mainly due to (i) an increase in product lines of personal computers and digital products from 22 product lines in 2010 to 39 product lines in 2011; and (ii) an increase of approximately 700 sub-distributors of the Target Group of IT Consumer Products. The demand of one of the digital products from one of the top 5 suppliers of the Target Group increased substantially in 2011, which resulted in an increase in revenue of the said digital product by approximately HK$1,113,032,000 from 2010 to 2011.

Turnover derived from IT Corporate Products increased by approximately 32.41% from approximately HK$2,328,465,000 to approximately HK$3,083,142,000 was mainly due to increase in sales volume of storage products, networking products PC Servers and IBMS due to increase in product lines and sales volume of storage products, networking products, PC Servers and IBMS and increase in suppliers and sub-distributors of the Target Group.

Turnover derived from others increased by approximately 607.17% from approximately HK$44,436,000 to approximately HK$314,240,000 was mainly due to increase in sales volume of smart phone as a result of increase in sub-distributors of the Target Group.

Cost of sales and services provided

Cost of sales and services provided of the Target Group increased by approximately 65.73% from approximately HK$7,681,054,000 for the year ended 31 December 2010 to approximately HK$12,729,924,000 for the year ended 31 December 2011. The increase was primarily due to increase in cost of inventory due to increase in turnover.

Gross profit

Gross profit increased by approximately 44.43% from approximately HK$434,702,000 for the year ended 31 December 2010 to approximately HK$627,819,000 for the year ended 31 December 2011. The increase was primarily due to increase in turnover. Gross profit margin decreased by 12.31% for the year ended 31 December 2011 due to higher contribution of sales from products with lower gross profit margin for the year ended 31 December 2011.

Other income

Other income increased by approximately 157.75% from approximately HK$7,780,000 for the year ended 31 December 2010 to approximately HK$20,053,000 for the year ended 31 December 2011. The increase was primarily due to the increase in (i) exchange gain; (ii) government subsidies; and (iii) bank interest income for the year ended 31 December 2011.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 41.08% from approximately HK$160,548,000 for the year ended 31 December 2010 to approximately HK$226,500,000 for the year ended 31 December 2011. The increase was primarily due to increase in salary and benefits, travelling, communication and entertainment expenses and storage and logistic expenses for the year ended 31 December 2011 due to increase in number of sales and marketing staff and business expansions. As a percentage of revenue, the Target Group's selling and distribution expenses decreased to approximately 1.70% in 2011 from approximately 1.98% in 2010.

Administrative expenses

Administrative expenses increased by approximately 52.47% from approximately HK$61,236,000 for the year ended 31 December 2010 to approximately HK$93,365,000 for the year ended 31 December 2011. The increase was primarily due to increase in salary and benefits for the year ended 31 December 2011 due to business expansions and increase in number of staff other than sales and marketing staff. As a percentage of revenue, the Target Group's administrative expenses decreased to approximately 0.70% in 2011 from approximately 0.75% in 2010.

Finance costs

Finance costs increased by approximately 55.60% from approximately HK$20,554,000 for the year ended 31 December 2010 to approximately HK$31,983,000 for the year ended 31 December 2011. The increase was primarily due to increase in interest on borrowings and increase in guarantee charges paid to a substantial shareholder of the ultimate holding company in respect of guarantee granted to suppliers, bank and financial institution by the ultimate holding company for business expansions of the Target Group.

Income tax

Income tax increased by approximately 51.87% from approximately HK$57,544,000 for the year ended 31 December 2010 to approximately HK$87,390,000 for the year ended 31 December 2011. The increase was primarily due to increase in profit before tax for the year ended 31 December 2011.

Profit for the year

Profit for the year increased by approximately 46.31% from approximately HK$142,600,000 for the year ended 31 December 2010 to approximately HK$208,634,000 for the year ended 31 December 2011. The increase was primarily due to increase in profit before taxation for the year ended 31 December 2011.

Year ended 31 December 2010 compared with year ended 31 December 2009

Turnover

Turnover increased by approximately 55.94% from approximately HK$5,204,358,000 for the year ended 31 December 2009 to approximately HK$8,115,756,000 for the year ended 31 December 2010. The increase in turnover was primarily due to the increase in sales of IT Consumer Products of approximately 58.20% for the year ended 31 December 2010.

Turnover derived from sales of IT Consumer Products increased by approximately 58.20% from approximately HK$3,630,074,000 for the year ended 31 December 2009 to approximately HK$5,742,855,000 for the year ended 31 December 2010 mainly due to (i) increase in product lines of personal computers and digital products from 12 product lines in 2009 to 22 product lines in 2010; and (ii) an increase of 1,400 more sub-distributors of the Target Group of IT Consumer Products. During 2010, tablet personal computer which is one of the new product lines of the digital products distributed by the Target Group led to an increase in the Target Group's revenue from the said digital products of approximately HK$258,810,000.

Turnover derived from IT Corporate Products increased by approximately 51.19% from approximately HK$1,540,105,000 to approximately HK$2,328,465,000 was mainly due to increase in sales volume of storage products, networking products, PC servers and IBMS due to increase in product lines and sales volume of storage products, networking products, PC servers and IBMS and increase in suppliers and sub-distributors of the Target Group.

Turnover derived from others (including LBS, smart phones and service income) increased by approximately 30.01% from approximately HK$34,179,000 to approximately HK$44,436,000 due to introduction of smart phones since December 2010 for the year ended 31 December 2010.

Cost of sales and services provided

Cost of sales of the Target Group increased by approximately 58.10% from approximately HK$4,858,440,000 for the year ended 31 December 2009 to approximately HK$7,681,054,000 for the year ended 31 December 2010. The increase was primarily due to increase in cost of inventory due to increase in turnover.

Gross profit

Gross profit increased by approximately 25.67% from approximately HK$345,918,000 for the year ended 31 December 2009 to approximately HK$434,702,000 for the year ended 31 December 2010. The increase was primarily due to increase in turnover. Gross profit margin decreased by 19.40% for the year ended 31 December 2010 due to higher contribution of sales from products with lower gross profit margin for the year ended 31 December 2010.

Other income

Other income increased by approximately 338.31% from approximately HK$1,775,000 for the year ended 31 December 2009 to approximately HK$7,780,000 for the year ended 31 December 2010. The increase was primarily due to increase in exchange gain and government subsidies for the year ended 31 December 2010.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 47.72% from approximately HK$108,687,000 for the year ended 31 December 2009 to approximately HK$160,548,000 for the year ended 31 December 2010. The increase was primarily due to increase in salary and benefits for sales and marketing staff, marketing expenses, travelling, communication and entertainment expenses, stamp duty and storage and logistic expenses, due to the business expansion. As a percentage of revenue, the Target Group's selling and distribution expenses decreased to approximately 1.98% in 2010 from approximately 2.09% in 2009.

Administrative expenses

Administrative and other operating expenses increased by approximately 44.89% from approximately HK$42,265,000 for the year ended 31 December 2009 to approximately HK$61,236,000 for the year ended 31 December 2010. The increase was primarily due to increase in salary and benefits for staff other than sales and marketing staff, travelling and communication expenses and miscellaneous due to increase in business scale. As a percentage of revenue, the Target Group's administrative expenses decreased to approximately 0.75% in 2010 from approximately 0.81% in 2009.

Finance cost

Finance cost increased by approximately 76.55% from approximately HK$11,642,000 for the year ended 31 December 2009 to approximately HK$20,554,000 for the year ended 31 December 2010. The increase was primarily due to increase in interest on borrowings due to increase in bank interest rates and increase in guarantee charges paid to a substantial shareholder of the ultimate holding company in respect of guarantee granted to suppliers, bank and financial institution from business expansion.

Income tax

Income tax increased by approximately 15.07% from approximately HK$50,008,000 for the year ended 31 December 2009 to approximately HK$57,544,000 for the year ended 31 December 2010. The increase was primarily due to increase in profit before tax for the year ended 31 December 2010.

Profit for the year

Profit for the year increased by approximately 5.56% from approximately HK$135,091,000 for the year ended 31 December 2009 to approximately HK$142,600,000 for the year ended 31 December 2010. The increase was primarily due to increase in profit before taxation for the year ended 31 December 2010.

CERTAIN PRINCIPAL BALANCE SHEET ITEMS

Net current assets

The Target Group had net current assets of approximately HK$392,201,000, HK$541,239,000, HK$575,309,000 and HK$715,802,000 as at 31 December 2009, 2010 and 2011 and 31 July 2012, respectively.

The following table shows the breakdown of the Target Group's current assets and current liabilities as at the three years ended 31 December 2011 and seven months ended 31 July 2012:

		As at 31 December			As at 31 July	As at 31 October
		2009	2010	2011	2012	2012
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current assets						
Inventories		456,197	700,684	1,447,135	1,413,668	1,647,655
Trade and bills receivables		479,056	891,617	1,013,074	962,887	1,129,001
Prepayments, deposits and other receivables		130,630	116,945	340,383	453,001	417,007
Property held for sale		–	–	411	405	414
Pledged bank deposits		19,753	309,016	7,390	7,762	10,718
Bank balances and cash		192,129	123,436	41,694	94,989	59,011
Amount due from ultimate holding company		–	–	–	26	26
		1,277,765	2,141,698	2,850,087	2,932,738	3,263,832
Current liabilities						
Trade and bills payables		422,682	829,478	1,008,529	1,242,353	1,206,346
Other payables		51,298	107,828	149,691	154,695	94,726
Dividend payables		–	127	197,851	186	190
Customer deposits		44,943	68,233	188,760	116,343	100,486
Income tax payables		25,091	33,633	52,072	13,734	8,934
Amount due to ultimate holding company		341,550	561,160	665,550	–	–
Bank overdraft		–	–	–	59,175	85,854
Bank and other borrowings		–	–	12,325	630,450	981,957
		885,564	1,600,459	2,274,778	2,216,936	2,478,493
Net current assets		392,201	541,239	575,309	715,802	785,339

As of 31 October 2012, the Target Group had net current assets of approximately HK$825 million which primarily resulted from increased inventories and trade and bills receivables due to increased sales of the Target Group.

The net current assets of the Target Group were significantly affected by the growth during the Track Record Period. The increase in the net current assets of the Target Group during the Track record period was primarily attributable to the expansion of the Target Group's business.

Inventories

As at 31 December 2009, 2010 and 2011 and 31 July 2012, the carrying amounts of inventories of approximately HK$456,197,000, HK$700,684,000, HK$1,447,135,000 and HK$1,413,668,000 were net of allowance for obsolete inventories of approximately HK$2,136,000, HK$10,408,000, HK$17,038,000 and HK$23,675,000 respectively.

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trading merchandises	456,197	700,684	1,447,135	1,413,668

The inventories of the Target Group increased from approximately HK$456,197,000 as at 31 December 2009 to approximately HK$700,684,000 as at 31 December 2010 and further increased to approximately HK$1,447,135,000 as at 31 December 2011. The increase of the Target Group's inventories was primarily due to the increase of (i) the inventory of new product lines the Target Group introduced to the market, and (ii) the inventory level of some existing product lines. The increase in inventories was in line with the increase in overall sales of the Target Group. The inventories of the Target Group decrease from approximately HK$1,447,135,000 as at 31 December 2011 to approximately HK$1,413,668,000 as at 31 July 2012. The decrease was due to the lower sales in the seven months ended 31 July 2012.

The following table sets forth, for the periods indicated, the Target Group's inventory turnover days:

	Year ended 31 December			Seven months ended 31 July
	2009	**2010**	**2011**	**2012**
Inventory turnover days (1)	29.5	27.5	30.8	37.9

Notes:

(1) Inventory turnover days for the year ended 31 December 2009, 2010 and 2011 and 31 July 2012 is calculated in the following manner: inventory at the beginning of a given year/period plus inventory at the end of a given year/period, divided by two, then divided by cost of sales during the given period and multiplied by the number of days of the given year/period.

There were no significant changes in the Target Group's inventory turnover days from 2009 to 2011. The Target Group's inventory turnover days increase from the year of 2011 to the seven months ended 31 July 2012 due to the lower sales the seven months ended 31 July 2012.

The following table sets forth, as of the dates indicated, an aging analysis of the inventories of the Target Group:

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 90 days	410,406	520,689	1,298,736	1,072,432
91 – 180 days	22,866	161,986	124,450	237,120
181 – 365 days	20,546	15,262	22,178	104,116
Over 1 year (including provision)	2,379	2,747	1,771	–

The Target Group closely monitors its inventory level and carries out physical stock-taking in the warehouses managed by the logistics companies from time to time to identify obsolete and slow-moving stocks.

The directors of the Target Group confirm that the Target Group reviews an ageing analysis at the end of each reporting period, and make allowance for obsolete and slow-moving inventory items. The directors of the Target Group confirm that the Target Group estimates the net realisable value for such raw materials, work-in-progress and finished goods based primarily on the latest invoice prices and current market conditions. The Target Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. And the provision will be made when the market price is lower than the unit cost of the products.

The procedures implemented by the Target Group to avoid slow-moving inventory include (1) monitoring the inventory of the products; (2) holding marketing activities; and (3) accepting some sales orders before placing the purchases with the suppliers.

As at 31 October 2012, approximately HK$1,195,374,000 of inventories, representing approximately 84.55% of the inventories of the Target Group as at 31 July 2012, have been subsequently utilized by the Target Group.

Trade and bills receivables

The Target Group allows an average credit period of 30-180 days to its trade customers including the fellow subsidiaries and ultimate holding company. The following is an aged analysis of trade receivables, net of allowance for trade receivables:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	338,743	671,367	672,185	475,540
31 – 60 days	95,761	125,105	221,860	288,291
61 – 90 days	20,885	30,120	47,788	67,024
91 – 180 days	10,690	51,160	49,531	82,062
Over 180 days	12,977	13,865	21,710	49,970
	479,056	891,617	1,013,074	962,887

The following table sets forth, as of the date indicated, an aging analysis of trade and bills receivables the Target Group allows to its third parties customers:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	338,619	670,079	671,088	473,948
31-60 days	94,570	124,989	221,779	267,669
61-90 days	18,449	30,110	47,704	67,024
91-180 days	9,740	51,142	46,434	82,054
Over 180 days	12,977	13,865	21,512	46,910
	474,355	890,185	1,008,517	937,605

The following table sets forth, as of the date indicated, an aging analysis of trade and bills receivables the Target Group allows to its related parties:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	124	1,288	1,097	1,592
31-60 days	1,191	116	81	20,622
61-90 days	2,436	10	84	–
91-180 days	950	18	3,097	8
Over 180 days	–	–	198	3,060
	4,701	1,432	4,557	25,282

Note: The related parties customers of the Target Group include the ultimate holding company and the fellow subsidiaries.

As confirmed by the directors of the Target Group. The Target Group has not granted and will not grant longer credit terms to its related parties customers. As confirmed by the directors of the Target Group. The credit periods granted by the Target Group to related parties customers is on normal commercial terms. The factors on which the Target Group determines the credit period to its sub-distributors include, but not limited to, (i) the product types which the sub-distributors order from the Target Group; and (ii) the competition environment of the IT products distribution market.

As confirmed by the directors of the Target Group, receivables are mainly settled by the bank bills issued by authorized financial institutions, but for a few customers who with good credit rating, based on individual cases, the Target Group will accept commercial bills. Commercial bills accounted for only approximately nil, 0.71%, 4.24% and 0.18% of total trade and bills receivables as at 31 December 2009, 2010 and 2011 and 31 July 2012 respectively.

Before accepting any new customer, the Target Group assesses the potential customer's credit quality and defines credit limits by customer. Some of these new customers are required to pay certain amounts in advance as deposits. The Target Group does not hold any collateral over these balances.

During the Track Record Period, the Target Group's trade receivables that are based on the past due dates which are past due but not impaired (for details please refer to Appendix I of this circular) (the "**Trade Receivables not impaired**") are approximately HK$16,863,000, HK$36,092,000, HK$58,252,000 and HK$119,672,000, respectively. According to the directors of the Target Group, there was an increase of the Trade Receivables not impaired during the Track Record Period because of the significant increase in new projects which were project-based in nature that bring in new sales revenue to the Target Group. These new projects were mainly attributable to sales of IT corporate products to institutions, such as banks, state-owned enterprise etc. Taking into consideration of the nature of such transactions, the settlement period of these new projects was so negotiated to a longer

period than the Target Group's normal credit terms. The directors of the Target Group considers that there has not been a significant change in credit quality and believes that the outstanding balances are still fully recoverable. Therefore, the directors of the Target Group have a view of not providing for any allowance for doubtful debts against these balances.

Regarding the credit controls on trade receivables, the Target Group has adopted the internal control measures as follows:

1) A credit policy has been defined and implemented by the Target Group as a guideline for granting and approving credits, and monitoring collection of receivables; and

2) All credit controls are centralized in its Beijing headquarter, including approvals and monitoring. A delegate team is responsible for performing regular compliance check against the credit policy and reporting any non-compliance incidents to the management of the Target Group.

On a monthly basis, the finance department of the Target Group in Beijing headquarter generates receivables ageing report and circulates the report to responsible sales team for tracking and collecting the overdue receivables. On a quarterly basis, the finance department makes a bad debt provision in accordance with the Target Group's accounting policy.

Up to 31 October 2012, the Target Group's subsequent settlement of trade and bills receivables as at 31 July 2012 totaled approximately HK$790,009,000, representing approximately 82.04% of its outstanding balance as at 31 July 2012.

The following table sets forth, for the periods indicated, the Target Group's average trade receivable turnover days:

	For the year ended 31 December			For the seven months ended 31 July
	2009	**2010**	**2011**	**2012**
Trade receivable turnover days [(1)]	25.2	30.8	26.0	24.9

Note:

(1) Trade receivable turnover days for each of the three year ended 31 December 2009, 2010 and 2011 and 31 July 2012 is calculated in the following manner: trade receivables at the beginning of a given year/period plus trade receivables at the end of a given year/period, divided by two, then divided by revenue during the given period and multiplied by the number of days of the given year/period.

There were no significant changes in the Target Group's trade receivable turnover days during the Track Record Period.

Estimated impairment of receivables

The Directors regularly reviews the recoverability and/or aging of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the combined statement of comprehensive income when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Target Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the present value of estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Target Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2009, 2010, 2011 and 31 July 2012, the carrying amount of trade and other receivables is approximately, HK$479,056,000, HK$891,617,000, HK$1,013,074,000 and HK$962,887,000 respectively, net of accumulated impairment losses of approximately HK$1,147,000, HK$932,000, HK$2,299,000 and HK$3,642,000 respectively.

As at 31 December 2009 and 2010 and 2011 and 31 July 2012, included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of approximately HK$1,147,000, HK$932,000, HK$2,299,000 and HK$3,642,000 respectively which have been in severe financial difficulties. The Target Group does not hold any collateral over these balances.

Below is the movement in the allowance for trade receivables during the Track Record Period:

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year/period	1,039	1,147	932	2,299
Impairment losses recognised on trade receivables	98	–	1,319	1,397
Exchange difference	10	41	48	(54)
Reversal of impairment losses	–	(256)	–	–
Balance at the end of the year/period	1,147	932	2,299	3,642

Prepayments, deposits and other receivables

The balance of prepayments, deposits and other receivables of the Target Group amounted to approximately HK$130,630,000, HK$116,945,000, HK$340,383,000 and HK$453,001,000 as at 31 December 2009, 2010 and 2011 and 31 July 2012 respectively. The following table sets forth a breakdown of the prepayments, deposits and other receivables as of the date indicated:

		As at 31 December			As at 31 July
		2009	2010	2011	2012
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deposits and other receivables		10,356	15,169	27,469	44,600
Other tax recoverable	*(1)*	–	–	74,728	85,164
Prepayments		120,274	101,776	238,186	323,237
		130,630	116,945	340,383	453,001

Notes:

(1) Representing the VAT recoverable. The rise in of VAT recoverable in 2011 (which means the balance of input VAT increased exceeds the balance of output VAT) was mainly caused by the increase in inventory of IT products in the year of 2011.

The Target Group and Target Co BVI's other receivables are individually assessed and no impairment loss was recognised during the Track Record Period.

Other receivables comprises of advances to outsourcing labors rental deposit paid and VAT refundable.

Prepayments comprises of advances to suppliers for purchasing of finished goods for trading. It is advised by Euromonitor that making advance payments to the suppliers is common in IT product distribution market. Up to 31 October 2012, the Target Group's subsequent usage of prepayments as at 31 July 2012 totaled approximately HK$272,677,000, representing approximately 84.35% of prepayments as at 31 July 2012.

Trade and bills payables

Included in the balances are amounts due to fellow subsidiaries and amount due to ultimate holding company.

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to fellow subsidiaries	–	1,790	178	–
Amount due to ultimate holding company	233	17	9	9

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

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	349,083	752,052	742,410	1,028,932
31 – 60 days	38,117	45,095	143,458	136,557
61 – 90 days	11,682	15,291	43,246	28,906
91 – 180 days	22,875	15,529	70,664	35,075
181 – 365 days	254	1,379	5,259	9,076
Over 1 year	671	132	3,492	3,807
Total	422,682	829,478	1,008,529	1,242,353

The following table sets forth, for the periods indicated, the Target Group's average trade payable turnover days:

	Year ended 31 December			Seven months ended 31 July
	2009	2010	2011	2012
Trade payables turnover days [(1)]	20.4	29.8	26.4	29.8

Notes:

(1) Trade payables turnover days for the year ended 31 December 2009, 2010 and 2011 and 31 July 2012 is calculated in the following manner: trade payables at the beginning of a given year/period plus trade payables at the end of a given year/period, divided by two, then divided by cost of sales during the given period and multiplied by the number of days of the given year/period.

The Target Group's trade payables turnover days increased from 2009 to 2010 and remained relatively stable from 2010 to 2011. The reason for the increase in 2010 was mainly due to the increase in the trade payables of the Target Group.

Other payables

The balance of other payables of the Target Group was approximately HK$51,298,000, HK$107,828,000, HK$149,691,000 and HK$154,695,000 as at 31 December 2009, 2010 and 2011 and 31 July 2012. The following table sets forth a breakdown of other payables as of the date indicated:

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	36,693	90,202	91,559	114,080
Accrued expenses	14,067	16,692	56,955	38,780
Interest payables	538	934	1,177	1,835
	51,298	107,828	149,691	154,695

Other payables comprises of freight charges payables, storage fees payables, dividend payables and other tax payables.

The other payables of the Target Group increased from approximately HK$36,693,000 in 2009 to approximately HK$90,202,000 in 2010, primarily reflecting the increase of other tax payable which mainly included VAT payable and was driven by the expansion of the Target Group's total sales in 2010.

Accrued expenses comprises of wages and bonus payables to management and outsourcing labors.

The accrued expenses increased from approximately HK$16,692,000 in 2010 to approximately HK$56,955,000 in 2011, primarily reflecting the increase of wages and bonus payable which was a result of the increase of total sales of the Target Group.

Interest payables comprises of interest payables to bank in related to short term bank loans and intra-group entrusted loans, and interest payable to other financial institutions in related to short term borrowings.

Customer deposits

Customer deposits consists of deposits for purchase of goods by customers for trading. The balance of customer deposits of the Target Group was approximately HK$44,943,000, HK$68,233,000, HK$188,760,000 and HK$116,343,000 as at 31 December 2009, 2010 and 2011 and 31 July 2012 respectively.

The Target Group may require certain sub-distributors who entered sales contracts with the Target Group on a project basis ("Project Based Sales Contract" to pay deposits to the Target Group). The significant increase in the customer deposits of the Target Group from 2010 to 2011 was mainly due to the increase of the Project Based Sales Contracts signed between the Target Group and some sub-distributors and the related deposits from such sub-distributors to the Target Group in the year of 2011.

The decrease in customer deposits of the Target Group from 31 December 2011 to 31 July 2012 was due to less deposits arose from Project Based Sales Contracts due to less Project Base Sales Contracts signed for the corresponding period, whilst it is the Target Group's practice to enter into Project Base Sales Contract during the fourth quarter of the year.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, the Target Group funded its operations primarily by cash generated from its operations, advances from ultimate holding company, bank and other borrowings. Assuming completion of the Acquisition, the Target Group expects to fund its operations with cash generated from its operation and through short-term bank and other borrowings. As at 31 December 2009, 2010 and 2011 and 31 July 2012, bank balances and cash of the Target Group amounted to HK$192,129,000, HK$123,436,000, HK$41,694,000 and HK$94,989,000 respectively. As at 31 July 2012 and 31 October 2012, the Target Group had access to unutilized credit facilities of approximately HK$128,562,000 and HK$470,898,000 correspondingly, whilst as at 31 July 2012 and 31 October 2012, the Target Group had bank and other borrowings of approximately HK$630,450,000 and HK$981,957,000 correspondingly. The Directors are of the opinion that the Target Group has adequate financial resources which are sufficient for it to carry on its operations.

Cash flow data

The following table sets out selected cash flow data from the cash flow statements of the Target Group for the year ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012:

	Year ended 31 December			Seven months ended 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash from (used in) operating activities	111,059	36,222	(467,946)	251,267
Net cash (used in) from investing activities	(19,034)	(286,964)	307,733	(7,041)
Net cash from (used in) financing activities	45,753	174,171	72,515	(249,565)
Cash and cash equivalents at beginning of the year/period	53,777	192,129	123,436	41,694
Effect of foreign exchange rate changes	574	7,878	5,956	(541)
Cash and cash equivalents at end of the year/period	192,129	123,436	41,694	35,814

Net cash from (used in) operating activities

For the seven months ended 31 July 2012, net cash from operating activities was approximately HK$251,267,000, which consists of a cash inflow of approximately HK$231,335,000 before movements in working capital and a net cash outflow of approximately HK$89,474,000 of income tax payments, partially offset by a cash inflow from operating activities before movements in working capital but after adjustments for non-cash and other items of approximately HK$42,477,000. Cash inflow from operating activities before movements in working capital consisted of (i) profit before tax of approximately HK$188,858,000; (ii) finance costs of approximately HK$31,660,000; (iii) allowance for obsolete inventories of approximately HK$12,045,000; (iv) impairment losses recognised on trade receivables of approximately HK$1,397,000; (v) depreciation for plant and equipment of approximately HK$3,718,000 and (vi) loss on disposal of plant and equipment of approximately HK$3,000; and offset by (i) bank interest income of approximately HK$631,000; (ii) reversal of allowance for obsolete inventories of approximately HK$5,061,000; and (iii) government subsidies of approximately HK$654,000. Cash outflow from movements in working capital consisted of (i) increase in prepayments, deposits and other receivables of approximately HK$119,249,000; and (ii) decrease in customer deposits of approximately HK$70,772,000, offset by (i) decrease in inventories of approximately HK$6,011,000; (ii) decrease in trade and bills receivables of approximately HK$34,860,000; (iii) increase in trade and bills payables of approximately HK$251,965,000; and (iv) increase in other payables of approximately HK$6,591,000.

For the year ended 31 December 2011, net cash used in operating activities was approximately HK$467,946,000, which consists of a cash inflow of approximately HK$327,231,000 before movements in working capital and a net cash outflow of approximately HK$70,495,000 of income tax payments, partially offset by a cash inflow from operating activities before movements in working capital but after adjustments for non-cash and other items of approximately HK$31,207,000. Cash inflow from operating activities before movements in working capital consisted of (i) profit before tax of approximately HK$296,024,000; (ii) finance costs of approximately HK$31,983,000; (iii) allowance for obsolete inventories of approximately HK$6,147,000; (iv) impairment losses recognised on trade receivables of approximately HK$1,319,000; and (v) depreciation for plant and equipment of approximately HK$5,444,000 and offset by (i) bank interest income of approximately HK$1,874,000; (ii) gain on disposal of plant and equipment of approximately HK$250,000; (iii) government subsidies of approximately HK$10,451,000; and (iv) waiver of other payable of approximately HK$1,111,000. Cash outflow from movements in working capital consisted of (i) increase in inventories of approximately HK$718,382,000; (ii) increase in trade and bills receivables of approximately HK$83,900,000; (iii) increase in prepayments, deposits and other receivables of approximately HK$218,003,000, offset by (i) increase in trade and bills payables of approximately HK$142,513,000; (ii) increase in other payables of approximately HK$36,164,000; and (iii) increase in customer deposits of approximately HK$116,926,000.

The net operating cash outflow of the Target Group in 2011 was primarily due to the increase in (i) inventory level as a result of introducing new product lines by the Target Group in 2011; and (ii) the payments of the procurement that took place at the end of 2010.

For the year ended 31 December 2010, net cash from operating activities was approximately HK$36,222,000, which consists of a cash inflow of approximately HK$229,742,000 before movements in working capital and a net cash outflow of approximately HK$50,018,000 of income tax payments, partially offset by a cash inflow from operating activities before movements in working capital but after adjustments for non-cash and other items of approximately HK$29,598,000. Cash inflow from operating activities before movements in working capital consisted of (i) profit before tax of approximately HK$200,144,000; (ii) finance costs of approximately HK$20,554,000; (iii) allowance for obsolete inventories of approximately HK$8,120,000; and (iv) depreciation for plant and equipment of approximately HK$5,296,000 and offset by (i) bank interest income of approximately HK$1,233,000; (ii) reversal of impairment on trade receivables of approximately HK$256,000; and (iii) gain on disposal of plant and equipment of approximately HK$7,000; and (iv) government subsidies of approximately HK$2,876,000. Cash outflow from movements in working capital consisted of (i) increase in inventories of approximately HK$233,356,000; and (ii) increase in trade and bills receivables of approximately HK$390,731,000, offset by (i) decrease in prepayments, deposits and other receivables of approximately HK$18,468,000; (ii) increase in trade and bills payables of approximately HK$387,388,000; (iii) increase in other payables of approximately HK$53,329,000 and (iv) increase in customer deposits of approximately HK$21,400,000.

For the year ended 31 December 2009, net cash from operating activities was approximately HK$111,059,000, which consists of a cash inflow of approximately HK$200,466,000 before movements in working capital and a net cash outflow of approximately HK$32,489,000 of income tax payments, partially offset by a cash inflow from operating activities before movements in working capital but after adjustments for non-cash items of approximately HK$15,367,000. Cash

inflow from operating activities before movements in working capital consisted of (i) profit before tax of approximately HK$185,099,000; (ii) finance costs of approximately HK$11,642,000; (iii) impairment losses recognised on trade receivables of approximately HK$98,000; (iv) loss on disposal of plant and equipment of approximately HK$29,000 and (v) depreciation for plant and equipment of approximately HK$4,759,000 and offset by bank interest income of approximately HK$1,161,000. Cash outflow from movements in working capital consisted of (i) increase in inventories of approximately HK$124,754,000; (ii) increase in trade and bills receivables of approximately HK$236,967,000; and (iii) increase in prepayments, deposits and other receivables of approximately HK$46,254,000, offset by (i) increase in trade and bills payables of approximately HK$300,548,000; (ii) increase in other payables of approximately HK$27,387,000; and (iii) increase in customer deposits of approximately HK$23,122,000.

Net cash (used in) from investing activities

For the seven months ended 31 July 2012, net cash used in investing activities was approximately HK$7,041,000, consisting of (i) purchases of plant and equipment of approximately HK$7,459,000; (ii) placement of pledged bank deposits of approximately HK$484,000; and (iii) advance to ultimate holding company of approximately HK$26,000 offset by (i) proceeds from disposal of plant and equipment of approximately HK$297,000; and (ii) interest received of approximately HK$631,000.

For the year ended 31 December 2011, net cash from investing activities was approximately HK$307,733,000, consisting of purchases of plant and equipment of approximately HK$7,555,000, offset by (i) proceeds from disposal of plant and equipment of approximately HK$250,000; (ii) withdrawal of pledged bank deposits of approximately HK$313,164,000; and (iii) interest received of approximately HK$1,874,000.

For the year ended 31 December 2010, net cash used in investing activities was approximately HK$286,964,000, consisting of (i) purchases of plant and equipment of approximately HK$2,225,000; and (ii) placement of pledged bank deposits of approximately HK$286,000,000, offset by (i) proceeds from disposal of plant and equipment of approximately HK$28,000; and (ii) interest received of approximately HK$1,233,000.

For the year ended 31 December 2009, net cash used in investing activities was approximately HK$19,034,000, consisting of (i) purchases of plant and equipment of approximately HK$4,487,000; and (ii) placement of pledged bank deposits of approximately HK$16,032,000, offset by (i) proceeds from disposal of plant and equipment of approximately HK$324,000; and (ii) interest received of approximately HK$1,161,000.

Net cash from (used in) financing activities

For the seven months ended 31 July 2012, net cash used in financing activities was approximately HK$249,565,000, consisting of (i) new bank and other borrowings raised of approximately HK$639,946,000; and (ii) government subsidies of approximately HK$17,499,000, offset by (i) repayment of bank loans of approximately HK$12,332,000; (ii) repayment to ultimate holding company of approximately HK$665,928,000; (iii) dividend paid to non-controlling interests of approximately HK$2,853,000; (iv) dividend paid of approximately HK$194,922,000; and (v) interest paid of approximately HK$30,975,000.

For the year ended 31 December 2011, net cash from financing activities was approximately HK$72,515,000, consisting of (i) new bank loans raised of approximately HK$12,325,000; (ii) advance from ultimate holding company of approximately HK$81,520,000; and (iii) government subsidies of approximately HK$10,451,000, offset by interest paid of approximately HK$31,781,000.

For the year ended 31 December 2010, net cash from financing activities was approximately HK$174,171,000, consisting of (i) advance from ultimate holding company of approximately HK$205,289,000; (ii) government subsidies of approximately HK$2,876,000; and (iii) issued share of approximately HK$21,509,000, offset by (i) dividend paid to non-controlling interests of approximately HK$899,000; (ii) dividend paid of approximately HK$34,422,000; and (iii) interest paid of approximately HK$20,182,000.

For the year ended 31 December 2009, net cash from financing activities was approximately HK$45,753,000, consisting of advance from ultimate holding company of approximately HK$57,344,000, offset by interest paid of approximately HK$11,591,000.

Net current assets of the Target Group

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*
Net current assets	392,201	541,239	575,309	715,802

BANK AND OTHER BORROWINGS

The following table shows the Target Group's borrowings from banks and other financial institutions as at 31 December 2009, 2010 and 2011 and 31 July 2012, respectively.

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdraft-unsecured	–	–	–	59,175
Bank borrowings	–	–	12,325	132,341
Other borrowings	–	–	–	498,109
			12,325	630,450
Secured	–	–	–	229,533
Unsecured	–	–	12,325	400,917
			12,325	630,450
Fixed interest rates	–	–	7.62% p.a.	5% – 9% p.a.

As at 31 July 2012, the total unutilized banking facilities of the Target Group was approximately HK$128,562,000. The unutilized banking facilities of the Target Group were committed facilities and of which approximately HK$58,874,000 was guaranteed by the related parties. Such guarantee will be released before the Completion.

The Target Group's borrowings are all denominated in RMB, and all balances are on demand or within one year. The significant increase in bank and other borrowings was mainly due to the fact that Target Group has repaid all its amount due to ultimate holding company as at 31 July 2012 which was amounted to approximately HK$665,928,000. Such funding was replaced by, mainly, bank borrowings and financing provided trust companies in the PRC which was amounted to approximately HK$618,125,000 as at 31 July 2012. The other borrowings of the Target Group as at 31 July 2012 mainly comprise the unsecured borrowings provided by the trust companies in PRC. For the significant increased amount in bank and other borrowings as at 31 October 2012, it was mainly due to increased in borrowings mainly provided by the banks and trust companies in PRC from 1 August 2012 to 31 October 2012. It is the Target Group's seasonal practice to enter into project base sales contract during the fourth quarter of the year. Such purchases require additional financing through bank and other borrowings. The Target Group's increase in interest expense for the ten months ended 31 October 2011 compared to the corresponding period in 2012 was mainly attributable to (i) the replacement of guarantees provided by the ultimate holding company; and (ii) the additional bank and other borrowings to finance the Target Group's purchases to support its sales during the period from August 2012 to October 2012.

Under the bank loan agreements, if the Target Group breaches certain convenants, the Target Group will be requested to repay the bank borrowings upon the bank's demand. Examples of breaches include,: (i) if the Target Group uses the loan for purposes other than that stated in the loan agreement; (ii) if the Target Group's operational and financial conditions deteriorate and is unable to repay the debts due, or become involved or will be involved in significant litigation, arbitration proceedings and other legal disputes which affects or impairs the lender's interest or rights under the loan agreement; (iii) if the Target Group refuses to accept the lender's supervision on the use of loans and its operational and financial activities; (iv) if the Target Group fails to repay the principal, interest or fees stipulated under the loan agreement; and (v) any other matters that might threaten the lender's interest or right or lead the lender into suffering significant loss under the loan agreement. During the Track Record Period and up to the Latest Practicable Date, as confirmed by the directors of the Target Group none of the covenants relating to its bank borrowings had been breached, and none overdue repayment by the Target Group was taken place.

The directors of the Target Group have confirmed that the recent global financial market volatility, credit tightening in the PRC and debt crisis in Wenzhou will not have material adverse impact on the Target Group's ability to obtain external financing going forward. The directors of the Target Group do not foresee any difficulties in obtaining additional financing from external sources.

The Target Group had not delayed or defaulted in any repayment of bank borrowings during the Track Record Period.

DEFERRED INCOME

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Government grants raised during the year/period	–	–	–	17,043
Government grants amortised during the year/period	–	–	–	(198)
Exchange realignment	–	–	–	(251)
	–	–	–	16,594

During seven months ended 31 July 2012, the Target Group received government grants of approximately HK$4,711,000 towards the research and development expenditure of the project namely "城市室內外高精度定位導航關鍵技術與服務系統" 主體專案. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. This policy has resulted in a credit to income in the current period of approximately HK$198,000.

During seven months ended 31 July 2012, the Target Group received government grants of approximately HK$12,332,000 towards the acquisition of plant and equipment of the project namely "車載信息終端研發與應用示範". The amounts have been treated as deferred income and transferred to income over the useful lives of the related assets. No amortisation was made during the Track Record Period as the relevant plant and equipment has not yet been acquired.

FINANCIAL RATIOS

The following table sets forth as at the dates indicated, the net profit margin, return on total assets, current ratios, quick ratios, and gearing ratios of the Target Group:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
Net profit margin [(1)]	2.6%	1.8%	1.6%	1.6%
Return on total assets [(2)]	10.4%	6.6%	7.3%	4.7%
Current ratio [(3)]	1.4	1.3	1.3	1.3
Quick ratio [(4)]	0.9	0.9	0.6	0.7
Gearing ratio [(5)]	113.5%	139.1%	214.3%	138.0%

Notes:

(1) Net profit margin = (net profit / total revenue) x 100%.
(2) Return on total assets = (net profit / total assets) x 100%.
(3) Current ratio = current assets / current liabilities.
(4) Quick ratio = (current assets-inventory) / current liabilities.
(5) Gearing ratio = (total debt / total equity) x 100%.

Net profit margin

The Target Group's net profit margin for each of the years ended 31 December 2009, 2010 and 2011 and for the seven months ended 31 July 2012 was 2.6%, 1.8%, 1.6% and 1.6%, respectively. The Target Group's net profit margin recorded a decreasing trend during the Track Record Period.

Return on total assets

The Target Group's return on total assets for each of the three years ended 31 December 2009, 2010 and 2011 and for the seven months ended 31 July 2012 was 10.4%, 6.6%, 7.3% and 4.7%, respectively. Return on total assets decrease from 2009 to 2010 and from 2011 to 2012, and remained relatively stable from 2010 to 2011. The decrease was mainly due to the relatively greater increase in total assets from 2009 to 2010 and from 2011 to 2012.

Current ratio

The Target Group's current ratio for each of the three years ended 31 December 2009, 2010 and 2011 and for the seven months ended 31 July 2012 was 1.4, 1.3, 1.3 and 1.3, respectively. The current ratio remained stable for the Track Record Period.

Quick ratio

The Target Group's quick ratio for each of the three years ended 31 December 2009, 2010 and 2011 and for the seven months ended 31 July 2012 was 0.9, 0.9, 0.6 and 0.7, respectively. The quick ratio remained stable from 2009 to 2010, decrease from 2010 to 2011 and increase from 2011 to 2012. The decrease was due to increase in inventories of the Target Group as at 31 December 2011, and the increase was due to decrease in inventories of the Target Group as at 31 July 2012.

Gearing ratio

The Target Group's gearing ratio for each of the three year ended 31 December 2009, 2010 and 2011 and for the seven months ended 31 July 2012 was 113.5%, 139.1%, 214.3% and 138.0%, except an respectively. The gearing ratio remained relatively stable for the Track Record Period increase from 2010 to 2011. The reason for the increase in 2011 was due to the increase in current liabilities as at 31 December 2011 arising from increase of other payables, amounts due to directors/shareholders and deposits received.

During the Track Record Period, the Target Group recorded declining gross and net profit margins and increasing bank borrowings, the Directors and the directors of the Target Group consider that:

1. it is expected that the Target Group will focus on IT Corporate Products because IT Corporate Products' gross profit margin is relatively high as compared with that of IT Consumer Products. During the Track Record Period, the gross profit margin of IT Corporate Products was approximately 7.84%, 7.32%, 7.49%, and 8.01%, respectively. At the same time the gross profit margin of IT Consumer Products was approximately 6.09%, 4.49%, 3.82% and 3.35%, respectively;

2. as disclosed in the section headed "Statement of Business Objectives" of this circular, the Target Group intends to (i) broaden of its IT products range; (ii) extension of sales network and coverage of the Target Group; and (iii) expansion into Southeast Asia so as to broaden the revenue base of the Target Group;

3. the Target Group has committed itself, on the ongoing basis, to set up monitoring system for financial risk control, including but not limited to, system to closely monitoring of the recovery of sales proceeds of the Target Group, so as to better manage the financial risk of the Target Group and control the gearing of the Target Group,

Therefore, the Directors and the directors of the Target Group expect that the deteriorating margins of the Target Group can be better managed.

During the Track Record Period, the Target Group had unsecured bank overdrafts of nil, nil, nil and approximately HK$59.2 million, bank borrowings of nil, nil, approximately HK$12.3 million and HK$132.3 million and other borrowings of nil, nil, nil, and HK$498.1 million, respectively. The directors of the Target Group considered that the reasons attributable to the significant increase in bank borrowings during the Track Record Period was due to the fact that the Target Group's bank borrowings were utilized to finance the business growth of the Target Group. During the Track Record Period, the total sales revenue of the Target Group were approximately HK$5,204 million, HK$8,116 million, HK$13,358 million and HK$8,440 million, respectively.

In view of (i) the future development as set out in the section headed "Statement of Business Objectives" of this circular; and (ii) the ongoing commitment of the management of the Target Group to strengthen its financial risk management system, the Directors and the directors of the Target Group have the view that the Target Group can better manage its credit risk in future.

SENSITIVITY ANALYSIS

The profit of the Target Group is subject to, amongst others, selling price of the products and cost of sales and services provided. The following table illustrates the sensitivity analysis of the profit for the year/period of the Target Group for each of the financial years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012 with reference to movements in average selling prices and average costs of sales of IT consumer products, IT corporate products and other products, assuming all other variables are held constant. The movements of average selling prices and average costs of sales of IT consumer products, IT corporate products and other products for each of the

financial years ended 31 December 2009, 2010 and 2011 and the seven months ended 31 July 2012 used in the below analysis represent the average fluctuation of each product category's respective average selling prices and average costs of sales (in percentage terms) during the Track Record Period, which the Directors consider to be reasonable fluctuation range used in the sensitivity analysis.

For the year ended 31 December 2009

	Increase/decrease in the average selling prices	**Approximate increase/decrease in profit for the year** *HK$ million*
IT Consumer Products	+/– 3.1%	+/– 86
IT Corporate Products	+/– 20.4%	+/– 236
Others	+/– 9.7%	+/– 6
Combined impact		+/– 328

	Increase/decrease in the average cost of sales	**Approximate decrease/increase in profit for the year** *HK$ million*
IT Consumer Products	+/– 3.6%	+/– 93
IT Corporate Products	+/– 20.5%	+/– 218
Others	+/– 9.3%	+/– 5
Combined impact		+/– 316

Minimum combined effect of average selling prices and average cost of sales movements on profit for the year *HK$ million*	**Maximum combined effect of average selling prices and average cost of sales movements on profit for the year** *HK$ million*
+/-12	+/– 644

For the year ended 31 December 2010

	Increase/decrease in the average selling prices	**Approximate increase/decrease in profit for the year** *HK$ million*
IT Consumer Products	+/– 8.6%	+/– 135
IT Corporate Products	+/– 29.2%	+/– 357
Others	+/– 21.7%	+/– 238
Combined impact		+/– 730

	Increase/decrease in the average cost of sales	**Approximate decrease/increase in profit for the year** *HK$ million*
IT Consumer Products	+/– 9.1%	+/– 149
IT Corporate Products	+/– 29.2%	+/– 331
Others	+/– 21.3%	+/– 215
Combined impact		+/– 695

Minimum combined effect of average selling prices and average cost of sales movements on profit for the year *HK$ million*	**Maximum combined effect of average selling prices and average cost of sales movements on profit for the year** *HK$ million*
+/-35	+/– 1,425

For the year ended 31 December 2011

	Increase/decrease in the average selling prices	**Approximate increase/decrease in profit for the year** *HK$ million*
IT Consumer Products	+/– 8.6%	+/– 234
IT Corporate Products	+/– 29.2%	+/– 472
Others	+/– 21.7%	+/– 46
Combined impact		+/– 752

	Increase/decrease in the average cost of sales	**Approximate decrease/increase in profit for the year** *HK$ million*
IT Consumer Products	+/– 9.1%	+/– 261
IT Corporate Products	+/– 29.2%	+/– 437
Others	+/– 21.3%	+/– 40
Combined impact		+/– 738

Minimum combined effect of average selling prices and average cost of sales movements on profit for the year *HK$ million*	**Maximum combined effect of average selling prices and average cost of sales movements on profit for the year** *HK$ million*
+/– 14	+/– 1,490

For the seven months ended 31 July 2012

	Increase/decrease in the average selling prices	**Approximate increase/decrease in profit for the period** *HK$ million*
IT Consumer Products	+/– 8.6%	+/– 132
IT Corporate Products	+/– 29.2%	+/– 361
Others	+/– 21.7%	+/– 33
Combined impact		+/– 526

	Increase/decrease in the average cost of sales	**Approximate decrease/increase in profit for the period** *HK$ million*
IT Consumer Products	+/– 9.1%	+/– 148
IT Corporate Products	+/– 29.2%	+/– 333
Others	+/– 21.3%	+/– 30
Combined impact		+/– 511

Minimum combined effect of average selling prices and average cost of sales movements on profit for the period *HK$ million*	**Maximum combined effect of average selling prices and average cost of sales movements on profit for the period** *HK$ million*
+/– 15	+/– 1,037

COMMITMENT

a) Operating lease arrangement

As at 31 December 2009, 2010 and 2011 and 31 July 2012, the Target Group leases certain of its premises and offices under operating lease arrangements. Leases contracts are negotiated and rentals are fixed for an initial period of one year to three years. Lease payments are usually increased annually to reflect market rentals. No provision for contingent rent and terms of renewal was established in the leases.

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases which fall due are as follows:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	5,390	6,038	4,132	3,342
In the second to fifth year inclusive	5,641	2,393	944	1,516
	11,031	8,431	5,076	4,858

b) Capital commitments

The Target Group had the following capital commitment as at 31 December 2009, 2010 and 2011 and 31 July 2012:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided for in the Financial Information in respect of expenditures on renovation:	–	–	4,605	–

RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

During the Track Record Period, the Target Group incurred certain related party transactions. Please refer to "History and background of the Target Group", "Relationship with the Controlling Shareholders", "Connected Transactions" and Notes 1 and 34 of Appendix I to this circular for more information on the related party transactions entered between the Target Group and the related parties.

MARKET RISKS

Financial risk management objectives and policies

The Target Group and Target Co BVI's major financial instruments include trade and bills receivables, deposits and other receivables, pledged deposits and bank balances and cash, trade and bills payables, other payables, dividend payable, amount due to a subsidiary, amount due to ultimate holding company, bank overdraft and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including interest risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Target Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The Target Group and Target Co BVI have foreign currency purchases, which expose the Group to foreign currency risk. For the year ended 31 December 2009, 2010, 2011 and seven months ended 31 July 2012, approximately 5%, 7%, 6% and 8% respectively, of the Group's purchases are denominated in US$ which is different from the functional currency of the relevant group entities making the purchases, whilst almost 99% of sales are denominated in the functional currency of the relevant group entities during the Track Record Period.

Interest rate risk

The Target Group's exposure to changes in interest rates is mainly attributable to its bank balances, pledged bank deposits, amount due to ultimate holding company, bank overdraft and bank borrowings. Bank balances and bank overdraft at variable rates expose the Target Group to cash flow interest-rate risk, while amount due to ultimate holding company and bank borrowings at fixed rates expose the Target Group to fair value interest-rate risk. The Target Group currently does not have an interest rate hedging policy. However, the Target Group monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Target Group's bank balances, amount due to ultimate holding company and bank and other borrowings and interest rates as at 31 December 2009, 2010 and 2011 and 31 July 2012 are set as below:

	At 31 December			At 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed rate				
Amount due to ultimate holding company	341,550	513,996	665,550	–
Interest rate	5.10% – 6.33% p.a.	5.10% – 6.30% p.a.	5.10% – 6.89% p.a.	–
Bank and other borrowings	–	–	12,325	630,450
Interest rate	–	–	7.62% p.a.	5%-9% p.a.
Variable rate				
Bank balances and pledged bank deposits	211,882	432,452	49,084	102,751
Interest rate	0.36% – 2.25% p.a.	0.36% – 2.75% p.a.	0.40% – 3.50% p.a.	0.50% – 3.50% p.a.
Bank overdraft	–	–	–	59,175
Interest rate	–	–	–	6% p.a.

As confirmed by the directors of the Target Group, during the Track Record Period, the Target Group did not enter into any hedging transactions.

Credit risk

As at 31 December 2009, 2010 and 2011 and 31 July 2012, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statement of financial position.

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

The credit risk on bank balances is limited because the pledged bank deposits and bank balances are maintained with state-owned banks or other creditworthy financial institutions in the PRC and overseas.

The counterparties of the Target Group are mainly in the PRC. However, the credit risk on geographical locations is limited as the counterparties are spread over among different cities and provinces in the PRC as at the end of each reporting period.

Liquidity risk

In management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Target Group monitors the utilisation of borrowings and other source of funding and considers the risk is minimal.

PROPERTY INTERESTS AND PROPERTY VALUATION

According to a due diligence report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, as at 31 October 2012, no single property interest that forms part of our property activities has a carrying amount of 1% or more of total assets, and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of total assets. The Target Group has owned 1 property in the PRC, with a gross floor area of approximately 106.63 sq.m. An overview of the said property interest is set out as follows:

No.	Address	Area *(sq.m.)*	Usage	Value *(RMB)*	Remarks
1	Room 602, Block 17, Guang Hao Hua Ting, No. 2 Jin Hua Road South, Shalang Town, Western District, Zhongshan City, Guangdong Province, the PRC	106.63	Residential	420,000	Nil

In addition, the Target Group has leased 31 properties in the PRC, with a total gross floor area of approximately 11,295.51 sq.m. An overview of the said property interests are set out as follows:

No.	Address	Area *(sq.m.)*	Usage	Commencement Date	Expiring Date	Rent *(RMB)*	Remarks
1	Room 501, Changhong Technology Centre, No. 35 Mianxing Road East, Gaoxin District, Mianyang City, Sichuan Province, the PRC	72.00	Office	1-Jan-12	31-Dec-14	1,142	The rent is on monthly basis and is exclusive of outgoing expenses.
2	Level 7 to Level 12, Block 26, District 18, No. 188 Nansihuan Road West, Feng Tai District, Beijing, the PRC	6,348.00	Office	1-Jun-12	31-May-17	438,000	The tenant has the right to terminate the tenancy contract upon the completion of the third year of tenancy. The rent is on monthly basis and is inclusive of management fees but exclusive of outgoing expenses.
3	No. 402, Huangsongyu Road East, Huangsongyu Xiang, Pinggu District, Beijing, the PRC	50.00	Office	3-Nov-11	2-Nov-13	Nil	Registered address.
4	Room 601, No. 1701 Beijing Road West, Jingan District, Shanghai, the PRC	126.66	Office	15-Oct-11	14-Oct-13	20,000	The rent is on monthly basis and is exclusive of outgoing expenses.
5	Room 1028-1032, Level 10, Yu Lin Feng Shang Commercial Port, No. 47 Yongfeng Road, Chengdu City, Sichuan Province, the PRC	303.00	Office	13-Nov-10	12-Nov-12	21,210	The rent is on monthly basis and is exclusive of outgoing expenses.
6	Room 3405-3408, No. 898 Tianhe Road North, Tianhe District, Guangzhou City, Guangdong Province, the PRC	432.61	Office	16-May-12	15-May-14	16-May-12 to 15-May-13: 38,935 16-May-13 to 15-May-14: 40,882	The rent is on monthly basis and is exclusive of outgoing expenses.

No.	Address	Area *(sq.m.)*	Usage	Commencement Date	Expiring Date	Rent *(RMB)*	Remarks
7	Room A1702-1703, Huaxing New Trend Plaza, No. 478 Wensan Road, Hangzhou City, Zhejiang Province, the PRC	362.6	Office	9-Apr-12	8-Apr-14	449,987	The rent is on annual basis and is exclusive of outgoing expenses.
8	Room E1-E4, Level 10, No. 90 Zhongshan Road East, Baixia District, Nanjing City, Jiangsu Province, the PRC	327.94	Office	15-May-12	14-May-14	311,215	The rent is on annual basis and is exclusive of outgoing expenses.
9	Room 1110, Ginza Cyber Plaza, No. 178 Shandai Road, Jinan City, Shandong Province, the PRC	173.55	Office	1-Feb-10	1-Feb-13	25,000	The rent is on quarterly basis and is exclusive of outgoing expenses.
10	Room 2102-2103, Level 21, Lippo Tian Ma Plaza, No. 1 Wu Yi Road North, Fuzhou City, Fujian Province, the PRC	190.72	Office	5-Nov-10	4-Nov-13	1st year: 9,600 2nd year: 10,368 3rd year: 11,197	The rent is on monthly basis and is exclusive of outgoing expenses.
11	Block B, Level 15, Jiezuo Plaza, No. 4 Fenghui Road South, Gaoxin District, Xián City, Shanxi Province, the PRC	256.96	Office	1-Jan-11	31-Dec-12	14,904	The rent is on monthly basis and is exclusive of outgoing expenses.
12	Room 3206-3207, Level 32, Tai He Plaza, No. 134 Wusheng Road, Qiaokao District, Wuhan City, Hubei Province, the PRC	287.20	Office	1-Nov-11 1-Nov-12	31-Oct-12 31-Oct-13	15,641.6 20,678.4	The rent is on monthly basis and is inclusive of management fees, water and common electricity charge but exclusive of any other outgoing expenses.
13	Room D and E, Level 8, Sida Cyber Building, No. 26 Jingsan Road, Jinshui District, Zhengzhou City, Henan Province, the PRC	277.51	Office	15-Apr-11	14-Apr-13	14,772	The rent is on monthly basis and is exclusive of outgoing expenses.

No.	Address	Area *(sq.m.)*	Usage	Commencement Date	Expiring Date	Rent *(RMB)*	Remarks
14	Room 915, 916 and 917, Level 9 Shenyang Xin Xi Chan Ye Building, No. 55 Shanhao Street, Heiping District, Shenyang City, Liaoning Province, the PRC	298.00	Office	1-Nov-11	31-Oct-12	259,260	The rent is on annual basis and is inclusive of management fees and air conditioning charge but exclusive of any other outgoing expenses. * Upon the expiry of the tenancy, the tenant will be relocated to Property 14a
14a	Room 1901-1904, 1914 and 1915, No. 322 Qingnian Main Street, Heping District, Shenyang City, Liaoning Province, the PRC	438.19	Office	3-Aug-12	31-Oct-15	Commence on 1-Nov-12 1st year: 359,160 2nd year: 359,160 3rd year: 377,118	Rent free period from 3-Aug-12 to 31-Oct-12 The rent is on annual basis and is exclusive of management fees and any other outgoing expenses.
15	Room 1806, Industrial and Commercial Bank Jiashu Building, No. 3 Renmin Road Cheshi Xiang, Tianshan District, Urumqi City, Xinjiang Province, the PRC	85.00	Office	17-May-12	17-May-13	2,500	The rent is on monthly basis and is exclusive of water, electricity, gas and hygiene expenses but inclusive of heating charge, management fee and other expenses.
16	Room 2407-2408, Block B, Qunxing Plaza, Shenzhen City, Guangdong Province, the PRC	166.73	Office	16-May-11	15-May-13	11,800	The rent is on monthly basis and is inclusive of management fees and heating charge but exclusive of any other outgoing expenses.
17	Room 2301, Block C, Ao Lan Ming Men, No. 109 Qingyang Road, Lanzhou City, Gansu Province, the PRC	85.00	Office	5-May-12	4-May-13	2,700	The rent is on monthly basis and is exclusive of outgoing expenses.

No.	Address	Area *(sq.m.)*	Usage	Commencement Date	Expiring Date	Rent *(RMB)*	Remarks
18	Room 1, Level 1, Section 2, Block 11, Zhong Hua Court, Gaoxin District, Mianyang City, Sichuan Province, the PRC	98.68	Office	23-Jan-11	22-Jan-13	900	The rent is on monthly basis and is exclusive of outgoing expenses.
19	Room 302, Level 3, Section 4, Block E, Wenhua Jiayuan, No. 258 Nantong Main Street, Nangang District, Harbin City, Heilongjiang Province, the PRC	105.17	Office	1-Jul-12	30-Jun-13	33,600	The rent is on annual basis and is inclusive of maintenance cost but exclusive of any other outgoing expenses.
20	Room 2802, Block 3, Chuangjing Garden, No. 69 Shuguang Road, Hefei City, Anhui Province, the PRC	112.00	Office	20-Feb-12	19-Feb-14	2,600	The rent is on monthly basis and is inclusive of management fees and heating charge but exclusive of any other outgoing expenses.
21	Room 625-626, No. 9 Renmin Road, Yuhua District, Chang Sha City, Hunan Province, the PRC	158.26	Office	25-Mar-12	24-Mar-14	1st year: 3,700 2nd year: 4,070	The rent is on monthly basis and is exclusive of outgoing expenses.
22	Room 1301, Section 1, Block 10, Zhuoyue SOHO Jun Tuan, Kunming City, Yunnan Province, the PRC	97.00	Office	14-Mar-11	13-Mar-14	2,600	The rent is on monthly basis and is exclusive of outgoing expenses.
23	Room 0706, No. 3 Building, Jing Dian Estate, No. 33 Changzhi Road, Taiyuan City, Shanxi Province, the PRC	100.00	Office	25-Jan-12	25-Jan-13	30,000	The rent is on annual basis and is inclusive of management fees but exclusive of any other outgoing expenses.

No.	Address	Area *(sq.m.)*	Usage	Commencement Date	Expiring Date	Rent *(RMB)*	Remarks
24	Room 2603, Block A, Gu Cheng Xin Yuan, No. 4-1 Gucheng Road, Nanning City, Guangxi Province, the PRC	86.00	Office	15-Apr-11	14-Apr-13	1,900	The rent is on monthly basis and is exclusive of outgoing expenses.
25	Room 2802 Section 1, Block 3, No. 8 Huangtai Road, Shibei District, Qingdao City, Shandong Province, the PRC	139.85	Office	12-Jul-11	11-Jul-14	43,000	The rent is on annual basis and is exclusive of outgoing expenses.
26	Room 401, Section 2, 17 Zone, No. 188 Nansihuan West Road, Fengtai District, Beijing, the PRC	40.00	Residential	15-May-12	14-May-13	48,000	The rent is on annual basis and is inclusive of heating charge but exclusive of outgoing expenses.
27	Room 1110, Zone 3, Block 3, Wanda Plaza, Hongqi Street, Changchun City, Jilin Province, the PRC	80.00	Office	13-Sep-11	13-Sep-13	2,400	The rent is on monthly basis and is inclusive of management fees and heating charge but exclusive of outgoing expenses.
28	No. 12 Xiyi Lane, Changhong Avenue South, Fucheng District, Mianyang City, Sichuan Province, the PRC		Office	1-Jan-11	31-Dec-13	Nil	Registered address.
29	Room 602, No. 1701 Beijing Road West, Jingan District, Shanghai, the PRC	248.55	Office	15-Oct-11	14-Oct-13	40,000	The rent is on monthly basis and is exclusive of outgoing expenses.
30	Room 508, No. 1701 Beijing Road West, Jingan District, Shanghai, the PRC	86.29	Office	1-Jul-12	14-Oct-13	13,123	The rent is on monthly basis and is exclusive of outgoing expenses.

No.	Address	Area *(sq.m.)*	Usage	Commencement Date	Expiring Date	Rent *(RMB)*	Remarks
31	Room 2002, Section 02, No. 5 Jiali Xiao Qu, No. 66 Minsheng Road, Qiao Dong District, Shijiazhuang City, Hebei Province, the PRC	100.23	Residential	12-Feb-12	12-Feb-13	2,200	The rent is on monthly basis and is exclusive of outgoing expenses.
	Total	**11,295.51**					

Material Property Analysis

The aforesaid property no. 2 is the headquarter of the Target Group and contributes a significant influence to the operation of the Target Group. No property is identified to be subject to any encumbrances, liens, pledges, mortgages which could cause material impact to the operation of the Target Group. Jones Lang LaSalle Corporate Appraisal and Advisory Limited is of the view that property no. 2 is the material property of the Target Group.

The table below shows a summary of the material property interest of the Target Group:

(1)	General description of location of the property	:	The property is located on Level 7 to Level 12, No. 188 Nansihuan Road West, Fengtai District, Beijing, the PRC. The property is situated in the Technology Zone in Feng Tai District, with neighboring developments mainly comprises of bank towers, technology centres, hotels and office buildings. Public transportation facilities such as franchised buses and Subway are located within a reasonable walking distance of the property.
(2)	Use and approximate area	:	The property comprises Level 7 to Level 12 of a 15 storey office building with a total gross floor area of approximately 6,348 sq.m.
(3)	Restriction on the usage	:	The Property is leased and occupied by the Group for office use.

(4)	Terms of tenure	:	Pursuant to a Tenancy Agreement, the property is leased to Changhong IT, a 90% subsidiary of Changhong (Hong Kong) Enterprises, a wholly owned of subsidiary of Target Co BVI as at the Latest Practicable Date, as lessee from Beijing Changhong Electronic Science and Technology Co., Ltd., as lessor for a term commencing from 1 June 2012 and expiring on 31 May 2017 at a monthly rent of RMB438,000, exclusive of any other outgoing expenses.
(5)	Details of encumbrances, liens, pledges, mortgages against the property	:	Nil
(6)	Environmental issue	:	There is no environmental issue, such as breach of environmental regulations for the use of the property as at the latest practicable date.
(7)	Details of investigations, notices, pending litigation, breaches of law or title defects	:	The owner has obtained the Building Ownership Certificate of the property. According to the Tenancy Agreement, the land use right of the property is for industrial purpose. However, the Target Group has changed the usage to office and therefore, it has a risk to be fined for a penalty of not more than RMB30,000. the Target Group may also has a risk to terminate the lease of the property.
(8)	Future plans for construction, renovation, improvement or development of the property and estimated associated costs	:	Nil
(9)	Plans to dispose if or change the use of the property	:	Nil
(10)	Any other information considered material for investors	:	Nil

DIVIDENDS

For the three years ended 31 December 2011 and seven months ended 31 July 2012 the Target Group declared dividends in aggregate amounts of nil, HK$34,422,000, HK$193,713,000 and nil, respectively. All dividends declared were fully paid prior to the Latest Practicable Date and the Target Group financed the payment of these dividends by its internal resources.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Except as disclosed in this circular, the Directors confirm that, as of the Latest Practicable Date, the Directors were not aware of any circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

WORKING CAPITAL

The Group and the Target Group have historically financed working capital primarily through proceeds from sales of electronic parts and components and consumer electronic products and IT Products, borrowings from banks, and advances from the Controlling Shareholders. The Enlarged Group will continue to finance the working capital proceeds from sales of products, and external borrowings from banks and other financial institutions.

The Target Group currently has obtained letters of intent from banks indicating their intention in granting banking facilities of an aggregate amount of approximately HK$1,282 million upon formal application by the Target Group. The Directors are of the opinion that, based on past experience, they have not experienced any significant difficulties for the Target Group to meet the requirements for applying such facilities and believe that the Target Group will finally get granted the relevant facilities.

The Directors, after due and careful enquiry, are of the opinion that following the Completion and after taking into account the financial resources available to the Enlarged Group, including internally generated funds and the available banking facilities; and subject to the availability of those banking facilities under the letters of intent, the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this Circular.

As at the Latest Practicable Date, the Company has only one class of shares in issue, namely, Ordinary Shares of HK$0.025 each. The table sets out details relating to the share capital of the Company as adjusted for the issue of the New Ordinary Shares and the New Convertible Preference Shares:

Authorised share capital		*HK$*
1,200,000,000	Ordinary Shares as at the Latest Practicable Date	30,000,000
5,000,000,000	New Ordinary Shares immediately after completion of the Acquisition	125,000,000
3,000,000,000	New Convertible Preference Shares	75,000,000
8,000,000,000		200,000,000

Issued share capital		*HK$*
334,000,000	Ordinary Shares in issue as at the Latest Practicable Date	8,350,000
135,000,000	New Ordinary Shares to be issued	3,375,000
1,877,868,000	New Convertible Preference Shares to be issued	46,946,700
2,346,868,000	New Ordinary Shares and New Convertible Preference Shares immediately after completion of the Acquisition (before conversion of any New Convertible Preference Shares)	58,671,700

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of completion of the Acquisition and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules). Accordingly, the holder(s) of the New Convertible Preference Shares could only convert the New Convertible Preference Shares to the extent that doing so would not result in the public float of the listed shares of the Company falling below the minimum level required in the GEM Listing Rules.

OUTSTANDING OPTIONS

Other than a total of 135,000,000 New Ordinary Shares and 1,877,868,000 New Convertible Preference Shares agreed to be issued under the Acquisition Agreement on completion of the Acquisition, there were no other outstanding options, warrants or other conversion rights over any part of the Company's share capital as at the Latest Practicable Date.

Other than the capital of the Company, there was no capital of any member of the Group which is under option, or agreed conditionally or unconditionally to be put under option.

GENERAL MANDATE

The Directors have been granted an unconditional general mandate to allot, issue and deal with unissued Ordinary Shares and to make or grant offers, agreements and options, including warrants to subscribe for Ordinary Shares. The aggregate nominal value of Ordinary Shares to be allotted and issued shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue as at the date of passing of the relevant resolution on 4 May 2012.

REPURCHASE MANDATE

The Directors have also been granted an unconditional general mandate to purchase Ordinary Shares on the Stock Exchange or any other stock exchange on which the Ordinary Shares may be listed. The aggregate nominal amount of Ordinary Shares which may be purchased or agreed to be purchased by the Company shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution on 4 May 2012.

These two mandates expire at the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable laws to be held; or

(iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing the authority given to the Directors by the relevant resolution.

The following is the text of reports, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.

信永中和 ShineWing

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

12 December 2012

The Directors
China Data Broadcasting Holdings Limited
China Merchants Securities (HK) Co., Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") regarding Sufficient Value Group Limited (the "Target Co BVI") and its subsidiaries (hereinafter collectively referred to as the "Target Group") for each of the three years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012 (the "Track Record Periods") for inclusion in a circular issued by China Data Broadcasting Holdings Limited (the "Company") dated 12 December 2012 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Target Co BVI from Fit Generation Holding Limited ("Fit Generation") (the "Proposed Acquisition").

Target Co BVI was incorporated and registered as an exempted company with limited liability in the British Virgin Islands (the "BVI") on 28 March 2011. Pursuant to a group reorganisation as described in the sub-section headed "The Reorganisation" in the section headed "History and Background of the Target Group" in the Circular (the "Reorganisation"), Target Co BVI became the holding company of the companies comprising the Target Group on 5 March 2012.

As at 31 December 2009, 2010, 2011, 31 July 2012 and the date of this report, Target Co BVI has direct and indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of Company	*Notes*	Place and date of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to Target Co BVI				Principal activities
				As at 31 December			As at 31 July 2012 and the date of this report	
Direct equity interest				**2009**	**2010**	**2011**		
Changhong (Hong Kong) Enterprises Limited 港虹實業有限公司 ("Changhong (Hong Kong) Enterprises")		Hong Kong 1 June 2011	HK$10,001	–	–	100%	100%	Investment holding
Indirect equity interest								
Changhong IT Information Products Co., Ltd. 四川長虹佳華信息產品有限責任公司 ("Changhong IT")	*(i, ii)*	The People's Republic of China (the "PRC") 13 October 2004	RMB200 million	–	–	–	90%	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Changhong IT Digital Technology Co., Ltd. 四川長虹佳華數字技術有限公司 ("Changhong IT Digital")	*(i, iii)*	The PRC 12 August 2008	RMB50 million	–	–	–	90%	Provision of professional integrated IT solutions and services and distribution of consumer digital products
Beijing Changhong IT Intelligence System Co., Ltd. 北京長虹佳華智能系統有限公司 ("Changhong IT Intelligence")	*(i, iv)*	The PRC 3 November 2010	RMB50 million	–	–	–	90%	Provision of professional integrated IT solutions and services and distribution of consumer digital products

Notes:

(i) The English name is for identification purpose only.

(ii) Changhong IT was established in the PRC as a domestic company.

(iii) Changhong IT Digital was established in the PRC as a domestic company and is a wholly owned subsidiary of Changhong IT.

(iv) Changhong IT Intelligence was established in the PRC as a domestic company and is 50% owned by Changhong IT and 50% owned by Changhong IT Digital respectively.

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

No audited statutory financial statements have been prepared for Target Co BVI since its date of incorporation as there is no such statutory requirement. For the purpose of this report, we have, however, reviewed all the relevant transactions of this company since the date of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to this company.

No audited statutory financial statements have been prepared for Changhong (Hong Kong) Enterprises since its date of incorporation as its first statutory financial statements which cover the period from date of incorporation to 31 December 2011 is not due to be issued. For the purpose of this report, we have, however, reviewed all the relevant transactions of this company since the date of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to this company.

The statutory audited financial statements for the years ended 31 December 2009, 2010 and 2011 or since the date of establishment, whichever is earlier, of Changhong IT, Changhong IT Digital and Changhong IT Intelligence were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC.

The statutory auditors of the following companies during the Track Record Periods are as follows:

Name of company	**Financial period**	**Statutory auditor** *(Note i)*
Changhong IT	For each of the three years ended 31 December 2009, 2010 and 2011	ShineWing Certified Public Accountants Chengdu Branch 信永中和會計師事務所成都分所 *Certified Public Accountants registered in the PRC*
Changhong IT Digital	For each of the three years ended 31 December 2009, 2010 and 2011	ShineWing Certified Public Accountants Chengdu Branch 信永中和會計師事務所成都分所 *Certified Public Accountants registered in the PRC*
Changhong IT Intelligence	From 3 November 2010 (date of establishment) to 31 December 2011	ShineWing Certified Public Accountants Chengdu Branch 信永中和會計師事務所成都分所 *Certified Public Accountants registered in the PRC*

Note i: The English name is for identification purpose only.

For the purpose of this report, the director of Target Co BVI has prepared the combined financial statements of the Target Group for the Track Record Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have carried out independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information of the Target Group for the Track Record Periods as set out in this report for inclusion in the Circular has been prepared from the Underlying Financial Statements, on the basis of presentation set out in note 1 of Section B, whereas no adjustment was considered necessary. We have examined the Underlying Financial Statements and have carried out such additional procedures as considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

DIRECTORS' RESPONSIBILITY

The director of Target Co BVI is responsible for the preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view in accordance with HKFRSs issued by the HKICPA. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that the judgements and estimates made are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. The directors of the Company are also responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an independent opinion on the Financial Information based on our audit procedures and to report our opinion thereon to you.

OPINION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 1 of Section B below, the Financial Information gives a true and fair view of the state of affairs of the Target Group as at 31 December 2009, 2010, 2011 and 31 July 2012, and of Target Co BVI as at 31 December 2011 and 31 July 2012, and of the combined results and cash flows of the Target Group for the Track Record Periods.

REVIEW CONCLUSION

The comparative combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Target Group for the seven months ended 31 July 2011 together with the notes thereto have been extracted from the Target Group's unaudited combined financial statements for the same period (the "31 July 2011 Financial Information") which was prepared by the director of Target Co BVI solely for the purpose of this report.

We have reviewed the 31 July 2011 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review consists principally of making enquires, primarily of persons responsible for financial and accounting matters and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 July 2011 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the 31 July 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in preparation of the Financial Information with conform with HKFRSs.

A. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

	Notes	Year ended 31 December 2009 HK$'000	2010 HK$'000	2011 HK$'000	Seven months ended 31 July 2011 HK$'000 (Unaudited)	2012 HK$'000
Turnover	7	5,204,358	8,115,756	13,357,743	6,761,560	8,439,564
Cost of sales and services provided		(4,858,440)	(7,681,054)	(12,729,924)	(6,427,260)	(8,046,355)
Gross profit		345,918	434,702	627,819	334,300	393,209
Other income	9	1,775	7,780	20,053	11,789	1,574
Selling and distribution expenses		(108,687)	(160,548)	(226,500)	(114,607)	(135,692)
Administrative expenses		(42,265)	(61,236)	(93,365)	(36,144)	(38,573)
Finance costs	10	(11,642)	(20,554)	(31,983)	(9,421)	(31,660)
Profit before tax		185,099	200,144	296,024	185,917	188,858
Income tax	11	(50,008)	(57,544)	(87,390)	(46,340)	(51,313)
Profit for the year/period	12	135,091	142,600	208,634	139,577	137,545
Other comprehensive income for the year/period:						
Exchange differences arising on translation of foreign operations		2,556	17,844	24,720	16,201	(10,479)
Total comprehensive income for the year/period		137,647	160,444	233,354	155,778	127,066
Profit for the year/period attributable to:						
Owners of Target Co BVI		134,186	133,206	188,033	125,619	123,790
Non-controlling interests		905	9,394	20,601	13,958	13,755
		135,091	142,600	208,634	139,577	137,545
Total comprehensive income for the year/period attributable to:						
Owners of Target Co BVI		136,725	149,266	210,282	140,200	114,359
Non-controlling interests		922	11,178	23,072	15,578	12,707
		137,647	160,444	233,354	155,778	127,066

Combined Statements of Financial Position

		The Target Group				Target Co BVI	
		As at 31 December			As at 31 July	As at 31 December	As at 31 July
		2009	2010	2011	2012	2011	2012
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (Note)*	*HK$'000*
Non-current assets							
Plant and equipment	*15*	15,515	12,982	15,661	18,828	–	–
Investments in subsidiaries	*16*	–	–	–	–	10	190,010
		15,515	12,982	15,661	18,828	10	190,010
Current assets							
Inventories	*17*	456,197	700,684	1,447,135	1,413,668	–	–
Trade and bills receivables	*18*	479,056	891,617	1,013,074	962,887	–	–
Prepayments, deposits and other receivables	*19*	130,630	116,945	340,383	453,001	–	–
Property held for sale	*20*	–	–	411	405	–	–
Pledged bank deposits	*21*	19,753	309,016	7,390	7,762	–	–
Bank balances and cash	*21*	192,129	123,436	41,694	94,989	–	–
Amount due from ultimate holding company	*25*	–	–	–	26	–	–
		1,277,765	2,141,698	2,850,087	2,932,738	–	–
Current liabilities							
Trade and bills payables	*22*	422,682	829,478	1,008,529	1,242,353	–	–
Other payables	*23*	51,298	107,828	149,691	154,695	–	–
Dividend payables		–	127	197,851	186	–	–
Customer deposits	*24*	44,943	68,233	188,760	116,343	–	–
Income tax payables		25,091	33,633	52,072	13,734	–	–
Amount due to a subsidiary	*25*	–	–	–	–	10	10
Amount due to ultimate holding company	*25*	341,550	561,160	665,550	–	–	–
Bank overdraft	*26*	–	–	–	59,175	–	–
Bank and other borrowings	*26*	–	–	12,325	630,450	–	–
		885,564	1,600,459	2,274,778	2,216,936	10	10
Net current assets (liabilities)		392,201	541,239	575,309	715,802	(10)	(10)
Total assets less current liabilities		407,716	554,221	590,970	734,630	–	190,000
Capital and reserves							
Share capital	*28*	193,240	193,240	193,240	–	–	–
Reserves	*29*	211,744	326,588	343,157	650,756	–	190,000
		404,984	519,828	536,397	650,756	–	190,000
Non-controlling interests		2,732	34,393	54,573	67,280	–	–
Total equity		407,716	554,221	590,970	718,036	–	190,000
Non-current liability							
Deferred income	*27*	–	–	–	16,594	–	–
		407,716	554,221	590,970	734,630	–	190,000

Note:

The statements of financial position as at 31 December 2009 and 2010 of Target Co BVI are not presented as Target Co BVI was incorporated in the BVI with limited liability on 28 March 2011. As at 31 December 2011, Target Co BVI had 1 ordinary share of US$1 and minimal assets on the statement of financial position.

Combined Statements of Changes in Equity

	Attributable to owners of Target Co BVI								
	Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total equity	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000 (Note (i))*	*HK$'000 (Note (ii))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	193,240	–	8,035	–	10,858	56,126	268,259	1,810	270,069
Profit for the year	–	–	–	–	–	134,186	134,186	905	135,091
Other comprehensive income									
Exchange differences arising on translation of foreign operations	–	–	–	–	2,539	–	2,539	17	2,556
Total comprehensive income for the year	–	–	–	–	2,539	134,186	136,725	922	137,647
Appropriation to statutory reserve funds	–	–	13,420	–	–	(13,420)	–	–	–
At 31 December 2009	193,240	–	21,455	–	13,397	176,892	404,984	2,732	407,716
Profit for the year	–	–	–	–	–	133,206	133,206	9,394	142,600
Other comprehensive income									
Exchange differences arising on translation of foreign operations	–	–	–	–	16,060	–	16,060	1,784	17,844
Total comprehensive income for the year	–	–	–	–	16,060	133,206	149,266	11,178	160,444
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	21,509	21,509
Dividend recognised as distribution to non-controlling interests	–	–	–	–	–	–	–	(1,026)	(1,026)
Dividend recognised as distribution *(note 33)*	–	–	–	–	–	(34,422)	(34,422)	–	(34,422)
Appropriation to statutory reserve funds	–	–	13,321	–	–	(13,321)	–	–	–

	Attributable to owners of Target Co BVI								
	Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total equity	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000 (Note (i))*	*HK$'000 (Note (ii))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2010	193,240	–	34,776	–	29,457	262,355	519,828	34,393	554,221
Profit for the year	–	–	–	–	–	188,033	188,033	20,601	208,634
Other comprehensive income									
Exchange differences arising on translation of foreign operations	–	–	–	–	22,249	–	22,249	2,471	24,720
Total comprehensive income for the year	–	–	–	–	22,249	188,033	210,282	23,072	233,354
Dividend recognised as distribution to non-controlling interests	–	–	–	–	–	–	–	(2,892)	(2,892)
Dividend recognised as distribution *(note 33)*	–	–	–	–	–	(193,713)	(193,713)	–	(193,713)
Appropriation to statutory reserve funds	–	–	18,803	–	–	(18,803)	–	–	–
At 31 December 2011	193,240	–	53,579	–	51,706	237,872	536,397	54,573	590,970
Profit for the period	–	–	–	–	–	123,790	123,790	13,755	137,545
Other comprehensive income									
Exchange differences arising on translation of foreign operations	–	–	–	–	(9,431)	–	(9,431)	(1,048)	(10,479)
Total comprehensive income for the period	–	–	–	–	(9,431)	123,790	114,359	12,707	127,066
Group reorganisation *(note 28)*	(193,240)	190,000	–	3,240	–	–	–	–	–
At 31 July 2012	–	190,000	53,579	3,240	42,275	361,662	650,756	67,280	718,036

Seven months ended 31 July 2011

	Attributable to owners of Target Co BVI								
	Share capital	Share premium	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total equity	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000 (Note (i))*	*HK$'000 (Note (ii))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011 (audited)	193,240	–	34,776	–	29,457	262,355	519,828	34,393	554,221
Profit for the period	–	–	–	–	–	125,619	125,619	13,958	139,577
Other comprehensive income									
Exchange differences arising on translation of foreign operations	–	–	–	–	14,581	–	14,581	1,620	16,201
Total comprehensive income for the period	–	–	–	–	14,581	125,619	140,200	15,578	155,778
At 31 July 2011 (unaudited)	193,240	–	34,776	–	44,038	387,974	660,028	49,971	709,999

Notes:

(i) Statutory reserve

In accordance with the Articles and Association of the PRC subsidiaries and the relevant laws and regulations applicable in the PRC, companies now comprising the Target Group established in the PRC are required to appropriate at least 10% of their statutory annual profits after tax determined in accordance with the relevant statutory rules and regulations applicable to enterprises in the PRC to the statutory reserve until the balance of the reserve reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies. The amount of the transfer is subject to the approval of the board of directors of the respective PRC companies.

(ii) Capital reserve

The capital reserve represents the reserve arising pursuant to the reorganisation as detailed in note 1.

Combined Statements of Cash Flows

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
OPERATING ACTIVITIES					
Profit before tax	185,099	200,144	296,024	185,917	188,858
Adjustments for:					
Bank interest income	(1,161)	(1,233)	(1,874)	(1,003)	(631)
Finance costs	11,642	20,554	31,983	9,421	31,660
Allowance for obsolete inventories	–	8,120	6,147	–	12,045
Reversal of allowance for obsolete inventories	–	–	–	–	(5,061)
Impairment losses recognised on trade receivables	98	–	1,319	1,133	1,397
Reversal of impairment on trade receivables	–	(256)	–	–	–
Loss (gain) on disposal of plant and equipment	29	(7)	(250)	(42)	3
Government subsidies	–	(2,876)	(10,451)	(7,698)	(654)
Waiver of other payables	–	–	(1,111)	–	–
Depreciation for plant and equipment	4,759	5,296	5,444	3,015	3,718
Operating cash inflows before movements in working capital	200,466	229,742	327,231	190,743	231,335
(Increase) decrease in inventories	(124,754)	(233,356)	(718,382)	(512,549)	6,011
(Increase) decrease in trade and bills receivables	(236,967)	(390,731)	(83,900)	(74,811)	34,860
(Increase) decrease in prepayments, deposits and other receivables	(46,254)	18,468	(218,003)	(496,475)	(119,249)
Increase in trade and bills payables	300,548	387,388	142,513	366,025	251,965
Increase in other payables	27,387	53,329	36,164	103,838	6,591
Increase (decrease) in customer deposits	23,122	21,400	116,926	140,680	(70,772)
Cash generated from (used in) operations	143,548	86,240	(397,451)	(282,549)	340,741
Income tax paid	(32,489)	(50,018)	(70,495)	(66,587)	(89,474)

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
NET CASH FROM (USED IN) OPERATING ACTIVITIES	111,059	36,222	(467,946)	(349,136)	251,267
INVESTING ACTIVITIES					
Purchases of plant and equipment	(4,487)	(2,225)	(7,555)	(3,629)	(7,459)
Proceeds from disposal of plant and equipment	324	28	250	28	297
Placement of pledged bank deposits	(16,032)	(286,000)	–	–	(484)
Withdrawal of pledged bank deposits	–	–	313,164	305,739	–
Advance to ultimate holding company	–	–	–	–	(26)
Interest received	1,161	1,233	1,874	1,003	631
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(19,034)	(286,964)	307,733	303,141	(7,041)
FINANCING ACTIVITIES					
New bank and other borrowings raised	–	–	12,325	–	639,946
Government subsidies	–	2,876	10,451	7,698	17,499
Repayment of bank borrowings	–	–	–	–	(12,332)
Advance from (repayment to) ultimate holding company	57,344	205,289	81,520	(53,196)	(665,928)
Capital contribution form a non-controlling shareholder	–	21,509	–	–	–
Dividend paid to non-controlling interests	–	(899)	–	–	(2,853)
Dividend paid	–	(34,422)	–	–	(194,922)
Interest paid	(11,591)	(20,182)	(31,781)	(9,421)	(30,975)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	45,753	174,171	72,515	(54,919)	(249,565)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137,778	(76,571)	(87,698)	(100,914)	(5,339)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	53,777	192,129	123,436	123,436	41,694
Effect of foreign exchange rate changes	574	7,878	5,956	2,345	(541)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	192,129	123,436	41,694	24,867	35,814
REPRESENTED BY					
Bank balances and cash	192,129	123,436	41,694	52,157	94,989
Bank overdraft	–	–	–	(27,290)	(59,175)
	192,129	123,436	41,694	24,867	35,814

B. NOTES TO THE FINANCIAL INFORMATION

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

Reorganisation and operation

Sufficient Value Group Limited (the "Target Co BVI") was incorporated and registered as an exempted company with limited liability in the British Virgin Islands (the "BVI") on 28 March 2011. Its subsidiaries together with Target Co BVI, hereinafter collectively referred to as the "Target Group". The address of its registered office and principal place of business is at Palm Grove House, P.O. Box 438, Roud Town, Tortola, British Virgin Islands.

Target Co BVI is an investment holding company. The principal activities of the companies now comprising the Target Group are provision of professional integrated IT solutions and services and distribution of consumer digital products.

The immediate holding company of Target Co BVI is Fit Generation Holding Limited ("Fit Generation"), which was incorporated in the BVI with limited liabilities.

The director considers that the ultimate holding company of Target Co BVI as at the date of this report to be Sichuan Changhong Electric Co., Limited ("Sichuan Changhong"). Sichuan Changhong is a limited company incorporated under the laws of the People's Republic of China (the "PRC") and listed on the Shanghai Stock Exchange. Prior to the completion of the reorganisation discussed below, Sichuan Changhong owned 90% equity interest in Changhong IT, a limited company established in the PRC.

The Financial Information is presented in Hong Kong Dollars ("HK$"). The functional currency of Target Co BVI and its subsidiaries is RMB, which is different from its presentation currency. As Target Co BVI is proposed to be acquired by the Company, which is a public company with the shares listed on The Stock Exchange of Hong Kong Limited and with most of its investors located in Hong Kong, the director of Target Co BVI considers HK$ is preferable in presenting the operating result and financial position of the Target Group.

Pursuant to a group reorganisation (the "Reorganisation") as described in the sub-section headed "The Reorganisation" in the section headed "History and Background of the Target Group" set out on pages 159 to 162 in a circular issued by China Data Broadcasting Holdings Limited (the "Company") dated 12 December 2012 (the "Circular"), Target Co BVI became the holding company of the companies comprising the Target Group on 5 March 2012.

The Target Group underwent the Reorganisation, as detailed in the sub-section headed "The Reorganisation" in the section headed "History and Background of the Target Group" in the Circular. Upon completion of the Reorganisation on 5 March 2012, Target Co BVI became the holding company of Changhong IT and its subsidiaries. The companies that took part in the Reorganisation were controlled by the same ultimate equity shareholder, namely Sichuan Changhong (referred to as the "Controlling Shareholder") during the Track Record Periods or since their respective date of incorporation or establishment up to 31 July 2012 where this is a shorter period.

As there was no change in Controlling Shareholder before and after the Reorganisation, the Financial Information has been prepared as a reorganisation of business under common control. The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for the Track Record Periods includes the results, changes in equity and cash flows of the companies comprising the Target Group upon the completion of the Reorganisation as if the current group structure had been in existence and remained unchanged throughout the Track Record Periods or since their respective dates of incorporation or establishment where this is a shorter period. The combined statements of financial position of the Target Group as at 31 December 2009, 2010, 2011 and 31 July 2012 have been prepared to present the combined assets and liabilities of the companies comprising the Target Group upon the completion of the Reorganisation as if the current group structure had been in existence as at the respective dates. All material intra-group transactions, balances, income and expenses have been eliminated on combination.

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

For the purpose of preparing and presenting the Financial Information for the Track Record Periods, the Target Group has consistently adopted all of the new and revised Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards ("HKFRS"), amendments and interpretations issued by the HKICPA that are effective for its financial year beginning on 1 January 2012.

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

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

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

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

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

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

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

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

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

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

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

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The directors of the company are assessing the impact of the HKFRS 10 and are not in the position to comment on the impact to the consolidated financial statements.

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

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

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

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The director of Target Co BVI has not yet performed a detailed analysis of the impact of the application of these standards and hence has not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

Amendment to HKAS 1 Presentation of Items of Other Comprehensive Income

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

Basis of combination

The Financial Information incorporates the financial information of Target Co BVI and entities controlled by Target Co BVI (its subsidiaries) now comprising the Target Group. Control is achieved where Target Co BVI has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less any identified impairment loss on Target Co BVI's statement of financial position.

Merger accounting for business combinations involving entities under common control

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

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

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

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful life and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and machinery is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the derecognition of the asset (calculating as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined statement of comprehensive income in the period in which the item is derecognised.

Impairment losses on tangible assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position/ Target Co BVI's statement of financial position when a group entity/Target Co BVI becomes a party to the contractual provisions of the instrument.

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each reporting period subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables, pledged bank deposits, bank balances and cash and amount due from ultimate holding company) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss of financial assets below).

Impairment loss of financial assets

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

For all financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Target Group and Target Co BVI's financial liabilities are generally classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities, including trade and bills payables, other payables, dividend payables, amount due to a subsidiary, amount due to ultimate holding company, bank overdraft and bank and other borrowings, are subsequently measured at the amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Target Co BVI are recorded at the proceeds received, net of direct issue costs.

Derecognition

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

Equity-settled share-based payment transactions - share options granted to employees after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the Financial Information until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Properties held for sale

Properties classified as held for sale are measured at the lower of cost and net realisable value.

Retirement benefit costs

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the assets is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in the profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has passed in substance, at which time all the following conditions are satisfied:

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

Service income is recognised when services are provided.

Compensation income is recognised when the right to receive payment is established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in the profit or loss in the period in which they become receivable.

Leasing

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

The Target Group as lessee

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

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is changed to profit or loss in the period in which it is incurred.

Inventories

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

Cash and cash equivalents

Bank balances and cash in the Financial Information comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the combined statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above net of bank overdraft.

Foreign currencies

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

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

For the purpose of presenting the Financial Information, the assets and liabilities of the Target Group's foreign operations are translated into presentation currency of the Target Group (i.e. Hong Kong Dollar) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Useful lives and residual value of plant and equipment

The Target Group's management determines the residual value, useful lives and related depreciation charges for its plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. They could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated.

Estimated impairment of receivables

The director of Target Co BVI regularly reviews the recoverability and/or ageing of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the combined statement of comprehensive income when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Target Group/Target Co BVI takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the present value of estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Target Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

As at 31 December 2009, 2010, 2011 and 31 July 2012, the carrying amount of trade and bills receivables is approximately HK$479,056,000, HK$891,617,000, HK$1,013,074,000 and HK$962,887,000 respectively, net of accumulated impairment losses of approximately HK$1,147,000, HK$932,000, HK$2,299,000 and HK$3,642,000 respectively.

As at 31 December 2009, 2010, 2011 and 31 July 2012, the carrying amount of deposits and other receivables is approximately HK$10,356,000, HK$15,169,000, HK$27,469,000 and HK$44,600,000 respectively. No impairment losses were made for deposits and other receivables for the Track Record Periods.

Allowance for obsolete inventories

The director of Target Co BVI reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The director of Target Co BVI estimates the net realisable value for such goods based primarily on the latest invoice prices and current market conditions. The director of Target Co BVI carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 December 2009, 2010, 2011 and 31 July 2012, the carrying amount of inventories is approximately HK$456,197,000, HK$700,684,000, HK$1,447,135,000, and HK$1,413,668,000 respectively, net of accumulated allowance for obsolete inventories of approximately HK$2,136,000, HK$10,408,000, HK$17,038,000 and HK$23,675,000 respectively.

5. CAPITAL RISK MANAGEMENT

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

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

The director of Target Co BVI reviews the capital structure periodically. As part of this review, the director of Target Co BVI considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director of Target Co BVI, the Target Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	The Target Group				Target Co BVI	
	As at 31 December			As at 31 July	As at 31 December	As at 31 July
	2009	2010	2011	2012	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets						
Loans and receivables (including bank balances and cash)	701,294	1,339,238	1,164,355	1,195,428	–	–
Financial liabilities						
At amortised costs	815,530	1,498,593	2,033,946	2,086,859	10	10

b) Financial risk management objectives and policies

The Target Group and Target Co BVI's major financial instruments include trade and bills receivables, deposits and other receivables, pledged deposits and bank balances and cash, amount due from ultimate holding company, trade and bills payables, other payables, dividend payable, amount due to a subsidiary, amount due to ultimate holding company, bank overdraft and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including interest risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Target Group manages and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The Target Group and Target Co BVI have foreign currency purchases, which expose the Group to foreign currency risk. For the year ended 31 December 2009, 2010, 2011 and seven months ended 31 July 2012, approximately 5%, 7%, 6% and 8% respectively, of the Group's purchases are denominated in United States dollars ("USD") which is different from the functional currency of the relevant group entities making the purchases, whilst almost 99% of sales are denominated in the functional currency of the relevant group entities during the Track Record Periods.

Also, certain trade receivables, trade payables and customer deposits are denominated in USD which is the currency other than the functional currency of the relevant group entities. The carrying amounts of the group entities' foreign currency dominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
USD	3,007	2,068	6,462	14,230
Liabilities				
USD	31,828	89,902	154,004	173,518

The Target Group currently does not have a foreign currency hedging policy. However, the director of Target Co BVI continuously monitors the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Target Group is mainly exposed to the fluctuation of USD.

The following table details the Group's sensitivity to a 5% for all periods increase and decrease in the functional currency (RMB) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

A positive or negative number below indicates an increase or a decrease in post-tax profit where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit.

	USD Impact *(Note)*			
				Seven months ended
	Year ended 31 December			**31 July**
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase in post-tax profit for the year	1,081	3,294	5,533	5,984

Note: This is mainly attributable to the exposure on USD denominated trade receivables, trade payables and customer deposits at the end of each reporting period.

Interest rate risk

The Target Group's exposure to changes in interest rates is mainly attributable to its bank balances, pledged bank deposits, amount due to ultimate holding company, bank overdraft and bank and other borrowings. Bank balances and bank overdraft at variable rates exposes the Target Group to cash flow interest-rate risk, while amount due to ultimate holding company and bank and other borrowings at fixed rates expose the Target Group to fair value interest-rate risk. The fair value interest rate risk on amount due to ultimate holding company and fixed rate bank and other borrowings is insignificant as the balances are short-term. The Target Group currently does not have an interest rate hedging policy. However, the director of Target Co BVI monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Target Group's bank balances, amount due to ultimate holding company and bank and other borrowings and interest rates as at 31 December 2009, 2010, 2011 and 31 July 2012 are set as below:

	At 31 December			At 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed rate				
Amount due to ultimate holding company	341,550	513,996	665,550	–
Interest rate	5.10% – 6.33% p.a.	5.10% – 6.30% p.a.	5.10% – 6.89% p.a.	–
Bank and other borrowings	–	–	12,325	630,450
Interest rate	–	–	7.62% p.a.	5% – 9% p.a.
Variable rate				
Bank balances and pledged bank deposits	211,882	432,452	49,084	102,751
Interest rate	0.36% – 2.25% p.a.	0.36% – 2.75% p.a.	0.40% – 3.50% p.a.	0.50% – 3.50% p.a.
Bank overdraft	–	–	–	59,175
Interest rate	–	–	–	6% p.a.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balances, pledged bank deposits and bank overdraft, the analysis is prepared assuming the bank balances, pledged bank deposits and bank overdraft outstanding at the end of each reporting period were outstanding for the whole year/period. The basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

100 basis points have been used for variable rate bank balances.

For variable-rate bank balances, pledged bank deposits and bank overdraft, if the interest rates had been 100 basis points higher/lower and all other variables were held constant, the Target Group's profit after tax and retained profits would increase/decrease by approximately HK$1,589,000, HK$3,243,000, HK$368,000 and HK$327,000 during the years ended 31 December 2009, 2010, 2011 and the seven months ended 31 July 2012 respectively.

Credit risk

As at 31 December 2009, 2010, 2011 and 31 July 2012, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statement of financial position.

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

The credit risk on bank balances is limited because the pledged bank deposits and bank balances are maintained with state-owned banks or other creditworthy financial institutions in the PRC and overseas.

The counterparties of the Target Group are mainly in the PRC. However, the credit risk on geographical locations is limited as the counterparties are spread over among different cities and provinces in the PRC as at the end of each reporting period.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Target Group monitors the utilisation of borrowings and other source of funding and considers the risk is minimal.

The following table details the Target Group's remaining contractual maturity for its non- derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity risk tables

The Target Group

	On demand or within one year *HK$'000*	Total undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
As at 31 December 2009			
Trade and bills payables	422,682	422,682	422,682
Other payables	51,298	51,298	51,298
Amount due to ultimate holding company	348,160	348,160	341,550
	822,140	822,140	815,530
As at 31 December 2010			
Trade and bills payables	829,478	829,478	829,478
Other payables	107,828	107,828	107,828
Dividend payables	127	127	127
Amount due to ultimate holding company	565,399	565,399	561,160
	1,502,832	1,502,832	1,498,593
As at 31 December 2011			
Trade and bills payables	1,008,529	1,008,529	1,008,529
Other payables	149,691	149,691	149,691
Dividend payables	197,851	197,851	197,851
Amount due to ultimate holding company	699,784	699,784	665,550
Bank borrowings	12,482	12,482	12,325
	2,068,337	2,068,337	2,033,946
As at 31 July 2012			
Trade and bills payables	1,242,353	1,242,353	1,242,353
Other payables	154,695	154,695	154,695
Dividend payables	186	186	186
Bank overdraft	60,141	60,141	59,175
Bank and other borrowings	649,376	649,376	630,450
	2,106,751	2,106,751	2,086,859

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

Target Co BVI

	On demand or within one year	Total undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*
As at 31 December 2011			
Amount due to a subsidiary	10	10	10
As at 31 July 2012			
Amount due to a subsidiary	10	10	10

c) Fair values of financial assets and liabilities

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The director of Target Co BVI considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

7. TURNOVER

The principal activities of the Target Group are the provision of professional integrated information technology ("IT") solutions and services, and distribution of IT consumer products, IT corporate products, digital products and own brand products.

Turnover represents net amount received and receivable for sale of different types of IT products, self developed products and provision of professional integrated IT solutions and services, net of discounts and corresponding sales related taxes. The amounts of each significant category of revenue recognised in turnover during the Track Record Periods are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
IT Consumer Products	3,630,074	5,742,855	9,960,361	5,052,053	5,629,792
IT Corporate Products	1,540,105	2,328,465	3,083,142	1,526,594	2,357,718
Others	34,179	44,436	314,240	182,913	452,054
	5,204,358	8,115,756	13,357,743	6,761,560	8,439,564

8. SEGMENT INFORMATION

Information reported to the directors of the Target Group, being the chief operating decision maker ("CODM"), for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided, as they collectively make strategic decision towards the group entity's operation.

Specifically, the Target Group's reportable and operating segments under HKFRS 8 are as follows:

1) IT Consumer Products – distribution of consumer products which include mainly personal computers, digital products and IT accessories

2) IT Corporate Products – distribution of corporate products which include mainly storage products, minicomputers, networking products

3) Others – distribution of smartphones and development of its own brand products including but not limited to mobile location-based service products and provision of professional integrated IT solutions and services

The accounting policies of the operating segments are the same as the Target Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of bank interest income, unallocated income as well as head office and corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets do not include plant and equipment, deposits and other receivables for general operating, property held for sale, pledged bank deposits, bank balances and cash and amount due from ultimate holding company. Segment liabilities do not include other payables for general operating, dividend payables, income tax payables, amount due to ultimate holding company, bank overdraft and bank and other borrowings.

The following is an analysis of the Target Group's revenue and results, as well as assets and liabilities by reportable and operating segment:

	Year ended 31 December 2009			
	IT Consumer products	**IT Corporate products**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	3,630,074	1,540,105	34,179	5,204,358
Segment profit (loss)	175,888	73,768	(6,683)	242,973
Other income				1,775
Finance costs				(11,642)
Unallocated head office and corporate expenses				(48,007)
Profit before tax				185,099
Segment assets	831,165	218,642	5,720	1,055,527
Unallocated assets:				
Pledged bank deposits				19,753
Bank balances and cash				192,129
Prepayments, deposits and other receivables				10,356
Plant and equipment				15,515
Combined total assets				1,293,280
Segment liabilities	266,608	214,199	885	481,692
Unallocated liabilities:				
Other payables				37,231
Income tax payables				25,091
Amount due to ultimate holding company				341,550
Combined total liabilities				885,564

	Year ended 31 December 2010			
	IT Consumer products	**IT Corporate products**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	5,742,855	2,328,465	44,436	8,115,756
Segment profit (loss)	185,553	105,457	(4,844)	286,166
Other income				7,524
Finance costs				(20,554)
Unallocated head office and corporate expenses				(72,992)
Profit before tax				200,144
Segment assets	1,378,757	287,345	27,975	1,694,077
Unallocated assets:				
Pledged bank deposits				309,016
Bank balances and cash				123,436
Prepayments, deposits and other receivables				15,169
Plant and equipment				12,982
Combined total assets				2,154,680
Segment liabilities	630,758	281,464	2,181	914,403
Unallocated liabilities:				
Other payables				91,136
Dividend payables				127
Income tax payables				33,633
Amount due to ultimate holding company				561,160
Combined total liabilities				1,600,459

	Year ended 31 December 2011			
	IT Consumer products	**IT Corporate products**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	9,960,361	3,083,142	314,240	13,357,743
Segment profit	272,498	141,716	10,313	424,527
Other income				20,053
Finance costs				(31,983)
Unallocated head office and corporate expenses				(116,573)
Profit before tax				296,024
Segment assets	1,591,962	1,062,254	44,179	2,698,395
Unallocated assets:				
Pledged bank deposits				7,390
Bank balances and cash				41,694
Prepayments, deposits and other receivables				102,197
Plant and equipment				15,661
Property held for sale				411
Combined total assets				2,865,748
Segment liabilities	592,159	569,666	92,419	1,254,244
Unallocated liabilities:				
Other payables				92,736
Dividend payables				197,851
Income tax payables				52,072
Amount due to ultimate holding company				665,550
Bank borrowings				12,325
Combined total liabilities				2,274,778

	Seven months ended 31 July 2011 (Unaudited)			
	IT Consumer products	**IT Corporate products**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	5,052,053	1,526,594	182,913	6,761,560
Segment profit	144,155	81,934	6,004	232,093
Other income				11,789
Finance costs				(9,421)
Unallocated head office and corporate expenses				(48,544)
Profit before tax				185,917

	Seven months ended 31 July 2012			
	IT Consumer products	**IT Corporate products**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
External sales	5,629,792	2,357,718	452,054	8,439,564
Segment profit	127,173	126,293	10,761	264,227
Other income				1,376
Finance costs				(31,660)
Unallocated head office and corporate expenses				(45,085)
Profit before tax				188,858
Segment assets	1,514,448	1,174,139	11,205	2,699,792
Unallocated assets:				
Pledged bank deposits				7,762
Bank balances and cash				94,989
Prepayments, deposits and other receivables				129,764
Amount due from ultimate holding company				26
Plant and equipment				18,828
Property held for sale				405
Combined total assets				2,951,566
Segment liabilities	854,357	504,429	55,284	1,414,070
Unallocated liabilities:				
Other payables				115,915
Dividend payables				186
Income tax payables				13,734
Bank overdraft				59,175
Bank borrowings				630,450
Combined total liabilities				2,233,530

Other segment information:

	Year ended 31 December 2009				
	IT Consumer products	**IT Corporate products**	**Others**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment losses recognised on trade receivables	65	33	–	–	98
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	–	–	–	4,487	4,487
Depreciation	–	–	–	4,759	4,759
Loss on disposal of plant and equipment	–	–	–	29	29
Bank interest income	–	–	–	(1,161)	(1,161)
Finance costs	–	–	–	11,642	11,642
Income tax expenses	–	–	–	50,008	50,008

	Year ended 31 December 2010				
	IT Consumer products	**IT Corporate products**	**Others**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Allowance for obsolete inventories	5,719	431	1,970	–	8,120
Reversal of impairment on trade receivables	(173)	(83)	–	–	(256)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	–	–	–	2,225	2,225
Depreciation	–	–	–	5,296	5,296
Gain on disposal of plant and equipment	–	–	–	(7)	(7)
Bank interest income	–	–	–	(1,233)	(1,233)
Finance costs	–	–	–	20,554	20,554
Income tax expenses	–	–	–	57,544	57,544

	Year ended 31 December 2011				
	IT Consumer products	**IT Corporate products**	**Others**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Allowance for obsolete inventories	4,457	1,563	127	–	6,147
Impairment losses recognised on trade receivables	957	335	27	–	1,319
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	–	–	–	7,555	7,555
Depreciation	–	–	–	5,444	5,444
Gain on disposal of plant and equipment	–	–	–	(250)	(250)
Bank interest income	–	–	–	(1,874)	(1,874)
Waiver of other payables	–	–	–	(1,111)	(1,111)
Finance costs	–	–	–	31,983	31,983
Income tax expenses	–	–	–	87,390	87,390

	Seven months ended 31 July 2011 (Unaudited)				
	IT Consumer products	**IT Corporate products**	**Others**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Impairment losses recognised on trade receivables	600	379	154	–	1,133
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	–	–	–	3,629	3,629
Depreciation	–	–	–	3,015	3,015
Gain on disposal of plant and equipment	–	–	–	(42)	(42)
Bank interest income	–	–	–	(1,003)	(1,003)
Finance costs	–	–	–	9,421	9,421
Income tax expenses	–	–	–	46,340	46,340

	Seven months ended 31 July 2012				
	IT Consumer products	**IT Corporate products**	**Others**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Reversal of allowance for obsolete inventories	(289)	(4,772)	–	–	(5,061)
Allowance for obsolete inventories	6,381	4,024	1,640	–	12,045
Impairment losses recognised on trade receivables	227	1,152	18	–	1,397
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Additions to plant and equipment	–	–	–	7,459	7,459
Depreciation	–	–	–	3,718	3,718
Loss on disposal of plant and equipment	–	–	–	3	3
Bank interest income	–	–	–	(631)	(631)
Finance costs	–	–	–	31,660	31,660
Income tax expenses	–	–	–	51,313	51,313

Geographical information

Since over 90% of Target Group's revenue from external customers is generated in PRC and over 90% of the assets of the Target Group are located in PRC, no geographic information presented.

Information about major customers

During the Track Record Periods and seven months ended 31 July 2011, none of the Target Group's revenue was derived from transactions with single external customer amounting to 10% or more of the Target Group's revenue.

9. OTHER INCOME

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Reversal of impairment on trade receivables	–	256	–	–	–
Bank interest income	1,161	1,233	1,874	1,003	631
Exchange gain	118	2,161	4,248	2,844	–
Penalty and compensation income	285	1,094	1,876	202	289
Government subsidies					
– utilisation/amortisation of deferred income for the year *(Note 27)*	–	–	–	–	198
– grants related to expenses recognised as other gains *(Note)*	–	2,876	10,451	7,698	456
Gain on disposal of plant and equipment	–	7	250	42	–
Sales of scrap inventories	84	26	–	–	–
Waiver of other payables	–	–	1,111	–	–
Others	127	127	243	–	–
	1,775	7,780	20,053	11,789	1,574

Note: Government subsidies in respect of encouragement of expansion of enterprise were recognised at the time the Target Group fulfilled the relevant granting conditions.

10. FINANCE COSTS

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on:					
Bank and other borrowings and overdraft wholly repayable within five years	24	110	2,735	1,377	4,563
Amount due to ultimate holding company	9,561	17,425	24,979	5,950	23,142
Interest expense on discount of bills receivables	6	71	–	–	–
Guarantee charges in respect of guarantees from a substantial shareholder of the ultimate holding company to suppliers, banks and other financial institution	2,051	2,948	4,269	2,094	3,955
	11,642	20,554	31,983	9,421	31,660

11. INCOME TAX

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Current tax:					
Provision for PRC income tax	47,512	56,480	87,536	46,486	51,313
Under (over) provision in prior years	2,496	1,064	(146)	(146)	–
	50,008	57,544	87,390	46,340	51,313

(i) Pursuant to the rules and regulations of the BVI, Target Co BVI is not subject to any income tax in the BVI.

(ii) No provision for Hong Kong Profits Tax has been made for the subsidiary established in Hong Kong as the subsidiary did not have any assessable profits subject to Hong Kong Profits Tax during the Track Record Periods.

(iii) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of Changhong IT, Changhong IT Digital and Changhong IT Intelligence are 25% for the Track Record Periods.

Withholding tax

According to the joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries to its foreign holding company from 1 January 2008 onwards. Before the completion of the Reorganisation on 5 March 2012, the holding company of the PRC subsidiaries of the Target Group is a domestic company and is not subject to the withholding tax. The PRC subsidiaries of the Target Group is subject to withholding tax since 5 March 2012. Deferred taxation has not been provided for in the Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$361,662,000 as at 31 July 2012 as the Target Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

The income tax for the Track Record Periods can be reconciled to the profit before taxation per the combined statements of comprehensive income as follows:

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before tax	185,099	200,144	296,024	185,917	188,858
Tax at domestic income tax rate of 25%	46,275	50,036	74,006	46,480	47,215
Tax effect of expenses not deductible for tax purpose	1,237	6,508	13,530	6	4,098
Tax effect of income not taxable for tax purpose	–	(64)	–	–	–
Under (over) provision in prior years	2,496	1,064	(146)	(146)	–
Income tax	50,008	57,544	87,390	46,340	51,313

12. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period has been arrived at after charging (crediting):

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
(a) Staff costs, including directors' remuneration					
Salaries, wages and other benefits	73,952	108,272	156,301	64,842	66,891
Contribution to defined contribution retirement benefits scheme *(note 31)*	5,967	10,454	20,114	7,521	7,928
	79,919	118,726	176,415	72,363	74,819
(b) Other items					
Auditors' remuneration	208	252	397	276	485
Cost of inventories recognised as an expense	4,858,440	7,681,054	12,729,924	6,427,260	8,046,355
Allowance for obsolete inventories (included in cost of sales)	–	8,120	6,147	–	12,045
Reversal of allowance for obsolete inventories (included in cost of sales)	–	–	–	–	(5,061)
Impairment losses recognised on trade receivables (included in administrative expenses)	98	–	1,319	1,133	1,397
Depreciation of plant and equipment	4,759	5,296	5,444	3,015	3,718
Research and development expenses	765	1,498	2,446	1,581	2,206
Operating lease charges in respect of rented properties	5,391	6,110	6,765	3,747	3,873
Loss on disposal of plant and equipment	29	–	–	–	3
Exchange loss	–	–	–	–	2,359

13. DIRECTOR'S EMOLUMENT AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Director's emolument

Mr. Tang Yun is the sole director of Target Co BVI since its date of incorporation on 28 March 2011 to the end of the reporting period and there is no director's emolument was incurred during the Track Record Periods.

No emoluments were paid by the Target Group to the director of Target Co BVI as an incentive payment for joining the Target Group or as compensation for loss of office during the Track Record Periods.

(b) Individual with highest emoluments

Out of the five highest paid individuals in the Target Group, none was a director of Target Co BVI during the Track Record Periods. The aggregate emoluments of five individuals with the highest emoluments for the Track Record Periods were as follows:

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, allowances and benefit in kind	10,394	22,219	28,999	4,629	6,354
Contribution to defined contribution retirement benefits scheme	125	145	175	150	143
	10,519	22,364	29,174	4,779	6,497

Their emoluments were within the following bands:

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	No. of employees	*No. of employees*	*No. of employees*	*No. of employees* (Unaudited)	*No. of employees*
HK$ nil to HK$1,000,000	–	–	–	3	1
HK$1,000,001 to HK$1,500,000	4	–	–	2	3
HK$1,500,001 to HK$2,000,000	–	–	1	–	1
HK$2,000,001 to HK$2,500,000	–	2	–	–	–
HK$3,000,001 to HK$3,500,000	–	2	–	–	–
HK$3,500,001 to HK$4,000,000	–	–	3	–	–
HK$4,500,001 to HK$5,000,000	1	–	–	–	–
HK$10,500,001 to HK$11,000,000	–	1	–	–	–
HK$16,500,001 to HK$17,000,000	–	–	1	–	–

No emoluments were paid by the Target Group to the five highest paid individuals as an incentive payment for joining the Target Group or as compensation for loss of office during the Track Record Periods.

14. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this Financial Information, is not considered meaningful.

15. PLANT AND EQUIPMENT

The Target Group

	Furniture, fixtures and equipments *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST			
At 1 January 2009	30,932	1,802	32,734
Additions	4,487	–	4,487
Disposal	(1,583)	(366)	(1,949)
Exchange difference	285	16	301
At 31 December 2009 and 1 January 2010	34,121	1,452	35,573
Additions	2,225	–	2,225
Disposal	(108)	–	(108)
Exchange difference	1,308	55	1,363
At 31 December 2010 and 1 January 2011	37,546	1,507	39,053
Additions	6,197	1,358	7,555
Disposal	(983)	(994)	(1,977)
Exchange difference	1,647	67	1,714
At 31 December 2011 and 1 January 2012	44,407	1,938	46,345
Additions	7,459	–	7,459
Disposal	(1,543)	–	(1,543)
Exchange difference	(721)	(27)	(748)
At 31 July 2012	49,602	1,911	51,513
ACCUMULATED DEPRECIATION			
At 1 January 2009	15,198	1,540	16,738
Charge for the year	4,703	56	4,759
Eliminated on disposal	(1,279)	(317)	(1,596)
Exchange difference	143	14	157
At 31 December 2009 and 1 January 2010	18,765	1,293	20,058
Charge for the year	5,247	49	5,296
Eliminated on disposal	(87)	–	(87)
Exchange difference	754	50	804
At 31 December 2010 and 1 January 2011	24,679	1,392	26,071
Charge for the year	5,302	142	5,444
Eliminated on disposal	(983)	(994)	(1,977)
Exchange difference	1,091	55	1,146
At 31 December 2011 and 1 January 2012	30,089	595	30,684
Charge for the period	3,529	189	3,718
Eliminated on disposal	(1,243)	–	(1,243)
Exchange difference	(464)	(10)	(474)
At 31 July 2012	31,911	774	32,685
CARRYING VALUES			
At 31 December 2009	15,356	159	15,515
At 31 December 2010	12,867	115	12,982
At 31 December 2011	14,318	1,343	15,661
At 31 July 2012	17,691	1,137	18,828

Depreciation is provided so as to write off the cost of plant and equipment less their residual value, if any, using the straight line method over their estimated useful lives as follows:

Furniture, fixtures and equipment	5 to 10 years
Motor vehicles	5 years

16. INVESTMENTS IN SUBSIDIARIES

Target Co BVI

	As at 31 December 2011	As at 31 July 2012
	HK$'000	*HK$'000*
Unlisted equity interest, at cost	10	190,010

The subsidiaries had not issued any debt securities during the year ended 31 December 2011 and the seven months ended 31 July 2012 and at the end of both periods.

17. INVENTORIES

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trading merchandises	456,197	700,684	1,447,135	1,413,668

During the seven months ended 31 July 2012, there was an increase in the net realisable values of inventories due to change in the market situation. As a result, a reversal of write-down of inventories of HK$5,061,000 has been recognised and included in cost of sales.

18. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	478,248	842,807	928,711	947,369
Less: Allowance for trade receivables	(1,147)	(932)	(2,299)	(3,642)
	477,101	841,875	926,412	943,727
Bills receivables	1,955	49,742	86,662	19,160
	479,056	891,617	1,013,074	962,887

The Target Group does not hold any collateral over these balances.

Included in the balances are amounts due from fellow subsidiaries and amount due from ultimate holding company.

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from fellow subsidiaries	3,934	665	4,557	4,617
Amount due from ultimate holding company	767	767	–	20,665

The Target Group allows an average credit period of 30-180 days to its trade customers including the fellow subsidiaries and ultimate holding company. The following is an aged analysis of trade receivables, net of allowance for trade receivables presented based on the invoice date at the end of each reporting period:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	338,743	671,367	672,185	475,540
31 – 60 days	95,761	125,105	221,860	288,291
61 – 90 days	20,885	30,120	47,788	67,024
91 – 180 days	10,690	51,160	49,531	82,062
Over 180 days	12,977	13,865	21,710	49,970
	479,056	891,617	1,013,074	962,887

Before accepting any new customer, the Target Group assesses the potential customer's credit quality and defines credit limits by customer. Some of these new customers are required to pay certain amounts in advance as deposits.

Included in the Target Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$16,863,000, HK$36,092,000, HK$58,252,000 and HK$119,672,000 which were past due as at the 31 December 2009, 2010, 2011 and 31 July 2012 respectively for which the Target Group has not provided for allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered fully recoverable.

Ageing of trade receivables based on the past due date which are past due but not impaired:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 – 60 days	630	2,356	2,690	2,975
61 – 90 days	6,998	7,138	14,218	18,606
91 – 180 days	4,749	15,590	30,141	56,085
Over 180 days	4,486	11,008	11,203	42,006
Total	16,863	36,092	58,252	119,672

Included in trade and bills receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	3,007	2,068	6,462	6,705

Movement in the allowance for trade receivables

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year/period	1,039	1,147	932	2,299
Impairment losses recognised on trade receivables	98	–	1,319	1,397
Exchange difference	10	41	48	(54)
Reversal of impairment losses	–	(256)	–	–
Balance at the end of the year/period	1,147	932	2,299	3,642

Included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of HK$1,147,000, HK$932,000, HK$2,299,000 and HK$3,642,000 respectively as at 31 December 2009, 2010, 2011 and 31 July 2012, which have been in severe financial difficulties.

As at 31 July 2012, the secured bank loans were secured by trade receivables of the Target Group with an aggregate carrying values of approximately HK$305,918,000. No trade receivables was pledged as at 31 December 2009, 2010 and 2011.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits and other receivables	10,356	15,169	27,469	44,600
Other tax recoverable	–	–	74,728	85,164
Prepayments	120,274	101,776	238,186	323,237
	130,630	116,945	340,383	453,001

The Target Group does not hold any collateral over these balances.

20. PROPERTY HELD FOR SALE

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property held for sale, at cost	–	–	411	405

The property held for sale represents an office premises situated in the PRC. The Target Group has an intention to sell the property rather than to hold the property to earn rentals or/and for capital appreciation at the date of acquisition of the property.

21. BANK BALANCES AND CASH / PLEDGED BANK DEPOSITS

Bank balances / pledged bank deposits

Bank balances carried interest at market rates range from 0.36% to 1.31% per annum during the Track Record Periods.

Pledge bank deposits carried interest at market rates range from 1.71% to 3.50% per annum during the Track Record Periods and represents deposits pledged to banks to secure banking facilities granted to the Target Group. Deposits amounting to approximately HK$19,753,000, HK$309,016,000 and HK$7,390,000 and HK$7,762,000 respectively as at 31 December 2009, 2010, 2011 and 31 July 2012 have been pledged to banks to secure short-term banking facilities granted to the Target Group and are therefore classified as current assets.

22. TRADE AND BILLS PAYABLES

Included in the balances are amounts due to fellow subsidiaries and amount due to ultimate holding company.

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to fellow subsidiaries	–	1,790	178	–
Amount due to ultimate holding company	233	17	9	9

The following is an aged analysis of trade and bills payables, based on the invoice date:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	349,083	752,052	742,410	1,028,932
31 – 60 days	38,117	45,095	143,458	136,557
61 – 90 days	11,682	15,291	43,246	28,906
91 – 180 days	22,875	15,529	70,664	35,075
181 – 365 days	254	1,379	5,259	9,076
Over 1 year	671	132	3,492	3,807
Total	422,682	829,478	1,008,529	1,242,353

Included in trade payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	31,828	89,902	152,932	173,272

The average credit period on purchase of goods is 30-110 days. The Target Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

23. OTHER PAYABLES

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	36,693	90,202	91,559	114,080
Accrued expenses	14,067	16,692	56,955	38,780
Interest payables	538	934	1,177	1,835
	51,298	107,828	149,691	154,695

Included in the balances of other payables as at 31 July 2012 is amount due to a fellow subsidiary amounting to approximately HK$550,000 which was arising from the decoration services provided by a fellow subsidiary. The amount due to a fellow subsidiary is unsecured, non-interest bearing and repayable with one year. There was no balance of amount due to a fellow subsidiary as at 31 December 2009, 2010 and 2011.

24. CUSTOMER DEPOSITS

Included in customer deposits are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	–	–	1,072	246

25. AMOUNT DUE FROM/TO ULTIMATE HOLDING COMPANY/A SUBSIDIARY

The amount due to ultimate holding company was unsecured, interest bearing at fixed rates ranging from 5.10% – 6.89% per annum and repayable within one year except for an amount of approximately Nil, HK$47,164,000, Nil and Nil respectively as at 31 December 2009, 2010, 2011 and 31 July 2012 which are unsecured, non-interest bearing and repayable on demand.

The amount due from ultimate holding company and amount due to a subsidiary are unsecured, non-interest bearing and repayable on demand.

26. BANK AND OTHER BORROWINGS

	As at 31 December			As at 31 July
	2009	2010	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdraft-unsecured	–	–	–	59,175
Bank borrowings	–	–	12,325	132,341
Other borrowings	–	–	–	498,109
	–	–	12,325	630,450
Secured	–	–	–	229,533
Unsecured	–	–	12,325	400,917
	–	–	12,325	630,450
Fixed interest rates	–	–	7.62%	5% – 9% p.a.

The Target Group's borrowings are all denominated in RMB, and all balances are repayable within one year. The borrowings were guaranteed by the ultimate holding company. As at 31 July 2012, the secured borrowings were secured by trade receivables of the Target Group. Details are stated in note 18.

Bank overdrafts carried interest at market rate of 6% per annum during the Track Record Periods.

27. DEFERRED INCOME

	As at 31 December			As at 31 July	
	2009	2010	2011	2011	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Government grants raised during the year/ period	–	–	–	–	17,043
Government grants amortised during the year/ period	–	–	–	–	(198)
Exchange realignment	–	–	–	–	(251)
	–	–	–	–	16,594

During seven months ended 31 July 2012, the Target Group received government grants of approximately HK$4,711,000 towards the research and development expenditure. The amounts have been treated as deferred income and are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. This policy has resulted in a credit to income in the current period of approximately HK$198,000.

During seven months ended 31 July 2012, the Target Group received government grants of approximately HK$12,332,000 towards the acquisition of plant and equipment. The amounts have been treated as deferred income and transferred to income over the useful lives of the related assets. No amortisation was made during the Track Record Periods as the relevant plant and equipment has not yet been acquired.

28. SHARE CAPITAL

Target Co BVI was incorporated on 20 March 2011 with an authorised share capital of USD50,000 divided into 50,000 shares of USD1 each. On the same date, 1 share of USD1 was allotted and issued at par. On 5 March 2012, another share of USD1 was allotted and issued at a price of HK$190,000,000 with share premium of HK$189,999,992. The issued share capital of Target Co BVI was increased to US$2.00 (equivalent to approximately HK$16) comprising 2 ordinary shares of USD1 each.

For the purpose of this report, the share capital of the Target Group as at 1 January 2009, 31 December 2009, 2010 and 2011 represented the paid-in capital of Changhong IT amounting to approximately HK$193,240,000.

As mentioned in note 1, Target Co BVI became the holding company of the Target Group since the completion of the Reorganisation on 5 March 2012.

29. RESERVE OF THE TARGET CO BVI

The reserve of Target Co BVI as at 31 July 2012 represented its share premium arising from one share of USD1 allotted and issued at a price of HK$190,000,000 on 5 March 2012.

30. COMMITMENT

a) Operating lease arrangement – The Target Group

As at 31 December 2009, 2010 and 2011 and 31 July 2012, the Target Group leases certain of its premises and offices under operating lease arrangements. Leases contracts are negotiated and rentals are fixed for an initial period of one year to three years. Lease payments are usually increased annually to reflect market rentals. No provision for contingent rent and terms of renewal was established in the leases.

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

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	5,390	6,038	4,132	3,342
In the second to fifth year inclusive	5,641	2,393	944	1,516
	11,031	8,431	5,076	4,858

b) Capital commitments – The Target Group

The Target Group had the following capital commitment as at 31 December 2009, 2010, 2011 and 31 July 2012:

	As at 31 December			As at 31 July
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided for in the Financial Information in respect of expenditures on renovation:	–	–	4,605	–

31. RETIREMENT BENEFITS SCHEMES

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Target Group with respect to the pension scheme is to make the required contributions.

The total costs charged to the combined statements of comprehensive income of approximately HK$5,967,000, HK$10,454,000 and HK$20,114,000, HK$7,521,000 and HK$7,928,000 for the year ended 31 December 2009, 2010, 2011 and seven months ended 31 July 2011 and 2012 respectively, represent contributions payable to these schemes by the Target Group during the Track Record Periods.

32. CONTINGENT LIABILITIES

The Target Group entered into labour service agreements separately with two employment agencies (the "Employment Agencies"), each an independent third party labour service company, to provide contractual workers for its production. Pursuant to the labour service agreement, the Employment Agencies will instruct these contractual workers to follow the direction of the Target Group's management for day-to-day work assignments. However, under the PRC Labour Contract Law, if each of the Employment Agencies violates the PRC Labour Contract Law and such violation results in damages to the contractual workers, the Target Group would be jointly and severally liable for the compensation payables to the contractual workers.

The Target Group has not paid the social insurance contribution and housing provident fund for these contractual workers in respect of the bonus paid by the Target Group to those contractual workers under the agreements made between the labour service company and these contractual workers.

The Target Group has recognised in the statements of comprehensive income the unpaid amount of social insurance of approximately HK$4,396,000, HK$7,736,000 and HK$14,914,000 and HK$2,750,000 for the years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012 respectively, and unpaid amount of housing provident fund of approximately HK$1,510,000, HK$2,637,000 and HK$5,110,000 and HK$1,137,000 respectively for the years ended 31 December 2009, 2010 and 2011 and seven months ended 31 July 2012 respectively. As at 31 July 2012, the Target Group had not received any notice from the relevant housing fund or social security authorises ordering the Target Group to make outstanding payments or rectification, or any administrative penalties from the relevant authorities. The relevant authorities may request the Target Group at any time to pay up the outstanding amount of the social insurance or housing provident fund contributions and/or impose fine of up to three times of the unpaid amount of social insurance

and housing provident fund on the Target Group if the above mentioned unpaid amounts are not settled within the time specified. The fine will be recognised in the statements of financial position if the Target Group does not settle the unpaid amounts within a specific time up on request. During the Track Record Periods and at the date of this report, no such request was received by the Target Group.

33. DIVIDENDS

	Year ended 31 December			Seven months ended 31 July	
	2009	**2010**	**2011**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Dividends recognised as distribution during the years ended 31 December, 2009, 2010, 2011 and seven months ended 31 July 2011 and 2012	–	34,422	193,713	–	–

34. SHARE-BASED PAYMENT TRANSACTIONS

Rights for subscription of 10% of the registered capital of a subsidiary of Target Co BVI:

Pursuant to the investment agreement of Changhong IT, which is a subsidiary of Target Co BVI, dated 28 September 2004, the rights (the "Rights") to subscribe 10% of the registered capital of Changhong IT amounting RMB20,000,000 at their par value (the "Registered Capital") were granted on 13 October 2004, being the date of establishment of Changhong IT, to Mr. Zhu Jianqiu ("Mr. Zhu"), the chief executive officer employed by Changhong IT on 13 October 2004, to subscribe for the Registered Capital for the eligible management team. The Rights were vested immediately on the grant date.

No consideration was payable for the Rights. The Rights may be exercised at any time from its date of grant to the date of being fully exercise. The Rights had been exercised by Mr. Zhu on 17 July 2006, 13 January 2010 and 13 July 2010 and the amounts of registered capital paid up on those dates are approximately RMB1,215,000, RMB4,196,000 and RMB14,589,000 respectively. The Rights have been fully exercised on 13 July 2010.

The following table discloses the movements of the unsubscribed registered capital under the Rights during the Track Record Periods:

Year/period	**Outstanding at the beginning of the year/period** *RMB'000*	**Exercised during the year/period** *RMB'000*	**Outstanding at the end of the year/period** *RMB'000*	**Exercisable at the end of the year/period** *RMB'000*
Year ended 31 December 2009	18,785	–	18,785	18,785
Year ended 31 December 2010	18,785	(18,785)	–	–
Year ended 31 December 2011	–	–	–	–
Seven months ended 31 July 2012	–	–	–	–

The exercise price of the Rights exercised during the Track Record Periods was at the par value of the registered capital.

35. RELATED PARTIES TRANSACTIONS

(a) Other than the balances with the fellow subsidiaries, ultimate holding company and its subsidiary as disclosed in the combined statements of financial position and notes 18, 22 and 25, the Target Group entered into the following transactions with its related parties during the Track Record Periods:

Name of company	Nature of transaction	Notes	Year ended 31 December 2009	2010	2011	Seven months ended 31 July 2011	2012
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Ultimate holding company							
四川長虹電器股份有限公司("Sichuan Changhong")	Sales of goods	*(i)*	9,601	18,485	13,537	5,440	22,508
	Purchase of goods	*(i)*	4	10	94	92	14
	Rental expenses	*(i)*	30	16	17	8	8
	Interest expenses	*(i)*	9,561	17,425	24,979	5,950	23,142
	Settlement services charges	*(i)*	–	–	81	52	180
	Research and development services charges	*(i)*	146	45	310	64	156
	Corporate guarantee from the ultimate holding company to banks	*(i)*					
	– maximum amount during the year		135,026	177,240	184,875	182,010	121,490
	– utilised during the year		135,026	167,787	73,950	25,059	14,105
	Guarantee from the ultimate holding company to suppliers						
	– maximum amount during the year		–	295,400	493,000	485,360	485,960
	– utilised during the year		–	94,608	249,143	194,641	89,758
A substantial shareholder of the ultimate holding company							
四川長虹電子集團有限公司	Guarantee charges	*(ii)*	2,051	2,948	4,269	2,094	3,955
	Guarantee from a substantial shareholder of the ultimate holding company to suppliers	*(ii)*					
	– maximum amount during the year		699,223	938,684	1,397,007	1,352,234	1,093,410
	– utilised during the year		164,245	140,223	333,037	566,304	59,242
Subsidiaries of the ultimate holding company							
四川長虹網絡科技有限責任公司	Sales of goods	*(iii)*	–	561	20	20	–
	Purchase of goods	*(iii)*	–	120	482	22	5
廣東長虹數碼科技有限公司	Purchase of goods	*(iii)*	4,566	3,991	(84)	(82)	–
四川虹信軟件有限公司	Sales of goods	*(iii)*	3,357	4,207	4,684	4,592	3,476
四川長虹信息技術有限責任公司	Sales of goods	*(iii)*	–	–	306	139	75
四川虹視顯示技術有限公司	Sales of goods	*(iii)*	–	30	–	–	–
四川虹歐顯示器件有限公司	Sales of goods	*(iii)*	–	22	12	–	25
四川長虹置業有限公司	Sales of goods	*(iii)*	–	–	17	17	–
四川長虹包裝印務有限公司	Purchase of goods	*(iii)*	–	–	3	3	–
四川長虹國際酒店有限責任公司	Sales of goods	*(iii)*	–	–	22	–	–
北京長虹科技有限公司	Sales of goods	*(iii)*	–	–	–	–	862
	Rental expenses	*(iii)*	–	–	–	–	1,080
四川長虹照明技術有限公司	Decoration fee	*(iii)*	–	–	–	–	550

Notes:

(i) Sichuan Changhong, the ultimate holding company of Target Co BVI.
(ii) 四川長虹電子集團有限公司 holds approximately 23% equity interest of Sichuan Changhong.
(iii) Sichuan Changhong has controlling interests in these companies.

(b) Key management personnel remuneration

No remuneration was paid to key management personnel during the Track Record Periods.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, Target Co BVI or any of its subsidiaries have been prepared in respect of any period subsequent to 31 July 2012.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2011 AND SIX MONTHS ENDED 30 JUNE 2012

The audited financial statements of the Group for each of the three financial years ended 31 December 2011 are unqualified. No dividends were paid or payable and no exceptional items were noted for each of the three financial years ended 31 December 2009, 2010 and 2011. The auditor of the Group for the three financial years ended 31 December 2009, 2010 and 2011 is SHINEWING (HK) CPA Limited.

The following is a summary of the consolidated financial information of the Group for each of the three financial years ended 31 December 2011 as extracted from the annual reports of the Company for the three years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2012.

Consolidated Statements of Comprehensive Income

	Year ended 31 December			For six months ended 30 June
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)
Turnover	2,575,279	2,614,184	2,724,330	1,284,221
Cost of sales	(2,512,715)	(2,573,094)	(2,680,539)	(1,266,619)
Gross profit	62,564	41,090	43,791	17,602
Other income	226	1,945	226	156
Distribution and selling expenses	(6,808)	(7,356)	(8,451)	(3,930)
Administrative expenses	(12,864)	(10,607)	(15,662)	(13,134)
Finance costs	(17,248)	(4,697)	(6,449)	(3,013)
Profit before tax	25,870	20,375	13,455	(2,319)
Income tax expenses	(4,403)	(3,174)	(2,984)	–
Profit for the year/period	21,467	17,201	10,471	(2,319)
Profit and total comprehensive income for the year/period attributable to the owners of the Company	21,467	17,201	10,471	(2,319)
Earnings per share basic and diluted	6.75 cents	5.41 cents	3.19 cents	(0.69) cents

Consolidated Statements of Financial Position

	As at 31 December			For six months ended 30 June
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)
Non-current asset				
Plant and equipment	540	391	394	310
Current assets				
Inventories	8,437	706	–	630
Trade and bills receivables	679,097	391,202	392,574	247,356
Trade deposits paid	9,224	123,373	47,399	84,507
Prepayments, deposits and other receivables	524	520	594	578
Amounts due from related companies	69	69	69	4
Amount due from a director	39	–	–	–
Tax recoverable	–	1,229	230	–
Pledged bank deposits	28,572	2,344	3,467	4,251
Bank balances and cash	76,874	46,536	71,888	171,945
	802,836	565,979	516,221	509,271
Current liabilities				
Trade and bills payables	455,292	206,125	311,909	356,383
Other payables	4,937	6,601	4,828	6,449
Customer deposits	54,534	30,133	52,339	55,012
Amounts due to directors	5	41	5	5
Tax liabilities	7,285	4,928	4,928	7,210
Borrowings	267,259	287,277	94,515	38,750
	789,312	535,105	468,524	463,809
Net current assets	13,524	30,874	47,697	45,462
Total assets less current liabilities	14,064	31,265	48,091	45,772
Capital and Reserves				
Share capital	7,950	7,950	8,350	8,350
Share premium and reserves	6,114	23,315	39,741	37,422
Equity attributable to owners of the Company	14,064	31,265	48,091	45,772

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

Set out below are the audited financial statements of the Group for the year ended 31 December 2011 as extracted from the annual report of the Company for the year ended 31 December 2011.

信永中和 ShineWing

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

TO THE SHAREHOLDERS OF CHINA DATA BROADCASTING HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Data Broadcasting Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 74, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
26 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Turnover	7	2,724,330	2,614,184
Cost of sales		(2,680,539)	(2,573,094)
Gross profit		43,791	41,090
Other income	8	226	1,945
Distribution and selling expenses		(8,451)	(7,356)
Administrative expenses		(15,662)	(10,607)
Finance costs	10	(6,449)	(4,697)
Profit before tax		13,455	20,375
Income tax expenses	12	(2,984)	(3,174)
Profit and total comprehensive income for the year attributable to owners of the Company	14	10,471	17,201
Earnings per share			
Basic and diluted	16	3.19 cents	5.41 cents

Consolidated Statement of Financial Position

As at 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current asset			
Plant and equipment	*17*	394	391
Current assets			
Inventories	*18*	–	706
Trade and bills receivables	*19*	392,574	391,202
Trade deposits paid	*20*	47,399	123,373
Prepayments, deposits and other receivables	*21*	594	520
Amounts due from related companies	*22*	69	69
Tax recoverable		230	1,229
Pledged bank deposits	*23*	3,467	2,344
Bank balances and cash	*23*	71,888	46,536
		516,221	565,979
Current liabilities			
Trade and bills payables	*24*	311,909	206,125
Other payables	*25*	4,828	6,601
Customer deposits	*26*	52,339	30,133
Amounts due to directors	*27*	5	41
Tax liabilities		4,928	4,928
Borrowings	*28*	94,515	287,277
		468,524	535,105
Net current assets		47,697	30,874
Total assets less current liabilities		48,091	31,265
Capital and reserves			
Share capital	*29*	8,350	7,950
Reserves		39,741	23,315
Equity attributable to owners of the Company		48,091	31,265

The consolidated financial statements on pages 29 to 74 were approved and authorised for issue by the Board of Directors on 26 March 2012 and are signed on its behalf by:

YU Xiao *Director*

TANG Yun *Director*

Consolidated Statement of Changes In Equity

For the year ended 31 December 2011

	Share capital *HK$'000*	**Share premium** *HK$'000*	**(Accumulated losses)/ retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2010	7,950	28,537	(22,423)	14,064
Total comprehensive income for the year	–	–	17,201	17,201
At 31 December 2010 and 1 January 2011	7,950	28,537	(5,222)	31,265
Total comprehensive income for the year	–	–	10,471	10,471
Share issued	400	7,600	–	8,000
Transaction costs attributable to issue of shares	–	(1,645)	–	(1,645)
At 31 December 2011	8,350	34,492	5,249	48,091

Consolidated Statement of Cash Flows
For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
OPERATING ACTIVITIES		
Profit before tax	13,455	20,375
Adjustments for:		
Depreciation for plant and equipment	196	–
Gain on disposal of plant and equipment	(18)	165
Interest income	(83)	(14)
Finance costs	6,449	4,697
Operating cash flows before movements in working capital	19,999	25,223
Decrease in inventories	706	7,731
(Increase) decrease in trade and bills receivables	(1,372)	287,895
Decrease (increase) in trade deposits paid	75,974	(114,149)
(Increase) decrease in prepayments, deposits and other receivables	(74)	4
Increase (decrease) in trade and bills payables	105,784	(249,167)
(Decrease) increase in other payables	(1,773)	1,664
Increase (decrease) in customer deposits	22,206	(24,401)
Cash generated from (used in) operations	221,450	(65,200)
Hong Kong Profits Tax paid	(1,985)	(6,760)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	219,465	(71,960)
INVESTING ACTIVITIES		
Decrease in amount due from a director	–	39
(Increase) decrease in pledged bank deposits	(1,123)	26,228
Purchases of plant and equipment	(309)	(16)
Interest received	83	14
Proceeds on disposal of property, plant and equipment	128	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(1,221)	26,265
FINANCING ACTIVITIES		
(Decrease) increase in amount due to a director	(36)	36
Net borrowings repaid on discounted bills with recourse	(116,250)	(72,982)
(Repayment of) new loan raised from loan from a related company	(76,512)	93,000
Interest paid	(6,449)	(4,697)
Net proceeds from issue of shares	6,355	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(192,892)	15,357
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,352	(30,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	46,536	76,874
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	71,888	46,536

Notes to the Consolidated Financial Statements
For the year ended 31 December 2011

1. GENERAL INFORMATION

China Data Broadcasting Holdings Limited (the "Company") was incorporated in Bermuda with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Unit 3701, 37/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars ("HKD") which is different from the functional currency of the Company, being United States dollars ("USD"). As the Company is a public company with the shares listed on the Stock Exchange with most of its investors located in Hong Kong, the directors consider that Hong Kong dollars is preferable in presenting the operating result and financial position of the Group.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 35 to the consolidated financial statements.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRS	Improvements to HKFRS issued in 2010
Hong Kong Accounting Standard ("HKAS") 24 (Revised)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
HK (International Financial Reporting Interpretations Committee) ("IFRIC") – Int 14 Amendment	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRS had no material effect on the Group's financial performance and positions for the current or prior accounting years and on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRS issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the notes to the consolidated financial statements with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[5]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2014.
[6] Effective for annual periods beginning on or after 1 January 2015.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

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

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

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

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

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

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

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

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

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

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

Key requirements of these five standards are described below.

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

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

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

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

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

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

The consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment on financial assets

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

For all financial assets, objective evidence of impairment could include:

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

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Financial liabilities and equity instruments

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables, amounts due to directors and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

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

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

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

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HKD) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Taxation

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Estimated impairment of trade and bills receivables

Management regularly reviews the recoverability and/or age of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2011, the carrying amount of trade and bills receivable is approximately HK$392,574,000 (31 December 2010: carrying amount of approximately HK$391,202,000).

5. CAPITAL RISK MANAGEMENT

The Company manages its capital structure to ensure optimal capital structure and shareholder returns through the optimisation of debt and equity balance. Further capital may be used to increase its capital base. The Company's overall strategy remains unchanged from prior year.

The Group monitors capital by maintaining cash flows from operating activities, investing activities and financing activities. Capital of the Group comprises all components of equity, bank balances and cash and borrowings. The usage of borrowings is used to support the daily operation.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011	2010
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	468,490	440,571
Financial liabilities		
At amortised cost	411,257	497,527

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, amounts due from related companies, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, amounts due to directors and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 11% (2010: 14%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 89% (2010: 86%) of cost are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HKD	12,424	3,105	1,217	1,492
Euro ("EUR")	129,663	10,504	119,378	2,633
Australian Dollars ("AUD")	55,633	46,791	53,531	45,520

The Group does not currently have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to the currency of HKD/EUR/AUD.

The following table details the Group's sensitivity to a 10% (2010: 10%) increase and decrease in USD against the relevant foreign currencies. 10% (2010: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 10% (2010: 10%) change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the Group. A positive number below indicates an increase in post-tax profit where USD strengthen 10% (2010: 10%) against the relevant currency. For a 10% (2010: 10%) weakening of USD against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	HKD impact		EUR impact		AUD impact	
	2011	2010	2011	2010	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit or loss	(936)	(135)	(859)	(647)	(176)	(106)

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact resulted from the change in interest rates on interest-bearing assets.

The Group's interest-rate risk arises from borrowings (see note 28 for details of these borrowings). Borrowings at fixed rate expose the Group to fair value interest-rate risk. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate short-term bank balances (see note 23 for details of these balances). The exposure to the interest rate risk for variable-rate bank balances is insignificant as the bank balances have a short maturity period.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2010: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

As at 31 December 2011, if interest rates on bank balances had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately HK$718,000 (2010: HK$466,000) decrease/increase, mainly as a result of higher/lower interest expense on variable rate borrowings.

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk as 26% (2010: 50%) and 85% (2010: 81%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively which are mainly located in the PRC and include a substantial shareholder of the Company and companies under its control.

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalent deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group currently relies on borrowings as a significant source of liquidity. As at 31 December 2011 and 31 December 2010, the Group has no available unutilised overdraft nor short-term bank loan facilities.

The management will closely monitor the cash flow generated from operations and the Group's needs for different types of external financing and will negotiate for proper facilities and consider proper means of equity financing as appropriate.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Repayable on demand or less than 1 month	**1-3 months**	**Over 3 months but less than 1 year**	**Total undiscounted cash flows**	**Carrying amount at 31/12/2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011					
Non-derivative financial liabilities					
Trade payables	311,909	–	–	311,909	311,909
Other payables	4,828	–	–	4,828	4,828
Amounts due to directors	5	–	–	5	5
Borrowings	31,294	14,764	49,034	95,092	94,515
	348,036	14,764	49,034	411,834	411,257

	Repayable on demand or less than 1 month	**1-3 months**	**Over 3 months but less than 1 year**	**Total undiscounted cash flows**	**Carrying amount at 31/12/2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010					
Non-derivative financial liabilities					
Trade and bills payables	206,125	–	–	206,125	206,125
Other payables	4,084	–	–	4,084	4,084
Amounts due to directors	41	–	–	41	41
Borrowings	43,943	69,159	179,600	292,702	287,277
	254,193	69,159	179,600	502,952	497,527

(c) Fair values of financial assets and liabilities

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. TURNOVER

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes.

8. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	83	14
Compensation income from a subsidiary of a substantial shareholder	–	43
Recovery of service deposits previously written off	–	1,560
Gain on disposal of plant and equipment	18	–
Others	125	328
	226	1,945

9. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. For management purposes, the Group is currently organised into a single segment as trading of consumer electronic products and related parts and components, and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single operating segment. Accordingly, no segment analysis by business is presented.

Revenue from major products

The Group's revenue from operations was generated from trading of consumer electronic products and related parts and components for both years.

Geographical information

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2011	2010
	HK$'000	*HK$'000*
PRC	1,670,727	1,115,949
Europe	407,603	615,044
Australia	96,419	239,708
Hong Kong	101,673	132,727
Middle East	76,040	151,656
Africa	24,978	43,301
Other Asian District	165,246	127,214
USA	–	20,349
South America	181,644	168,236
	2,724,330	2,614,184

Non-current assets of the Group are located in Hong Kong.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011	2010
	HK$'000	*HK$'000*
Sichuan Changhong	1,134,478	617,847
Guangdong Changhong Electrics Co. Ltd	N/A[1]	272,841
Changhong Europe Electric S.R.O	N/A[1]	264,717

[1] The corresponding revenue did not contribute over 10% of the total sales of the Group for the year ended 31 December 2011.

10. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within 5 years	3,868	1,689
Loan from a related company wholly repayable within 5 years	2,581	3,008
	6,449	4,697

11. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

12. INCOME TAX EXPENSES

	2011	2010
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– Current tax	2,964	3,174
– Under provision in prior year	20	–
	2,984	3,174

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follow:

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation	13,455	20,375
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	2,220	3,362
Tax effect of income not taxable for tax purpose	(23)	(2)
Tax effect of expenses not deductible for tax purpose	658	4
Tax effect of other deductible temporary differences not recognised	14	13
Tax effect of tax losses not recognised	95	–
Tax effect of utilisation of tax losses previously not recognised	–	(203)
Under provision in respect of prior year	20	–
Income tax expense	2,984	3,174

13. DEFERRED TAXATION

At 31 December 2011, the Group had unused tax losses and other deductible temporary differences of approximately HK$24,032,000 (2010: HK$23,457,000) and HK$614,000 (2010: HK$529,000) respectively available for offset against future profits. No deferred tax asset in respect of other deductible temporary differences and unused tax loss has been recognised due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

14. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2011 *HK$'000*	2010 *HK$'000*
Depreciation for plant and equipment	196	165
Auditor's remuneration	940	850
Cost of inventories recognised as an expense	2,680,539	2,573,094
Staff costs, including directors' emoluments *(note 15)*		
– Salaries and related staff costs	8,158	7,725
– Retirement benefits scheme contributions	160	154
	8,318	7,879
Exchange loss, net	735	110

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments paid by the Group to the directors during the year are as follows:

For the year ended 31 December 2011

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Performance related incentive payments *HK$'000*	Total *HK$'000*
Executive directors					
Mr. David Ji Long Fen	–	240	–	–	240
Ms. Shi Ping	–	–	–	–	–
Mr. Tang Yun	–	1,238	12	60	1,310
Mr. Wang Zhenhua[1]	–	54	–	–	54
Mr. Xiang Chao Yang	–	54	–	–	54
Mr. Yu Xiao	–	–	–	–	–
Mr. Wu Xiangtao	–	486	12	56	554
Mr. Rong Dong[2]	–	373	7	–	380
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	180	–	–	–	180
Mr. Robert Ip Chun Chung	180	–	–	–	180
Mr. Sun Donfeng	180	–	–	–	180
	540	2,445	31	116	3,132
Senior Management					
Mr. Lee Wing Lun	–	516	12	4	532
Mr. Liu Jianhua	–	399	12	178	589
	–	915	24	182	1,121

[1] Resigned on 6 March 2012

[2] Appointed on 1 June 2011

For the year ended 31 December 2010

	Fees	Salaries and allowances	Retirement benefits scheme contributions	Performance related incentive payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. David Ji Long Fen	–	240	–	–	240
Ms. Shi Ping	–	36	–	–	36
Mr. Tang Yun	–	984	12	61	1,057
Mr. Wang Zhenhua	–	36	–	–	36
Mr. Xiang Chao Yang	–	27	–	–	27
Mr. Yu Xiao	–	36	–	–	36
Mr. Wu Xiangtao	–	429	12	50	491
Independent non-executive directors					
Mr. Jonathan Chan Ming Sun	165	–	–	–	165
Mr. Robert Ip Chun Chung	165	–	–	–	165
Mr. Sun Donfeng	165	–	–	–	165
	495	1,788	24	111	2,418
Senior Management					
Mr. Lee Wing Lun	–	483	12	4	499
Mr. Liu Jianhua	–	346	12	134	492
	–	829	24	138	991

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. In the year ended 31 December 2011, two directors, Ms. Shi Ping and Mr. Yu Xiao, waived emoluments. In the year ended 31 December 2010, one director, Mr. Yu Xiao, waived emolument of HK$36,000.

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included two (2010: two) directors whose emolument is included in the analysis presented above. The emoluments of the remaining three (2010: three) individuals are set out below:

	2011	2010
	HK$'000	*HK$'000*
Salaries and allowances	1,657	1,578
Retirement benefits scheme contributions	24	36
	1,681	1,614

The emoluments of the remaining individuals for both years fall within the band of less than HK$1,000,000.

16. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2011 *HK$'000*	2010 *HK$'000*
Earnings		
Profit for the year attributable to owners of the Company	10,471	17,201

	2011 *'000*	**2010** *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	328,258	318,000

As there were no dilutive potential shares during the two years ended 31 December 2011 and 2010, the diluted earnings per share is the same as basic earnings per share.

17. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *HK$'000*	**Leasehold improvements** *HK$'000*	**Motor vehicle** *HK$'000*	**Total** *HK$'000*
COST				
At 1 January 2010	421	429	368	1,218
Additions	16	–	–	16
At 31 December 2010 and 1 January 2011	437	429	368	1,234
Additions	75	234	–	309
Disposals	–	(128)	–	(128)
At 31 December 2011	512	535	368	1,415
DEPRECIATION				
At 1 January 2010	239	421	18	678
Charge for the year	47	8	110	165
At 31 December 2010 and 1 January 2011	286	429	128	843
Charge for the year	58	28	110	196
Disposals	–	(18)	–	(18)
At 31 December 2011	344	439	238	1,021
CARRYING VALUES				
At 31 December 2011	168	96	130	394
At 31 December 2010	151	–	240	391

The above items of plant and equipment are depreciated on a straight-line basis over the estimated useful lives after taking into account their estimated residual values as below:

Furniture, fixtures and equipment	5 years
Leasehold improvements	the term of the lease
Motor vehicle	3 years

18. INVENTORIES

	2011	2010
	HK$'000	*HK$'000*
Trading merchandises	–	706

19. TRADE AND BILLS RECEIVABLES

Included in the balance are amounts due from subsidiaries of a substantial shareholder of the Company of approximately HK$275,680,000 (2010: HK$140,276,000) and amount due from a substantial shareholder of the Company of approximately HK$98,469,000 (2010: HK$195,888,000).

The Company allows an average credit period of 30-90 days and 30-120 days (2010: 30-90 days and 30-120 days) to its third party and related party trade customers respectively. Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 62% (2010: 65%) of the trade and bills receivables based on the invoice date that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Company. The Company does not hold any collateral over these balances.

Included in the Company's trade and bills receivable balance are debtors with aggregate carrying amount of approximately HK$147,285,000 (2010: HK$138,369,000) which were past due at the reporting date for which the Company has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Company does not hold any collateral over these balances.

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	76,059	164,339
31 – 60 days	65,066	121,698
61 – 90 days	60,830	78,912
91 – 180 days	177,534	25,443
181 – 365 days	11,699	–
Over 365 days	1,386	810
	392,574	391,202

Ageing of trade and bills receivables which are past due based on past due date but not impaired:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	87,487	45,330
31 – 60 days	41,282	44,316
61 – 90 days	5,066	39,160
91 – 180 days	11,113	8,753
Over 180 days	2,337	810
Total	147,285	138,369

Included in trade and bills receivables are the following amounts denominated in currencies other than the functional currency of the Group:

	2011	2010
	HK$'000	*HK$'000*
HKD	2	2
EUR	124,436	–
AUD	54,697	46,578

20. TRADE DEPOSITS PAID

Included in the balance are amounts paid to a substantial shareholder of the Company and a company under its control of approximately HK$30,708,000 (2010: HK$90,675,000) in aggregate.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

At 31 December 2011, included in prepayments, deposits and other receivables is an amount of approximately HK$594,000 (2010: HK$520,000) which is denominated in HKD which represented currency other than the functional currency of the Group.

22. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Name of company	**Terms**	**Balance at 31/12/2011** *HK$'000*	**Balance at 31/12/2010** *HK$'000*	**Maximum amount outstanding during the year** *HK$'000*
Apex Digital Inc. (Incorporated in USA) ("ADIUSA") *(Note)*	Unsecured, interest free and repayable on demand	65	65	65
Apex Digital (Shanghai) Co., Ltd ("ADSH") *(Note)*	Unsecured, interest free and repayable on demand	4	4	4
		69	69	

At 31 December 2011, the amounts of approximately HK$69,000 (2010: HK$69,000) are denominated in HKD, which represented currency other than the functional currency of the Group.

Note: Mr. Ji, a director of the Company, had beneficial interest in ADIUSA and ADSH.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

	2011	2010
	HK$'000	*HK$'000*
Pledged bank deposits	3,467	2,344
Bank balances and cash	71,888	46,536
	75,355	48,880

Bank balances bears interest at floating rates based on daily bank deposits rates.

Included in pledged bank deposits and bank balances and cash are the following amounts denominated in currencies other than the functional currency of the Group:

	2011	2010
	HK$'000	*HK$'000*
HKD	655	2,514
EUR	5,227	10,504
AUD	936	213

At 31 December 2011 and 2010, pledged bank deposits were pledged to secure general banking facilities granted to the Group and did not carry any interest.

The pledged bank deposits will be released upon the settlement of relevant borrowings.

24. TRADE AND BILLS PAYABLES

Included in the balance are amounts due to subsidiaries of a substantial shareholder of the Company of approximately HK$34,758,000 (2010: HK$52,986,000) and amount due to a substantial shareholder of the Company of approximately HK$203,883,000 (2010: HK$66,326,000). The ageing analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	50,821	69,452
31 – 60 days	55,965	56,584
61 – 90 days	62,369	9,428
91 – 180 days	121,101	48,182
181 – 365 days	21,540	21,756
Over 1 year	113	723
	311,909	206,125

Included in trade and bills payables are the following amounts denominated in currencies other than the functional currency of the Group:

	2011	2010
	HK$'000	*HK$'000*
EUR	119,378	–
AUD	53,531	45,520

The average credit period on purchase of goods is 30 – 120 days (2010: 30 – 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

25. OTHER PAYABLES

Included in the balance are amounts due to subsidiaries of a substantial shareholder of the Company of approximately HK$794,000 (2010: HK$1,903,000).

Included in other payables are the following amounts denominated in currencies other than the functional currency of the Group:

	2011	2010
	HK$'000	*HK$'000*
HKD	1,233	1,451
EUR	2,404	–

26. CUSTOMER DEPOSITS

Included in customer deposits are the following amounts denominated in currency other than the functional currency of the Group:

	2011	2010
	HK$'000	*HK$'000*
HKD	2,400	–
EUR	–	9,508

27. AMOUNTS DUE TO DIRECTORS

The amounts due to directors of the Company, Mr. Yu Xiao amounting to HK$36,000 as at 31 December 2010 (2011: Nil) and Mr. David Ji Long Fen amounting to HK$5,000 (2010: HK$5,000), are unsecured, interest free and repayable on demand. These amounts are denominated in HKD, which represented currency other than functional currency of the Group.

28. BORROWINGS

	2011	2010
	HK$'000	*HK$'000*
Loan from a related company	38,750	155,000
Bank loans on bills discounted with recourse	55,765	132,277
	94,515	287,277
Secured	55,765	132,277
Unsecured	38,750	155,000
	94,515	287,277
Carrying amount repayable:		
On demand or within one year	94,515	287,277

Loan from a related company were advanced by Changhong (Hong Kong) Trading Limited, a subsidiary of a substantial shareholder of the Company's holding company. The balance was unsecured, bearing interest at fixed rate at 3.5% (2010: 2.5%) per annum and are repayable in June 2012. (2010: repayable in June 2011).

At 31 December 2011, the Company's secured bank borrowings were secured by bills receivables of HK$55,765,000 (2010: HK$132,277,000).

29. SHARE CAPITAL

	Number of shares	*HK$'000*
Ordinary shares of HK$0.025 each		
Authorised:		
1 January 2010, 31 December 2010 and 31 December 2011	1,200,000,000	30,000
Issued and fully paid:		
At 1 January 2010 and 31 December 2010	318,000,000	7,950
Issue of share *(note)*	16,000,000	400
At 31 December 2011	334,000,000	8,350

Note: On 12 May 2011, the Company issued and allotted a total of 16,000,000 shares with a par value of HK$0.025 each in the Company at HK$0.5 per ordinary share to Changhong (Hong Kong) Trading Limited.

All the shares which were issued during the year rank pari passu with the existing shares in all respects.

30. SHARE OPTION SCHEME

On 11 January 2000, the Company approved the share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to full-time employees ("Employees") of the Company and its subsidiaries (including executive directors of the Company and its subsidiaries) to subscribe for shares in the Company. The scheme became effective upon the listing of the Company's shares on the GEM on 24 January 2000.

The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time other than: (i) shares issued pursuant to this Scheme; and (ii) any pro rata entitlements to further issues in respect of any shares mentioned in (i) during a period of 10 years from the date when the Scheme is adopted. The subscription price shall be a price determined by the board of directors at its absolute discretion and notified to Employees and shall be no less than the higher of: (i) the closing price of the shares as stated in the daily quotation sheets issued by the GEM on the offer date; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the GEM for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

During the years ended 31 December 2011 and 2010, no option under the Scheme had been granted to any person, nor was there any outstanding option granted under the Scheme in issue.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 *HK$'000*	2010 *HK$'000*
Non-current assets		
Plant and equipment	–	–
Investments in subsidiaries	100	100
	100	100
Current assets		
Prepayments, deposits and other receivables	100	100
Amounts due from subsidiaries *(Note a)*	45	36
Tax recoverable	20	–
Bank balances and cash	102	2,051
	267	2,187
Current liabilities		
Other payables	1,010	890
Amount due to a director	–	36
Amounts due to subsidiaries *(Note a)*	10,486	14,555
	11,496	15,481
Net current liabilities	(11,229)	(13,294)
	(11,129)	(13,194)
Capital and reserves		
Share capital	8,350	7,950
Share premium and reserves *(Note b)*	(19,479)	(21,144)
	(11,129)	(13,194)

Notes:

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

(b) Movements of share premium and reserves during the year are as follows:

	Share premium	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2010	28,537	(49,791)	(21,254)
Profit for the year	–	110	110
At 31 December 2010 and 1 January 2011	28,537	(49,681)	(21,144)
Loss for the year	–	(4,290)	(4,290)
Transaction costs directly attributable to issue shares	(1,646)	–	(1,646)
Share issued	7,601	–	7,601
At 31 December 2011	34,492	(53,971)	(19,479)

32. OPERATING LEASE COMMITMENTS

The Group as lessee:

	2011	**2010**
	HK$'000	*HK$'000*
Minimum lease payments under operating lease during the year	1,276	1,065

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters falling due as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Within one year	1,494	938
In the second to fifth year, inclusive	1,212	365
	2,706	1,303

Leases are negotiated and rentals are fixed for terms of 2 to 3 years (2010: 1 to 3 years).

33. RETIREMENT BENEFIT SCHEME

The Group has joined the Mandatory Provident Fund Scheme ("MPF Scheme") for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of comprehensive income represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2011, contributions of the Group under the MPF Scheme amounted to approximately HK$147,000 (2010: HK$154,000).

34. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

Name of company	Nature of transaction	2011 *HK$'000*	2010 *HK$'000*
Substantial shareholder of holding company			
Sichuan Changhong (ii) & (iii)	Sales of goods	1,134,478	617,847
	Purchases of goods	511,722	812,198
Subsidiaries of Sichuan Changhong			
Changhong Electric (Australia) Pty., Ltd.	Sales of goods	95,536	167,719
Changhong Electric Middle East Fze	Sales of goods	1,167	–
Guangdong Changhong Electronics Co., Ltd.	Sales of goods	234,577	272,841
	Purchases of goods	351,846	460,530
Sichuan Changhong Component Technology Co., Ltd.	Sales of goods	25,405	10,540
Sichuan Changhong Network Technologies Co., Ltd.	Sales of goods	170,380	120,993
	Purchases of goods	8,922	50,330
Changhong Europe Electric S.R.O	Sales of goods	212,471	264,717
PT. Changhong Electric Indonesia	Sales of goods	72,718	49,843
Sichuan Hongrui Electronic Co. Ltd.	Sales of goods	25,126	25,815
Hefei Changhong Industry Co. Ltd.	Sales of goods	17,278	5,273
Changhong Ruba Trading Company (PVT) Limited	Sales of goods	2,126	–
Hefei Meiling Co., Ltd.	Purchases of goods	–	3
Sichuan COC Display Devices Co. Ltd.	Purchases of goods	51,750	–
Guangdong Changhong Digital Technology Co., Ltd.	Purchases of goods	22	1,783
	Rent paid	159	92
Changhong (Hong Kong) Trading Limited (i)	Interest expense paid	2,581	3,008

Notes:

(i) Mr. Tang Yun, a director of the Company, is also a director of this company.

(ii) The Company entered into the master supply agreement and the master purchase agreement with Sichuan Changhong in respect of the sales and purchases of various electronic products and components on 18 April 2007 and 9 May 2007 respectively (the "Existing Master Agreements"). According to the Existing Master Agreements, the relevant electronic products and components to be sold to or purchased from Sichuan Changhong or any of its subsidiaries for the supply or purchase of the relevant electronic products and components are to be made at prices with reference to the market prices and credit terms subject to normal commercial practices. As the Existing Master Agreements have been expired on 31 December 2009, the Company entered into the new master supply agreement and the master purchase agreement with Sichuan Changhong on 20 November 2009 to continue the sales and purchases of various electronic products and components between the Company and Sichuan Changhong or any of its subsidiaries from 1 January 2010 to 31 December 2012.

(iii) Sichuan Changhong, a substantial shareholder of the Company, is the parent company of these companies.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Short-term benefits	3,772	2,917
Post-employment benefits	36	36
	3,808	2,953

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2011 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid up ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	*Indirect*	
Apex Honour Resources Limited	British Virgin Islands	US$1	100	–	Investment holding
Apex Digital Inc.	British Virgin Islands	US$1	100	–	Inactive
Changhong Overseas Development Limited	Hong Kong	HK$100,000	100	–	Trading of consumer electronic products and related parts and components
Apex Digital, LLC	USA	US$365,190	–	100	Inactive
Apex Digital Inc. Limited	Hong Kong	HK$2	–	100	Trading of consumer electronic products and related parts and components

None of the subsidiaries had issued any debt securities at the end of the year.

3. QUARTERLY REPORT OF THE GROUP FOR THE THREE MONTHS ENDED 31 MARCH 2012

No dividends were paid or payable and no exceptional items were noted for each of the three month period ended 31 March 2011 and 2012.

Set out below is the unaudited financial information of the Group for the three months ended 31 March 2012 as extracted from the first quarterly report 2012 of the Group.

Consolidated Statement of Comprehensive Income
For the three month period ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	2	526,340	424,362
Cost of sales		(518,666)	(418,593)
Gross profit		7,674	5,769
Other income		73	66
Distribution and selling expenses		(1,926)	(1,291)
Administrative expenses		(5,468)	(3,704)
Profit from operation		353	840
Finance costs		(847)	(920)
(Losses) before taxation		(494)	(80)
Income tax expense	3	–	–
(Losses) and total comprehensive income for the period attributed to owners of the Company		(494)	(80)
Losses per share	4		
Basic and diluted		0.148 cents	0.025 cents

Notes:

1. BASIS OF PREPARATION

The unaudited quarterly financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles general accepted in Hong Kong. In addition, these financial statements include applicable disclosures required by the GEM Listing Rules and the Hong Kong Companies Ordinance.

2. TURNOVER

Turnover represents the invoiced value of goods sold, net of discounts and sales related taxes.

3. INCOME TAX EXPENSE

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the period ended 31 March 2012.

The Group did not have any significant unprovided deferred tax liabilities in respect of the period.

4. LOSSES PER SHARE

The calculation of basic losses per share is based on the net losses attributable to shareholders for the period of HK$494,000 (2011: HK$80,000), and the weighted average of 334,000,000 (2011: 318,000,000) ordinary shares in issue during the period.

As there were no diluted potential shares during the two periods ended 31 March 2012 and 2011, the diluted losses per share was the same as basic losses per share.

5. RESERVES

During the period, there was no movement to and from any reserves.

6. CONTINGENT LIABILITIES

On 9 June 2006, Koninkljke Philips Electronics N.V. and United States Philips Corporation commenced a lawsuit in the United States District Court, Central District of California, against eight parties, including the Company, Apex Digital Inc. Limited and Apex Digital, LLC (subsidiaries of the Company), Mr. David Ji Long Fen ("Mr. Ji", an executive Director), Mr. Ancle Hsu Ann Keh (a former executive Director), Apex Digital, Inc. US, (a former substantial shareholder of the Company which is wholly-owned by Mr. Ji), United Delta Inc. (a former beneficial shareholder of the Company) and an individual (collectively known as the "Defendants"). The Defendants were claimed damages for patent infringement for the distribution of unlicensed DVD products within the USA.

On 20 June 2007, a settlement has been reached between the plaintiffs and the defendants and the proceedings were dismissed without prejudice. Pursuant to the terms of the settlement, Apex Digital, Inc. US is to pay a total amount of approximately US$3,284,000 to the plaintiffs by installments. Subsequently, Apex Digital, Inc. US, Mr. Ji, the Company, Apex Digital, LLC and Apex Digital Inc Limited entered into an agreement dated 18 September 2007 pursuant to which Apex Digital, Inc. US and Mr. Ji agreed to bear all the payment under the above settlement.

4. INTERIM REPORT OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2012

No dividends were paid or payable and no exceptional items were noted for each of the six months period ended 30 June 2011 and 2012.

Set out below is the unaudited financial information of the Group for the six months ended 30 June 2012 as extracted from the interim report 2012 of the Group.

Condensed Consolidated Statement of Comprehensive Income – Unaudited

		For three months ended 30 June		For six months ended 30 June	
		2012	**2011**	**2012**	**2011**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover		757,881	734,659	1,284,221	1,159,021
Cost of sales		(747,953)	(724,281)	(1,266,619)	(1,142,874)
Gross profit		9,928	10,378	17,602	16,147
Other income		83	92	156	158
Administrative expenses		(7,666)	(3,945)	(13,134)	(7,649)
Distribution and selling expenses		(2,004)	(1,794)	(3,930)	(3,085)
Profit from operation	*3*	341	4,731	694	5,571
Finance cost		(2,166)	(2,003)	(3,013)	(2,923)
(Losses)/Profit before taxation		(1,825)	2,728	(2,319)	2,648
Income tax expense	*4*	–	(6)	–	(6)
(Losses)/Profit and total comprehensive income for the period attributed to owners of the Company		(1,825)	2,722	(2,319)	2,642
(Losses)/Profit per share Basic and diluted (HK cents)	*5*	(0.55)	0.82	(0.69)	0.79

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		310	394
CURRENT ASSETS			
Trade receivables	6	100,214	18,425
Inventory		630	–
Trade deposits		84,507	47,399
Prepayments, deposits and other receivables		578	594
Amount due from related companies		147,146	275,749
Tax recoverable		–	230
Cash and bank balance		176,196	75,355
		509,271	417,752
CURRENT LIABILITIES			
Trade payables	7	70,369	73,268
Tax payable		7,210	4,928
Other payables and accruals		6,449	4,034
Customer deposit		55,012	52,339
Amount due to a director		5	5
Amount due to a substantial shareholder		77,143	105,414
Bank loan		–	55,765
Loan from a related company		38,750	38,750
Amounts due to related companies		208,871	35,552
		463,809	370,055
NET CURRENT ASSETS		45,462	47,697
NET ASSET		45,772	48,091
CAPITAL AND RESERVES			
Issued capital		8,350	8,350
Reserves		37,422	39,741
		45,772	48,091

Consolidated Statement of Changes in Equity – Unaudited

	For the six months ended 30 June	
	2012	**2011**
	HK$'000	*HK$'000*
Total equity at 1 January	48,091	31,265
Increase in share capital	–	400
Increase in share premium and reserve	–	7,635
Net (losses)/profit for the period attributable to shareholders	(2,319)	2,642
Total equity at 30 June	45,772	41,942

Condensed Consolidated Statement of Cash Flows – Unaudited

	For the six months ended 30 June	
	2012	**2011**
	HK$'000	*HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	156,618	174,486
CASH FLOWS FROM INVESTING ACTIVITIES		
Share subscribed by related company	–	8,000
Purchase of fixed assets	(12)	(113)
Net cash (outflow)/inflow from investing activities	(12)	7,887
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loan to a related company	(55,765)	(116,250)
Net cash (outflow) from financing activities	(55,765)	(116,250)
NET INCREASE IN CASH AND CASH EQUIVALENTS	100,841	66,123
Cash and cash equivalents at beginning of year	75,355	48,880
CASH AND CASH EQUIVALENTS AT END OF PERIOD	176,196	115,003
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	176,196	115,003

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited consolidated condensed interim accounts ("the Interim Accounts") are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting and the requirements of the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules").

2. SEGMENT INFORMATION

The Group is currently organised into a single segment as trading of consumer electronic products and related parts and components, and all revenue, expense, results, assets and liabilities and capital expenditures are predominantly attributable to this single operating segment. Accordingly, no segment analysis by business is presented.

(a) Geographical segments

The following is an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2012	**2011**
	HK$'000	*HK$'000*
Hong Kong	51,317	69,718
People's Republic of China ("PRC")	771,481	757,441
Asia	83,842	65,319
Europe	218,283	99,705
Australia	15,018	30,723
South America	73,177	72,641
Africa	44,779	2,437
Middle East	26,324	61,037
	1,284,221	1,159,021

3. PROFIT FROM OPERATION

The Group's profit from operation is arrived at after charging/(crediting):

	2012	**2011**
	HK$'000	*HK$'000*
Cost of inventories sold	1,266,619	1,142,874
Depreciation	96	92
Staff cost including directors' emolument		
– Salary and related staff cost	5,254	4,336
– Retirement benefits scheme contribution	72	79
	5,326	4,415
Exchange (gain)/loss, net	(262)	391

4. INCOME TAX EXPENSE

Taxes of other jurisdiction have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the period ended 30 June 2012 (2011: Nil).

The Group has unused tax losses and other deductible temporary difference of approximately HKD24,032,000 and HKD614,000 respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

5. (LOSSES)/PROFIT PER SHARE

The calculation of basic losses per share for the three months and six months ended 30 June 2012 were based on the net losses attributable to shareholders of HK$1,825,000 (2011 profit: HK$2,722,000) for the three months ended 30 June 2012 and the net losses attributable to shareholders of HK$2,319,000 (2011 profit: HK$2,642,000) for the six months ended 30 June 2012 and on 334,000,000 (2011: 334,000,000) ordinary shares in issue during the three months and six months ended 30 June 2012.

No diluted earnings per share was presented as there was no potential ordinary shares in issue for both periods.

6. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three months. Overdue balances are reviewed regularly by senior management. An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	2012	**2011**
	HK$'000	*HK$'000*
Within 3 months	85,090	48,330
4 to 6 months	14,054	1,968
7 to 12 months	1,070	11
Over 1 year	–	34
	100,214	50,343

7. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on date of receipt of goods, is as follows:

	2012	**2011**
	HK$'000	*HK$'000*
Within 3 months	68,710	58,898
4 to 6 months	299	25,236
7 to 12 months	1,247	38
Over 1 year	113	112
	70,368	84,284

8. CONTINGENT LIABILITIES

On 12 June 2006, Koninkljke Philips Electronics N.V. and United States Philips Corporation issued a writ of summons to the United States District Court, Central District of California, against eight parties, including the Company, Apex Digital Inc. Limited and Apex Digital, LLC (subsidiaries of the Company), Mr. David Ji Long Fen ("Mr. Ji", an executive director of the Company), Mr. Ancle Hsu Ann Keh (a former executive director of the Company), Apex Digital Inc. ("Apex Digital, Inc. US", a former substantial shareholder which is wholly-owned by Mr. Ji), United Delta Inc. (a former beneficial shareholder) and an individual (collectively known as the "Defendants"). The Defendants were claimed damages for patent infringement for the distribution of unlicensed DVD products within the United States of America.

On 20 June 2007, a settlement has been reached between the plaintiffs and the defendants and the proceedings were dismissed without prejudice. Pursuant to the terms of the settlement, Apex Digital, Inc. US is to pay a total amount of US$3,284,000 to the plaintiffs by installments. Subsequently, the Group has signed an agreement with Apex Digital, Inc. US that Apex Digital, Inc. US has agreed to bear all the payments and any legal and professional fees incurred. Up to 30 June 2012, Apex Digital, Inc. US has paid the amount of US$2,300,000.

5. THIRD QUARTERLY REPORT OF THE GROUP FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

No dividends were paid or payable and no exceptional items were noted for each of the nine months period ended 30 September 2011 and 2012.

Set out below is the unaudited financial information of the Group for the nine months ended 30 September 2012 as extracted from the third quarterly report 2012 of the Group.

The following is a summary of the unaudited results of the Company and its subsidiaries (collectively the Group) for the three months period and nine months period ended 30 September 2012, together with the comparative figures for the corresponding periods of last year, as extracted from the Third Quarterly Report 2012 of the Company:

Consolidated Statement of Comprehensive Income

For the nine months period ended 30 September 2012

	Note	For three months ended 30 September		For nine months ended 30 September	
		2012	2011	**2012**	2011
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**887,786**	835,125	**2,172,007**	1,994,146
Cost of sales		**(876,012)**	(817,902)	**(2,142,631)**	(1,960,776)
Gross profit		**11,774**	17,223	**29,376**	33,370
Other income		**(55)**	67	**101**	225
Administrative expenses		**(9,983)**	(9,266)	**(23,117)**	(16,915)
Distribution and selling expenses		**(1,684)**	(1,821)	**(5,614)**	(4,906)
Profit from operation		**52**	6,203	**746**	11,774
Finance cost		**(2,097)**	(1,152)	**(5,110)**	(4,075)
(Losses)/Profit before taxation		**(2,045)**	5,051	**(4,364)**	7,699
Income tax expense	*3*	**–**	–	**–**	(6)
(Losses)/Profit and total comprehensive income for the period attributed to the owners of the Company		**(2,045)**	5,051	**(4,364)**	7,693
(Losses)/Profit per share	*4*				
Basic and diluted (HK cents)		**(0.61)**	1.51	**(1.31)**	2.30

Notes:

1. BASIS OF PREPARATION

The unaudited quarterly financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. In addition, these financial statements include applicable disclosures required by the GEM Listing Rules and the Hong Kong Companies Ordinance.

2. TURNOVER

Turnover represents the invoiced value of goods sold, net of discounts and sales related taxes.

3. INCOME TAX EXPENSE

Taxes of other jurisdiction have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the period ended 30 September 2012 (2011: Nil).

The Group has unused tax losses and other deductible temporary difference of approximately HK$24,032,000 and HK$614,000 respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

4. (LOSSES)/PROFIT PER SHARE

The calculation of basic losses per share for the three months and nine months ended 30 September 2012 were based on the net losses attributable to shareholders of HK$2,045,000 (2011 profit: HK$5,051,000) for the three months ended 30 September 2012 and the net losses attributable to shareholders of HK$4,364,000 (2011 profit: HK$7,693,000) for the nine months ended 30 September 2012 and on 334,000,000 (2011: 334,000,000) ordinary shares in issue during the three months and nine months ended 30 September 2012.

No diluted earnings per share was presented as there was no potential ordinary shares in issue for both periods.

5. RESERVES

During the period, there was no movement to and from any reserves.

6. CONTINGENT LIABILITIES

On 12 June 2006, Koninkljke Philips Electronics N.V. and United States Philips Corporation issued a writ of summons ("Summons") to the United States District Court, Central District of California, against eight parties, including the Company, Apex Digital Inc. Limited and Apex Digital, LLC (subsidiaries of the Company), Mr. David Ji Long Fen ("Mr. Ji", an executive director of the Company), Mr. Ancle Hsu Ann Keh (a former executive directors of the Company), Apex Digital Inc. ("Apex Digital", a former substantial shareholder which is wholly owned by Mr. Ji), United Delta Inc. (a former beneficial shareholder) and an individual (collectively known as the "Defendants"). The Defendants were claimed damages for patent infringement for the distribution of unlicensed DVD products within the United States of America ("USA").

On 2 August 2007, a settlement has been reached between the plaintiffs and the defendants and the proceedings were dismissed without prejudice. Pursuant to the terms of the settlement, Apex Digital is to pay a total amount of US$3,284,000 to the plaintiffs by installments. Subsequently, the Group has signed an agreement with Apex Digital that Apex Digital has agreed to bear all the payments and any legal and professional fees incurred. Up to 30 September 2012, Apex Digital has paid the amount of US$2,300,000.

6. INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

(i) Interest bearing bank overdraft and borrowings in the amount of approximately HK$197,711,000 due within one year. Certain bank borrowings were secured by trade receivables with amount of HK$54,047,000; and

(ii) Interest bearing other borrowings in the amount of approximately HK$870,100,000 due within one year. Certain other borrowings were secured by trade receivables with amount of HK$164,770,000.

(iii) Loan from a fellow subsidiary of HK$38,750,000 which was unsecured, interest bearing and due within one year.

Contingent liabilities

As at the close of business on 31 October 2012, the Enlarged Group had no material contingent liabilities.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have outstanding as at the close of business on 31 October 2012 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there is no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 October 2012 and up to the date of this circular.

For the purpose of the above indebtedness statement, foreign currency accounts have been translated into Hong Kong Dollars at the approximately rates of exchange prevailing at the close of business on 31 October 2012.

7. MATERIAL CHANGE

The Directors confirmed that there has been no material change which would adversely affect the financial or trading position of the Group since 31 December 2011, the date the latest published audited financial information of the Company.

8. HEDGING POLICY

The Directors confirm that during the Track Record Period, the Group did not enter into any hedging transactions.

9. DIVIDEND POLICY OF THE GROUP

The Board has absolute discretion in determining whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. The Company will evaluate its dividend policy from time to time in light of its financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of the Board and will be based upon the Company's earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that the Directors deem relevant. No dividend was declared by the Company for the three years ended 31 December 2011 and seven months ended 31 July 2012. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Therefore, the past dividend payments referred to above should not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Board in the future. According to the terms of the New Convertible Preference Shares, holders of New Convertible Preference Shares shall have the right to receive dividend in priority to holders of any other class of shares in the capital of the Company. No assurance can be given that dividends to be distributed out of the funds of the Company available for distribution can be paid to the Shareholders.

10. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three financial years ended 31 December 2011:

(a) For the year ended 31 December 2011

Business review

The Group is engaged in the trading business of consumer electronic products and related electronic parts and components. To process orders from customers, the Group places purchase orders according to the requirements in the corresponding sales orders and the Group does generally not handle the logistics and warehousing of the orders.

The Group has accomplished an improved operating revenue of approximately HK$2,724.33 million and an operating profit of approximately 19.90 million. The revenue for year 2011 was slightly 4.21% higher than the previous year arising from the growth of the trading business of electronic parts and components, but due to the professional fees incurred for the advanced work of a possible acquisition, the Group recorded a net profit of approximately HK$10.47 million for the year ended 31 December 2011.

As at 31 December 2011, the Group's gross margin was approximately 1.61% which increased 2.55% as compared with 2010. The increase was due to continuous effort of the management in the fierce competitive industry. This was due to intense competition in the industry the Group engaged in as the results of the global economy and politics' instability.

During the business operations in the past years, the Group has established a stable clientele base of customers and competitive supplying resources; the Group was able to secure orders from the customers without spending extra effort, manpower and costs in developing new markets.

Moreover, by utilizing the Hong Kong's advantages as a free-trade region with abundant and efficient ancillary services for trading business at low-costs, such as international settlements and logistics etc., the Group can conduct its trading business efficiently with its current operating structure.

Outlook

As the Company has established stable clientele bases of supplier and customers and the financial positions of the Group are continuously improving, the Company is confident that the Trading Business in the consumer electronic industry will build up a steady and considerable income stream for the Group. The management will put more efforts to explore further business opportunities in related industries and will look for suitable investment opportunities in an active but cautious manner to broaden the Group's business. The Board believes that the business will keep on the track and will continue to improve in the near future. The Group's commitment is to create value for shareholders.

Turnover

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes. For the year ended 31 December 2011, turnover increased by approximately 4.21% to approximately HK$2,724,330,000 (2010: approximately HK$2,614,184,000), which was mainly contributed by the growth of the trading business of electronic parts and components.

Liquidity and financial resources

The Group's financial and liquidity positions are healthy and stable. As at 31 December 2011, the aggregate outstanding borrowings of the Group were approximately HK$94.52 million which were unsecured and interested bearing (2010: HK$287.28 million). Such fluctuation was due to the repayment of part of borrowings in the year ended 31 December 2011 as the Group's financial positions are continuously improving. The Group's cash and bank balances amounted to approximately HK$75.36 million, together with trading receivables amounted to approximately HK$392.57 million. The Group's net current assets approximate to HK$47.70 million and the Group does not have any charges on its assets. The management is confident that with some proper arrangements for fund, the Group's financial resources are sufficient to finance the daily operation.

Assets and liabilities

As at 31 December 2011, total assets of the Group amounted to approximately HK$516,615,000 (As at 31 December 2010: approximately HK$566,370,000) and total liabilities of the Group were approximately HK$468,524,000 (As at 31 December 2010: approximately HK$535,105,000). Net assets amounted to approximately HK$48,091,000 (As at 31 December 2010: approximately HK$31,265,000) which was attributed to the profit for the year of approximately HK$10,471,000 recorded for the year ended 31 December 2011 and the increase in the share capital and reserve.

As at the Latest Practicable Date, out of the total trade and bill receivables of HK$392,574,000 as at 31 December 2011, approximately HK$385,851,000 has been settled.

Contingent liabilities

On 9 June 2006, Koninkljke Philips Electronics N.V. and United States Philips Corporation commenced a lawsuit in the United States District Court, Central District of California, against eight parties, including the Company, Apex Digital Inc. Limited and Apex Digital, LLC (subsidiaries of the Company), Mr. David Ji Long Fen ("**Mr. Ji**", an executive Director), Mr. Ancle Hsu Ann Keh (a former executive Director), Apex Digital, Inc. US, (a former substantial shareholder of the Company which is wholly-owned by Mr. Ji), United Delta Inc. (a former beneficial shareholder of the Company) and an individual (collectively known as the "**Defendants**"). The Defendants were claimed damages for patent infringement for the distribution of unlicensed DVD products within the USA.

On 20 June 2007, a settlement has been reached between the plaintiffs and the defendants and the proceedings were dismissed without prejudice. Pursuant to the terms of the settlement, Apex Digital, Inc. US is to pay a total amount of approximately US$3,284,000 to the plaintiffs by installments. Subsequently, Apex Digital, Inc. US, Mr. Ji, the Company, Apex Digital, LLC and Apex Digital Inc Limited entered into an agreement dated 18 September 2007 pursuant to which Apex Digital, Inc. US and Mr. Ji agreed to bear all the payment under the above settlement.

Capital commitment

At 31 December 2011, the Group had not authorised, contracted or provided any capital commitments.

Foreign exchange exposure

The Group's monetary assets and liabilities and transactions are principally denominated in Hong Kong dollars and United Stated dollars. As the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk to be minimal.

Employment and remuneration policy

As at 31 December 2011, the total number of the Group's staff was 19. The total staff costs (including directors) amounted to approximately HK$8.32 million for the year under review. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund.

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good and the Group is able to manage its business with the current number of staff members.

Capital structure

The Company manages its capital structure to ensure optimal capital structure and shareholder returns through the optimisation of debt and equity balance. Further capital may be used to increase its capital base. The Company's overall strategy remains unchanged from prior year.

Significant investments

As at 31 December 2011, the Group did not have any significant investments.

Future plans for material investments and expected source of funding

As at 31 December 2011, the Group was considering various investment projects and options but had not made any decision for its pursuing.

Material acquisitions and disposals

The Group had no material acquisitions and disposals for the year ended 31 December 2011.

(b) For the year ended 31 December 2010

Business review

The Group is engaged in the trading business of consumer electronic products and related electronic parts and components. To process orders from customers, the Group places purchase orders according to the requirements in the corresponding sales orders and the Group does generally not handle the logistics and warehousing of the orders.

The Group has accomplished an improved operating revenue of approximately HK$2,614,184,000 (2009: approximately HK$2,575,279,000) and a profit for the year of approximately HK$17,201,000 (2009: approximately HK$21,467,000) for the year ended 31 December 2010. The Group's revenue for 2010 was slightly higher than the previous year.

For the year ended 31 December 2010, the Group's gross margin was approximately 1.57% which decreased approximately 35.39% as compared with 2009. This was due to the intense competition in the market. Apex Digital Inc. Limited, a subsidiary of the Company, raised a legal suit against Apex Digital (Shanghai) on 17 October 2008 due to Apex Digital (Shanghai)'s default in the repayment of its operating funds borrowed from Apex Digital Inc. Limited. The Group has fully provided for such amount due from Apex Digital (Shanghai) in the accounts of 2006. On 17 April 2009, the court ordered Apex Digital (Shanghai) to repay the amount of RMB6,003,365.72. As at (the Latest Practicable Date and 31 December 2011, Apex Digital (Shanghai) had not made any of the above repayment. The Company has written off the aforesaid amount owed by Apex Digital (Shanghai).

In addition, after continuingly efforts by the Company, approximately HK$1,560,000 of the service deposit of approximately HK$2,496,000 owed by Ms. Fei Liqiong (an American) has been set off in November 2010.

During the business operations in the past years, the Group has established a stable clientele base of customers and competitive supplying resources; the Group was able to secure orders from the customers without spending extra effort, manpower and costs in developing new markets.

Moreover, by utilizing the Hong Kong's advantages as a free-trade region with abundant and efficient ancillary services for trading business at low-costs, such as international settlements and logistics etc., the Group can conduct its trading business efficiently with its current operating structure.

Outlook

As the Company has established stable clientele bases of supplier and customers, and the global economy was recovering. The Company was confident that the Trading Business will build up a steady and considerable income stream of the Group. The management has put more efforts to explore further business opportunities in the consumer electronic industry, such as trading of finished goods/parts and components of televisions, set top boxes, fridges, notebooks and other products. The Board believed that the business will keep on the track and will continue to improve in the near future.

Turnover

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes. For the year ended 31 December 2010, turnover rose by approximately 1.51% to approximately HK$2,614,184,000 (2009: approximately HK$2,575,279,000), which was mainly contributed by the increase of approximately 19.81% in the trading of consumer electronic products to approximately HK$1,453,555 (2009: approximately HK$1,213,196) due to the market demand increase on the consumer electronic products after the financial crisis in the year of 2008 which offset the decrease of approximately 14.79% in the trading of electronics components & parts business to approximately HK$1,160,629,000 (2009: approximately HK$1,362,083,000) due to fierce competition in this market segment.

Liquidity and financial resources

The Group's financial and liquidity positions were healthy and stable as at 31 December 2010. As at 31 December 2010, the aggregate outstanding borrowings with related companies of the Group were approximately HK$287,277,000 (2009: approximately HK$267,259,000) which were unsecured and interested bearing. Such fluctuation was within the normal pattern of operations of the Group. The Group's cash and bank balances amounted to approximately HK$48,880,000 (2009: approximately HK$105,446,000), together with trading receivables amounted to approximately HK$391,202,000 (2009: approximately HK$679,097,000). The Group's net current assets approximate to HK$30,874,000 (2009: approximately HK$13,524,000) and the Group did not have any charges on its assets. The management were confident that with some proper arrangements for fund, the Group's financial resources would be sufficient to finance the daily operation.

Assets and liabilities

As at 31 December 2010, total assets of the Group amounted to approximately HK$566,370,000 (2009: approximately HK$803,376,000) and total liabilities of the Group were approximately HK$535,105,000 (2009: approximately HK$789,312,000). Net assets amounted to approximately HK$31,265,000 (2009: approximately HK$14,064,000) which was attributed to the profit for the year of approximately HK$17,201,000 recorded for the year ended 31 December 2010.

Contingent liabilities

On 9 June 2006, Koninkljke Philips Electronics N.V. and United States Philips Corporation commenced a lawsuit against the Defendants. The Defendants were claimed damages for patent infringement for the distribution of unlicensed DVD products within the USA.

On 20 June 2007, a settlement has been reached between the plaintiffs and the defendants and the proceedings were dismissed without prejudice. Pursuant to the terms of the settlement, Apex Digital, Inc. US is to pay a total amount of approximately US$3,284,000 to the plaintiffs by installments. Subsequently, Apex Digital, Inc. US, Mr. Ji, the Company, Apex Digital, LLC and Apex Digital Inc Limited entered into an agreement dated 18 September 2007 pursuant to which Apex Digital, Inc. US and Mr. Ji agreed to bear all the payment under the above settlement.

Capital commitment

At 31 December 2010, the Group had not authorised, contracted or provided any capital commitments.

Foreign exchange exposure

The Group's monetary assets and liabilities and transactions are principally denominated in Hong Kong dollars and United States dollars. As the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk is minimal.

Employment and remuneration policy

As at 31 December 2010, the total number of the Group's staff was 19 (2009: 19). The total staff costs (including Directors) amounted to approximately HK$7,879,000 (2008: approximately HK$6,695,000) for the year. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund.

The Group established a share options scheme to reward its employees for their individual performance.

As at 31 December 2010, there were no outstanding share options. During the year, no share option had been granted nor exercised. The share options scheme has expired on 10 January 2010.

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good, and the Group is able to manage its business with the current number of staff members.

Capital structure

The Group manages its capital structure to ensure optimal capital structure and shareholder returns, using the capital to promote the brand name products as ultimately increasing the market share in consumer industry. Further capital may be used to increase its horizon. Capital of the Group comprises all components of equity, cash and bank balances and loan from a related company.

The loan from a related company is used to support the daily operation.

Significant investments

As at 31 December 2010, the Group did not have any significant investment.

Future plans for material investments and expected source of funding

The Group continued to consolidate its existing businesses while exploring new business opportunities that would enhance its existing businesses. As at 31 December 2010, the Group was considering various investment projects and options but had not made any decision for its pursuing.

Material acquisitions and disposals

The Group had no material acquisitions and disposals for the year ended 31 December 2010.

(c) For the year ended 31 December 2009

Business review

The Group is engaged in the trading business of consumer electronic products and related electronic parts and components. To process orders from customers, the Group places purchase orders according to the requirements in the corresponding sales orders and the Group does generally not handle the logistics and warehousing of the orders.

The Group has accomplished an improved operating revenue of approximately HK$2,575,279,000 (2008: approximately HK$1,324,975,000) and a profit for the year of approximately HK$21,467,000 (2008: approximately HK$5,702,000) for the year ended 31 December 2009. The Group's revenue for 2009 increased approximately 94% over that of 2008.

For the year ended 31 December 2009, the Group's gross margin was approximately 2.43% which represented a remarkable growth of approximately 17.96% as compared with 2008 due to lower cost of sales as compared with the year ended 31 December 2008. The total selling expenses, administrative expenses and finance costs increased reasonably due to increase in revenue.

Apex Digital Inc. Limited, a subsidiary of the Company, raised a legal suit against Apex Digital (Shanghai) on 17 October 2008 due to Apex Digital (Shanghai)'s default in the repayment of its operating funds borrowed from Apex Digital Inc. Limited. On 17 April 2009, the court ordered Apex Digital (Shanghai) to repay the amount of RMB6,003,365.72. The Group has fully provided for such amount due from Apex Digital (Shanghai) in the accounts of 2006. As at (the Latest Practicable Date and 31 December 2011, Apex Digital (Shanghai) had not made any of the above repayment. The Company has written off the aforesaid amount owed by Apex Digital (Shanghai).

Also the Company tried various measures for the collection of the service deposit of approximately HK$2,496,000 owed by Ms. Fei Liqiong (an American) and which has been provided in the accounts of the year 2007, a repayment agreement has been proposed but had not been finalized in the year 2009. As at 31 December 2009, no repayment has been set off.

On 30 October 2009, trading of the Company's share has been resumed as the Company fulfilled all the resumption requirements from the Stock Exchange. A new master supply and purchase agreement has entered into between the Company and the substantial shareholder of the Company (i.e. Sichuan Changhong Electric Co., Limited) on 20 November 2009 and has been approved by independent shareholders at the special general meeting held on 29 December 2009.

During the business operations in the past years, the Group has established a stable clientele base of customers and competitive supplying resources; the Group was able to secure orders from the customers without spending extra effort, manpower and costs in developing new markets.

Moreover, by utilizing the Hong Kong's advantages as a free-trade region with abundant and efficient ancillary services for trading business at low-costs, such as international settlements and logistics etc., the Group can conduct its trading business efficiently with its current operating structure.

Outlook

As the Company has established stable clientele bases of supplier and customers, there was a minimal effect by the financial crisis to the operations of the Company. The Company was confident that the Trading Business will build up a steady and considerable income stream of the Group. The management has put more efforts to explore further business opportunities in the consumer electronic industry, such as trading of finished goods/parts and components of televisions, set top boxes, fridges, notebooks and other products. The Board believed that the business will keep on the track and will continue to improve in the near future.

Turnover

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes. For the year ended 31 December 2009, turnover rose by approximately 94.36% to approximately HK$2,575,279,000 (2008: approximately HK$1,324,975,000), which was mainly contributed by the increase in the trading of consumer electronic products by approximately 322.14% to approximately HK$1,213,196,000 (2008: approximately HK$287,392,000) and the trading of electronic components & parts business by approximately 31.27% to approximately HK$1,362,083,000 (2008: approximately HK$1,037,583,000) as more efforts and resources were being put by the Company to its business development..

Liquidity and financial resources

The Group's financial and liquidity positions were healthy and stable as at 31 December 2009. As at 31 December 2009, the aggregate outstanding borrowings with related companies of the Group were approximately HK$267,259,000 (2008: approximately HK$654,455,000) which were unsecured and interested bearing (2008: approximately HK$669,956,000). Such fluctuation was within the normal pattern of operations of the Group. The Group's cash and bank balances amounted to approximately HK$105,446,000 (2008: approximately HK$119,032,000), together with trading receivables amounted to approximately HK$679,097,000 (2008: approximately HK$446,058,000). The Group's net current assets approximate to HK$13,524,000 (2008: approximately HK$8,021,000) and the Group does not have any charges on its assets. The management were confident that the Group's financial resources would be sufficient to finance the daily operation.

Assets and liabilities

As at 31 December 2009, total assets of the Group amounted to approximately HK$803,376,000 (2008: approximately 951,885,000) and total liabilities of the Group were HK$789,312,000 (2008: approximately HK$959,288,000). Net assets amounted to approximately HK$ 14,064,000 (2008: approximately HK$7,403,000 net liabilities) which was attributed to the profit for the year of approximately HK$21,467,000 recorded for the year ended 31 December 2009.

Contingent liabilities

On 9 June 2006, Koninkljke Philips Electronics N.V. and United States Philips Corporation commenced a lawsuit against the Defendants. The Defendants were claimed damages for patent infringement for the distribution of unlicensed DVD products within the USA.

On 20 June 2007, a settlement has been reached between the plaintiffs and the defendants and the proceedings were dismissed without prejudice. Pursuant to the terms of the settlement, Apex Digital, Inc. US is to pay a total amount of approximately US$3,284,000 to the plaintiffs by installments. Subsequently, Apex Digital, Inc. US, Mr. Ji, the Company, Apex Digital, LLC and Apex Digital Inc Limited entered into an agreement dated 18 September 2007 pursuant to which Apex Digital, Inc. US and Mr. Ji agreed to bear all the payment under the above settlement.

Capital commitment

At 31 December 2009, the Group had not authorised, contracted or provided any capital commitments..

Foreign exchange exposure

The Group's monetary assets and liabilities and transactions are principally denominated in Hong Kong dollars and United States dollars. As the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk is minimal.

Employment and remuneration policy

As at 31 December 2009, the total number of the Group's staff was 19 (2008: 16). The total staff costs (including Directors) amounted to approximately HK$6,695,000 (2008: approximately HK$5,958,000) for the year. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund.

The Group established a share options scheme to reward its employees for their individual performance. As at 31 December 2009, there were no outstanding share options. During the year, no share option had been granted nor exercised. The share options scheme has expired on 10 January 2010.

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good and the Group is able to manage its business with the current number of staff members.

Capital structure

The Group manages its capital structure to ensure optimal capital structure and shareholder returns, using the capital to promote the brand name products as ultimately increasing the market share in consumer industry. Further capital may be used to increase its horizon.

Capital of the Group comprises all components of equity, cash and bank balances and loan from a related company.

The usage of loan from a related company is used to support the daily operation.

Significant investments

As at 31 December 2009, the Group did not have any significant investment.

Future plans for material investments and expected source of funding

The Group continued to consolidate its existing businesses while exploring new business opportunities that would enhance its existing businesses. As at 31 December 2009, the Group was considering various investment projects and options but had not made any decision for its pursuing.

Material acquisitions and disposals

The Group had no material acquisitions and disposals for the year ended 31 December 2009.

11. PROPERTY INTERESTS AND PROPERTY VALUATION

The Group has leased 2 properties with gross floor areas of approximately 134 sq.m. and 231.05 sq.m. located in Shenzhen, the PRC and Hong Kong respectively. An overview of the said property interests are set out as follows:

No.	Address	Area *(sq.m.)*	Usage	Commencement Date	Expiring Date	Rent *(RMB)*	Remarks
1	Room 7, Level 25, Changhong Technology Centre, No. 12 Technology Road South, Nanshan District, Shenzhen City, Guangdong Province, the PRC	134.00	Office	1-Jul-11	30-Jun-14	8,375	The rent is on monthly basis and is exclusive of outgoing expenses.
2	Room 3701 on 37th Floor of West Tower Shun Tak Centre Nos. 168-200 Connaught Road Central Hong Kong	231.05	Office	16-Sep-11	15-Sep-13	114,402.00 (HK$)	The rent is on monthly basis and is inclusive of government rent and property tax but exclusive of other outgoing expenses.
	Total	**365.05**					

SECTION A ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the report, prepared for the purpose of incorporation in this circular, received from SHINEWING (HK) CPA Limited, in connection with the pro forma financial information of the Enlarged Group.

信永中和 ShineWing

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

12 December 2012

THE BOARD OF DIRECTORS
CHINA DATA BROADCASTING HOLDINGS LIMITED

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of China Data Broadcasting Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Sufficient Value Group Limited (the "Target Co BVI") and its subsidiaries (the "Target Group"; together with the Group collectively referred to as the "Enlarged Group") set out in section B of Appendix III to the circular issued by the Company dated 12 December 2012 (the "Circular") in connection with the proposed acquisition (the "Acquisition") of the entire issued share capital of Target Co BVI from Fit Generation Holding Limited ("Fit Generation"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in section B below.

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

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Rule 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted 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 Rule 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2012 or any future date; and

- the results and cash flows of the Enlarged 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 Rule 7.31(1) of the GEM Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong

SECTION B PRO FORMA FINANCIAL INFORMATION

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma financial information ("Unaudited Pro Forma Financial Information") of China Data Broadcasting Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Sufficient Value Group Limited (the "Target Co BVI") and its subsidiaries (the "Target Group"; together with the Group collectively referred to as the "Enlarged Group") has been prepared by the directors of the Company to illustrate the effect of the acquisition of entire issued share capital of Target Co BVI (the "Acquisition"), at an aggregate consideration of HK$2,012,868,000 which will be settled in full by the allotment and issue of 135,000,000 ordinary shares (the "New Ordinary Shares") and 1,877,868,000 convertible preference shares (the "New Convertible Preference Shares") of the Company.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix II to the Circular and the accountants' report on the Target Group as set out in Appendix I to the Circular.

1. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if the Completion (defined below) had taken place at the beginning of the fiscal year.

The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared as if the Acquisition and issuance of the New Ordinary Shares and New Convertible Preference Shares had been completed (the "Completion") on 1 January 2011 and is based on the combined statement of comprehensive income of the Target Group for the year ended 31 December 2011 as extracted from the accountants' report on the Target Group as set out in Appendix I to the Circular, and the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2011 as set out in Appendix II to the Circular, and after making certain pro forma adjustments as set out below.

Upon actual completion of the Acquisition, merger accounting will be adopted in the consolidated financial statements of the Enlarged Group. For the illustrative purpose of this unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group, it is assumed 1 January 2011 to be the date when Sichuan Changhong Electric Co., Limited ("Sichuan Changhong") have gained effective control of the Company, and that the Group and the Target Group first come under common control by Sichuan Changhong. The consolidated statement of comprehensive income includes the results of each of the combining entities from 1 January 2011, which reflects the financial impact as if the Completion had taken place on 1 January 2011.

The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared by the directors of the Company as a result of the Completion. As it has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the results of the Enlarged Group for the year ended 31 December 2011 or any future financial periods.

	The Group for the year ended 31 December 2011	The Target Group for the year ended 31 December 2011	Total	Pro forma adjustment (Note 1)	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	2,724,330	13,357,743	16,082,073	–	16,082,073
Cost of sales and services provided	(2,680,539)	(12,729,924)	(15,410,463)	–	(15,410,463)
Gross profit	43,791	627,819	671,610	–	671,610
Other income	226	20,053	20,279	–	20,279
Distribution and selling expenses	(8,451)	(226,500)	(234,951)	–	(234,951)
Administrative expenses	(15,662)	(93,365)	(109,027)	(18,951)	(127,978)
Finance costs	(6,449)	(31,983)	(38,432)	–	(38,432)
Profit before tax	13,455	296,024	309,479	(18,951)	290,528
Income tax	(2,984)	(87,390)	(90,374)	–	(90,374)
Profit for the year	10,471	208,634	219,105	(18,951)	200,154
Other comprehensive income:					
Exchange differences arising on translation of foreign operations	–	24,720	24,720	–	24,720
Total comprehensive income for the year	10,471	233,354	243,825	(18,951)	224,874
Profit for the year attributable to:					
Owners of the Target Co BVI	10,471	188,033	198,504	(18,951)	179,553
Non-controlling interests	–	20,601	20,601	–	20,601
	10,471	208,634	219,105	(18,951)	200,154
Total comprehensive income for the year attributable to:					
Owners of the Target Co BVI	10,471	210,282	220,753	(18,951)	201,802
Non-controlling interests	–	23,072	23,072	–	23,072
	10,471	233,354	243,825	(18,951)	224,874

Note:

1. The pro forma adjustment reflects the estimated professional fees incurred for the Acquisition. This adjustment is not expected to have any continuing effect on the unaudited pro forma consolidated statement of comprehensive income in subsequent years.

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma consolidated statement of financial position of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if the Completion had been completed on 30 June 2012.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared as if the Completion had been completed on 30 June 2012 and is based on the combined statement of financial position of the Target Group as at 31 July 2012 extracted from the accountants' report on the Target Group as set out in Appendix I to the Circular, and the unaudited consolidated statement of financial position of the Group as at 30 June 2012 set out in Appendix II to the Circular and after making certain pro forma adjustments as set out below.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared by the directors of the Company as a result of the Completion. As it has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2012 or at any future date.

	The Group as at 30 June 2012	The Target Group as at 31 July 2012	Total	Pro forma adjustments (Note 1)	(Note 2)	(Note 3)	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets							
Plant and equipment	310	18,828	19,138	–	–	–	19,138
Investments in subsidiaries	–	–	–	2,565,522	(2,565,522)	–	–
	310	18,828	19,138	2,565,522	(2,565,522)	–	19,138
Current assets							
Inventories	630	1,413,668	1,414,298	–	–	–	1,414,298
Trade and bills receivables	247,356	962,887	1,210,243	–	–	–	1,210,243
Trade deposits	84,507	323,237	407,744	–	–	–	407,744
Prepayments, deposits and other receivables	578	129,764	130,342	–	–	–	130,342
Amounts due from related companies	4	–	4	–	–	–	4
Amount due from ultimate holding company	–	26	26	–	–	–	26
Property held for sale	–	405	405	–	–	–	405
Pledged bank deposits	4,251	7,762	12,013	–	–	–	12,013
Bank balances and cash	171,945	94,989	266,934	–	–	(18,951)	247,983
	509,271	2,932,738	3,442,009	–	–	(18,951)	3,423,058
Current liabilities							
Trade and bills payables	356,383	1,242,353	1,598,736	–	–	–	1,598,736
Other payables	6,449	154,695	161,144	–	–	–	161,144
Dividend payables	–	186	186	–	–	–	186
Customer deposits	55,012	116,343	171,355	–	–	–	171,355
Amount due to a director	5	–	5	–	–	–	5
Income tax payables	7,210	13,734	20,944	–	–	–	20,944
Bank and other borrowings	38,750	630,450	669,200	–	–	–	669,200
Bank overdraft	–	59,175	59,175	–	–	–	59,175
	463,809	2,216,936	2,680,745	–	–	–	2,680,745
Net current assets	45,462	715,802	761,264	–	–	(18,951)	742,313
Total assets less current liabilities	45,772	734,630	780,402	2,565,522	(2,565,522)	(18,951)	761,451
Capital and reserves							
Share capital	8,350	–	8,350	50,322	–	–	58,672
Share premium	34,492	190,000	224,492	2,515,200	(190,000)	–	2,549,692
Capital reserve	–	3,240	3,240	–	(3,240)	–	–
Merger reserve	–	–	–	–	(1,967,563)	–	(1,967,563)
Statutory reserve	–	53,579	53,579	–	(53,579)	–	–
Exchange reserve	–	42,275	42,275	–	(49,531)	–	(7,256)
Retained profits	2,930	361,662	364,592	–	(301,609)	(18,951)	44,032
	45,772	650,756	696,528	2,565,522	(2,565,522)	(18,951)	677,577
Non-controlling interests	–	67,280	67,280	–	–	–	67,280
Total equity	45,772	718,036	763,808	2,565,522	(2,565,522)	(18,951)	744,857
Non-current liabilities							
Deferred income	–	16,594	16,594	–	–	–	16,594
	45,772	734,630	780,402	2,565,522	(2,565,522)	(18,951)	761,451

Notes:

1. Pursuant to the acquisition agreement, the Company will allot and issue shares to Fit Generation as below:

	New Ordinary Shares to be allotted and issued	New Convertible Preference Shares to be allotted and issued	Total
Number of shares to be allotted and issued to Fit Generation	135,000,000	1,877,868,000	2,012,868,000
Issue price per share	HK$1	HK$1	N/A
Nominal value per share	HK$0.025	HK$0.025	N/A
Market price/fair value per share as at 30 June 2012	HK$1.74	HK$1.2411	N/A
Total consideration at fair value as at 30 June 2012	HK$234,900,000	HK$2,330,622,000	HK$2,565,522,000
Nominal value of shares issued	HK$3,375,000	HK$46,947,000	HK$50,322,000
Share premium on issue of New Ordinary Shares and New Convertible Preference Shares	HK$231,525,000	HK$2,283,675,000	HK$2,515,200,000

The adjustment represents the fair value of HK$2,565,522,000 of total consideration for the acquisition of the entire issued share capital of Target Co BVI to be satisfied by:

(i) Allotment and issue of 135,000,000 New Ordinary Shares with nominal value of HK$0.025 each by the Company to Fit Generation at a market price of HK$1.74 each totaling HK$234,900,000 assuming the issuance was completed as at 30 June 2012; and

(ii) Allotment and issue of 1,877,868,000 New Convertible Preference Shares with nominal value of HK$0.025 each by the Company to Fit Generation at a fair value of HK$1.2411 each totaling HK$2,330,622,000. The New Convertible Preference Shares with a conversion price of HK$1.00 each are non-redeemable, zero coupon rate and are accounted for as the share capital of the Company. The fair value of the New Convertible Preference Shares was valued by an independent professional valuer, Grant Sherman Appraisal Limited as at 30 June 2012, assuming the issuance was completed as at 30 June 2012. The fair value of the Convertible Preference Shares will be re-assessed at the actual completion date.

Methodology for Valuation of the New Convertible Preference Shares:

After the business combination of the Company and the Target Group and given the non-redeemable nature of the New Convertible Preference Shares, the fair value of the business enterprise of the enlarged group is calculated as the sum of the fair values of the business enterprises of the Company and the Target Group. The fair value of each of the New Convertible Preference Shares is arrived by the fair value of the enlarged group divided by the sum of the total number of issued shares (including the ordinary shares outstanding of the Company as at 30 June 2012, the New Ordinary Shares and New Convertible Preference Shares to be issued upon completion of the Acquisition).

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

The final market price and valuation results of the New Ordinary Shares and New Convertible Preference Shares to be recognised at actual completion of the Acquisition may be different from the amounts stated herein.

2. The adjustment reflects the elimination of the share capital and reserves due to the business combination involving entities under common control.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared on the basis of business combination involving entities under common control, in which all of the combining enterprises are ultimately controlled by the same party both before and after the Acquisition, and that the control is not transitory. The Group and the Target Group are under the ultimate control of the Sichuan Changhong as from 20 March 2012 (the "First Date under Common Control") when Sichuan Changhong has gained effective control of the Company. Upon actual completion of the Acquisition, merger accounting will be adopted in the consolidated financial statements. The reserves of the Target Group at the First Date under Common Control, which represented the share premium, capital reserve, statutory reserve, exchange reserve and retained profits, would be transferred to merger reserve. The assets and liabilities of the Target Group acquired are measured at the carrying amounts as recorded by the Target Group and the difference between the carrying amount of the net assets of the Target Group at the First Date under Common Control and the total fair value of the shares to be issued is adjusted to merger reserve. For the illustrative purpose of this unaudited pro forma consolidated statement of financial position, the directors of the Company derived the estimated carrying amounts of net assets of the Target Group as at the First Date under Common Control based on the Target Group's management accounts. The details of the merger reserve are as follows:

	HK$'000
Share capital and reserves of the Target Group at the First Date under Common Control	
Share capital	–
Share premium	190,000
Capital reserve	3,240
Statutory reserve	53,579
Exchange reserve	49,531
Retained profits	301,609
	597,959
Fair value of the consideration transferred *(note 1)*	(2,565,522)
Merger reserve	(1,967,563)

The details of the Company's shares issued upon completion of the Acquisition are as follows:

	Number of Ordinary Shares *'000*	**Number of New Convertible Preference Shares** *'000*	**Nominal Value of Share Capital of HK$0.025 each** *HK$'000*
Shares issued before the Acquisition	334,000	–	8,350
New Ordinary Shares to be allotted and issued upon completion of the Acquisition	135,000	–	3,375
New Convertible Preference Shares to be allotted and issued upon completion of the Acquisition	–	1,877,868	46,947
Shares issued upon completion of the Acquisition	469,000	1,877,868	58,672

The market price of the Company's shares at the actual completion date may be different from their market price used in preparing this Unaudited Pro Forma Financial Information, and the carrying values of the identifiable assets acquired and liabilities assumed of the Enlarged Group at the actual completion date may be different from the carrying values used in preparing this Unaudited Pro Forma Financial Information.

In summary, the adjustment in notes 1 and 2 reflects:

- the issuance of the New Ordinary Shares and the New Convertible Preference Shares to Fit Generation upon the Completion.

- the elimination of the share capital and reserves due to the business combination involving entities under common control.

3. The pro forma adjustment reflects professional expenses directly attributable to the Acquisition of approximately HKD18,951,000 deemed to be incurred on 30 June 2012.

4. The above adjustments are not expected to have any continuing effect on the unaudited pro forma consolidated statement of financial position in subsequent years.

3. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

The following table is an illustrative unaudited pro forma consolidated statement of cash flows of the Enlarged Group which has been prepared on the basis set out below for the purpose of illustration as if the Completion had taken place at the beginning of the fiscal year.

The unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared as if the Completion had been completed on 1 January 2011 and is based on the combined statement of cash flows of the Target Group for the year ended 31 December 2011 as extracted from the accountants' report on Target Group as set out in Appendix I to the Circular, and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2011 as set out in Appendix II to the Circular, and after making certain pro forma adjustments as set out below.

Upon actual completion of the Acquisition, merger accounting will be adopted in the consolidated financial statements of the Enlarged Group. For the illustrative purpose of this unaudited pro forma consolidated statement of cash flows of the Enlarged Group, it is assumed 1 January 2011 to be the date when Sichuan Changhong have gained effective control of the Company, and that the Group and the Target Group first come under common control by Sichuan Changhong. The consolidated statement of cash flows includes the cash flows of each of the combining entities from 1 January 2011, which reflects the financial impact as if the Completion had taken place on 1 January 2011.

The unaudited pro forma consolidated statement of cash flows of the Enlarged Group has been prepared by the directors of the Company as a result of the Completion. As it has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 December 2011 or for any future financial periods.

	The Group for the year ended 31 December 2011	The Target Group for the year ended 31 December 2011	Total	Pro forma adjustment *(Note 1)*	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
Profit before tax	13,455	296,024	309,479	(18,951)	290,528
Adjustments for:					
Depreciation for plant and equipment	196	5,444	5,640	–	5,640
Gain on disposal of plant and equipment	(18)	(250)	(268)	–	(268)
Allowance for obsolete inventories	–	6,147	6,147	–	6,147
Impairment loss recognised on trade receivables	–	1,319	1,319	–	1,319
Government subsidies	–	(10,451)	(10,451)	–	(10,451)
Waiver of other payables	–	(1,111)	(1,111)	–	(1,111)
Bank interest income	(83)	(1,874)	(1,957)	–	(1,957)
Finance costs	6,449	31,983	38,432	–	38,432
Operating cash flows before movements in working capital	19,999	327,231	347,230	(18,951)	328,279
Decrease (increase) in inventories	706	(718,382)	(717,676)	–	(717,676)
Increase in trade and bills receivables	(1,372)	(83,900)	(85,272)	–	(85,272)
Decrease (increase) in trade deposits	75,974	(131,193)	(55,219)	–	(55,219)
Increase in prepayments, deposits and other receivables	(74)	(86,810)	(86,884)	–	(86,884)
Increase in trade and bills payables	105,784	142,513	248,297	–	248,297
(Decrease) increase in other payables	(1,773)	36,164	34,391	–	34,391
Increase in customer deposits	22,206	116,926	139,132	–	139,132
Cash generated from (used in) operations	221,450	(397,451)	(176,001)	(18,951)	(194,952)
Income tax paid	(1,985)	(70,495)	(72,480)	–	(72,480)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	219,465	(467,946)	(248,481)	(18,951)	(267,432)

	The Group for the year ended 31 December 2011	The Target Group for the year ended 31 December 2011	Total	Pro forma adjustment *(Note 1)*	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES					
Increase in pledged bank deposits	(1,123)	–	(1,123)	–	(1,123)
Withdrawal of pledged bank deposits	–	313,164	313,164	–	313,164
Purchases of plant and equipment	(309)	(7,555)	(7,864)	–	(7,864)
Interest received	83	1,874	1,957	–	1,957
Proceeds on disposal of property, plant and equipment	128	250	378	–	378
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(1,221)	307,733	306,512	–	306,512
FINANCING ACTIVITIES					
Decrease in amount due to a director	(36)	–	(36)	–	(36)
Net borrowings repaid on discounted bills with recourse	(116,250)	–	(116,250)	–	(116,250)
Repayment of loan from a related company	(76,512)	–	(76,512)	–	(76,512)
New bank loans raised	–	12,325	12,325	–	12,325
Advance from ultimate holding company	–	81,520	81,520	–	81,520
Government subsidies	–	10,451	10,451	–	10,451
Interest paid	(6,449)	(31,781)	(38,230)	–	(38,230)
Net proceeds from issue of shares	6,355	–	6,355	–	6,355
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(192,892)	72,515	(120,377)	–	(120,377)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,352	(87,698)	(62,346)	(18,951)	(81,297)
Effect of foreign exchange rate changes	–	5,956	5,956	–	5,956
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	46,536	123,436	169,972	–	169,972
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	71,888	41,694	113,582	(18,951)	94,631

Notes:

1. The pro forma adjustment reflects the estimated professional fees incurred for the Acquisition. This adjustment is not expected to have any continuing effect on the unaudited pro forma consolidated statement of cash flows in subsequent years.

Set out below is a summary of certain provisions of the proposed New Bye-laws of the Company.

1. NEW BYE-LAWS

The New Bye-laws are proposed to be adopted at the SGM. The following is a summary of certain provisions of the New Bye-laws, which includes a summary of key terms of the New Convertible Preference Shares:

(a) Directors

(i) Power to allot and issue shares and warrants

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

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

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

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

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

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

(iii) Compensation or payments for loss of office

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

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

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

(v) Financial assistance to purchase shares of the Company

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Bye-laws) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

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

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

favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

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

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

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

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

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

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

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

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits

additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

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

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

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

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

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities

and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

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

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

(b) Alterations to constitutional documents

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

(c) Alteration of capital

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

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;

(v) change the currency denomination of its share capital;

(vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

(vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

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

(d) New Convertible Preference Shares

Dividends

(a) Subject to the Companies Act, each New Convertible Preference Share shall confer on the holder thereof the right to receive out of the funds of the Company available for distribution and resolved to be distributed the dividend pari passu with holders of Other Pari Passu Shares but otherwise in priority to any other class of Shares from time to time in issue (including the Ordinary Shares) (the "Dividend").

(b) No Dividend shall be paid to the holders of any Shares other than the Other Pari Passu Shares (and then, only at the same time as the New Convertible Preference Shareholders) unless and until any outstanding Dividend has been paid in full.

Distribution of Assets

On a distribution of assets on liquidation, winding-up or dissolution of the Company or otherwise (but not on conversion of New Convertible Preference Shares or any repurchase by the Company of New Convertible Preference Shares or any other Shares), the assets and funds of the Company available for distribution among the members of the Company shall, subject to applicable laws, be applied in the following priority:

(a) first, in paying to the New Convertible Preference Shareholders and the holders of any Other Pari Passu Shares, pari passu as between themselves, a sum equal to any arrears and accruals of the Dividend payable respectively on the New Convertible Preference Shares and such Other Pari Passu Shares held by them, respectively, to be calculated down to and inclusive of the date of the distribution of assets and to be payable whether or not any of such dividends have been declared and whether or not the Company has sufficient funds available for dividend or distribution;

(b) secondly, in paying to the New Convertible Preference Shareholders (pro rata to the aggregate of the Reference Amounts of the New Convertible Preference Shares held by each such holder), pari passu as between themselves and the holders of any Other Pari Passu Shares by reference to the aggregate nominal amounts of the New Convertible Preference Shares and the Other Pari Passu Shares, an amount equal to, respectively, the aggregate of the Reference Amounts of all of the New Convertible Preference Shares and the issue price of such Other Pari Passu Shares and any premium payable thereon; and

(c) thirdly, the balance of such assets shall belong to and be distributed on a pari passu basis among the holders of any class of Shares, other than the New Convertible Preference Shares and any other Shares not entitled to participate in the distribution of such assets, in accordance with the respective rights attaching thereto.

Ranking of the New Convertible Preference Shares

Save as expressly provided in the Bye-laws each New Convertible Preference Share shall have the same rights as each of the Ordinary Shares. The Company may issue, without obtaining the consent of the New Convertible Preference Shareholders, Shares ranking senior and in priority to or pari passu with the New Convertible Preference Shares as regards order of the participation in profits or assets and carrying such rights as to rates of dividend, voting, redemption, conversion, exchange or otherwise as the Directors may determine, or as the Company may by ordinary resolution determine.

Voting

(a) The New Convertible Preference Shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, a general meeting of the Company, unless a resolution is to be proposed at a general meeting for winding-up the Company or a resolution is to be proposed which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the New Convertible Preference Shareholders or vary the restrictions to which the New Convertible Preference Shares are subject, in which event the New Convertible Preference Shares shall confer on the holders thereof the rights to receive notice of, and to attend and vote at, that general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a Chairman, any motion for adjournment and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) so vary or abrogate the rights and privileges of the New Convertible Preference Shareholders or vary the restrictions to which the New Convertible Preference Shares are subject.

(b) Where New Convertible Preference Shareholders are entitled to vote on any resolution then, at the relevant general meeting or class meeting, on a show of hands every New Convertible Preference Shareholder who is present in person or by proxy or (being a corporation) by a representative shall have one vote and on a poll every New Convertible

Preference Shareholder who is present in person or by proxy or (being a corporation) by a representative shall have one vote for each Ordinary Share into which each New Convertible Preference Share held by him would be converted if the date of surrender of the certificate in respect of the relevant New Convertible Preference Shares and delivery of an effective conversion notice for such New Convertible Preference Share were the date 48 hours preceding the date of such general meeting or class meeting.

Redemption

The New Convertible Preference Shares shall be non-redeemable by the Company or the holders thereof.

Conversion

The holders of the New Convertible Preference Shares shall have the right to convert any New Convertible Preference Shares into Conversion Shares at any time during the Conversion Period at the Conversion Price.

If the issue of Conversion Shares following the exercise of the conversion rights relating to any of the New Convertible Preference Shares held by such holder would result in the Company not meeting the public float requirement under the GEM Listing Rules immediately after the conversion, then the number of Conversion Shares to be issued pursuant to such conversion shall be reduced to the maximum number of Conversion Shares issuable by the Company which would not in the reasonable opinion of the Company result in a breach of such public float requirement and the balance of the conversion rights attached to the New Convertible Preference Shares which the holder sought to convert shall be suspended until such time when the Company is able to issue additional Conversion Shares in satisfaction of the exercise of the said balance of conversion rights and at the same time comply with the public float requirement. In the event that the foregoing shall affect the exercise of the conversion right of any holder, the Company shall use reasonable endeavours to procure that there will be a sufficient number of Ordinary Shares in public hands so that all New Convertible Preference Shares suspended from conversion may be converted to the fullest extent as soon as practicable without causing the Company to breach the public float requirement.

Each holder of the New Convertible Preference Shares exercising its conversion right thereunder shall comply with all applicable provisions of the Takeovers Code.

Adjustment of Conversion Price

The Conversion Price is subject to adjustment upon the occurrence of certain prescribed events (including the consolidation, sub-division or reclassification of shares in the capital of the Company, and the capitalization of profits or reserves), but the Conversion Price shall not be less than the then subsisting nominal value of the Conversion Shares into which the relevant New Convertible Preference Shares are converted. If any adjustment is required to be made to the Conversion Price, an announcement will be made by the Company.

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

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

(f) Special resolution-majority required

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

(g) Voting rights

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

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

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

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

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(h) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(i) Accounts and audit

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

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

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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

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

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

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

(k) Transfer of shares

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

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

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

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(l) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(m) Power for any subsidiary of the Company to own shares in the Company

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

(n) Dividends and other methods of distribution

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

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

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

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

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

(o) Proxies

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

(p) Call on shares and forfeiture of shares

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

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

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

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

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

(q) Inspection of register of members

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

(r) Quorum for meetings and separate class meetings

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

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

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 2(e) of this Appendix.

(t) Procedures on liquidation

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

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

(u) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Other provisions

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

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

2. BERMUDA COMPANY LAW

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

(a) Share capital

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

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

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

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

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

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

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

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

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par

value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

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

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

(d) Dividends and distributions

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

(e) Protection of minorities

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

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

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

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

(f) Management

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

(g) Accounting and auditing requirements

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

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

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

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

(h) Auditors

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

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

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

(i) Exchange control

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

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

(j) Taxation

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

(k) Stamp duty

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

(l) Loans to directors

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

(m) Inspection of corporate records

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

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

(n) Winding up

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

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

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

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

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

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

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

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

3. GENERAL

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

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Takeovers Code:

(i) The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular (except in relation to Sichuan Changhong, its associates and Sichuan Changhong Concert Party Group, and the Target Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

(ii) The directors of Sichuan Changhong jointly and severally accept full responsibility for the accuracy of the information contained in this circular, (except in relation to the Group), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement contained in this circular misleading.

This circular also includes particulars given in compliance with the GEM Listing Rules:

(i) This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the 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.

(ii) This circular, for which the directors of Sichuan Changhong collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Sichuan Changhong, its associates and Sichuan Changhong Concert Party Group, and the Target Group. The directors of Sichuan Changhong, 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. FURTHER INFORMATION ABOUT THE ENLARGED GROUP

(I) Incorporation

The Company is an investment holding company which was incorporated under the laws of Bermuda under the name of China Data Broadcast Holdings Limited as an exempted company with limited liability on 22 September 1999.

The Company's principal place of business in Hong Kong is at Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong and was registered on 1 February 2000 as an overseas company in Hong Kong under Part XI of the Companies Ordinance, with Mr. Tang Yun and Mr. Lee Wing Lun of Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong appointed as the agents of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company was incorporated under the laws of Bermuda, it operates subject to the Companies Act and its constitution comprises its memorandum of association and bye-laws. A summary of relevant aspects of the New Bye-Laws and Bermuda company law is set out in Appendix IV to this circular.

(II) Changes in the share capital of the Enlarged Group

(a) The Company

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

	Number of Ordinary Shares *('000)*	**HK$***('000)*
Authorised:		
As at the Latest Practicable Date	1,200,000	30,000
Issued share capital		
As at 1 January 2009	318,000	7,950
As at the Latest Practicable Date	334,000	8,350

Shares

The issued Ordinary Shares rank pari passu with each other and entitle their holders to vote at general meetings of the Company and to receive dividend and capital distributions.

Other than a total of 135,000,000 New Ordinary Shares and 1,877,868,000 New Convertible Preference Shares agreed to be issued under the Acquisition Agreement upon completion of the Acquisition, or Conversion Shares to be issued upon full conversion of the New Convertible Preference Shares, or pursuant to the exercise of power under the general mandate to issue shares, the Company has no intention to issue any part of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders in a general meeting, no issue of Ordinary Shares will be made which would effectively alter the control of the Company.

Except as disclosed in this section 2(II) of this Appendix, there has been no alteration in the share capital of the Company since 1 January 2009.

Share Options

Other than a total of 1,877,868,000 New Convertible Preference Shares to be issued by the Company under the Acquisition Agreement on completion of the Acquisition, there were no outstanding options, warrants or any conversion rights affecting the Ordinary Shares as at the Latest Practicable Date.

Between 31 December 2011 (being the date to which the latest audit financial statements of the Company were made up) and the Latest Practicable Date, other than disclosed in this section 2(II) of this Appendix or as contemplated under the Acquisition, no Ordinary Shares or loan capital of the Company had been issued or was proposed to be issued for cash or otherwise, or had been put under option or agreed conditionally or unconditionally to be put under option, and no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any such capital and no options, warrants, derivatives, convertible securities or conversion rights affecting the Ordinary Shares had been issued or granted or agreed conditionally or unconditionally to be issued or granted.

As at the Latest Practicable Date, other than disclosed in this section 2(II) of this Appendix and the transaction contemplated under the Acquisition as disclosed in this circular, no Ordinary Shares nor loan capital of the Company had been issued or was proposed to be issued for cash or otherwise, or had been put under option or agreed conditionally or unconditionally to be put under option, and no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any such capital and no options, warrants, derivatives, convertible securities or conversion rights affecting the Ordinary Shares had been issued or granted or agreed conditionally or unconditionally to be issued or granted.

(b) Apex Digital Inc.

	Number of Ordinary Shares	*US$*
Issued share capital		
As at 1 January 2009	1	1.00
As at the Latest Practicable Date	1	1.00

(c) Apex Honour Resources Limited

	Number of Ordinary Shares	*US$*
Issued share capital		
As at 1 January 2009	1	1.00
As at the Latest Practicable Date	1	1.00

(d) Changhong Overseas Development Limited

	Number of Ordinary Shares	*HK$*
Issued share capital		
As at 1 January 2009	100,000	100,000
As at the Latest Practicable Date	100,000	100,000

(e) Apex Digital, LLC

	Number of Ordinary Shares	*US$*
Issued share capital		
As at 1 January 2009	200	365,190
As at the Latest Practicable Date	200	365,190

(f) Apex Digital Inc. Limited[(1)]

	Number of Ordinary Shares	*HK$*
Issued share capital		
As at 1 January 2009	2[(2)]	2.00
As at the Latest Practicable Date	2[(2)]	2.00

Notes:

(1) Apex Digital Inc. Limited changed its name from Apex Smart Limited to Apex Digital Inc. Limited on 9 June 2003.

(2) The Company is holding the one ordinary share as trustee of Apex Honor Resources Limited. The other one ordinary share is held by Apex Honour Resources Limited.

(III) Changes in the share capital of the Target Group

(a) Target Co BVI

	Number of Ordinary Shares	*US$*
Issued share capital		
As at 31 December 2011	1	1.00
As at the Latest Practicable Date	2(1)	2.00

Note:

(1) Target Co BVI issued one ordinary share to Fit Generation on 5 March 2012 in furtherance of the Reorganisation, further details of which are set out in the section titled "The Reorganisation" of this circular.

(b) Changhong (Hong Kong) Enterprises

	Number of Ordinary Shares	*HK$*
Issued share capital		
As at 1 June 2011	10,000	10,000
As at the Latest Practicable Date	10,001(1)	10,001

Note:

(1) Changhong (Hong Kong) Enterprises increased its authorized share capital from HK$10,000 comprising 10,000 ordinary shares to HK$20,000 comprising 20,000 ordinary shares and issued one ordinary share to Target Co BVI on 5 March 2012 in furtherance of the Reorganisation, further details of which are set out in the section "History and Background of the Target Group" of this circular.

(c) Changhong IT[(1)]

RMB

Registered capital

As at 1 January 2009	181,215,000
As at 25 January 2010	185,410,700
As at 26 July 2010	200,000,000
As at the Latest Practicable Date	200,000,000

Notes:

(1) Changhong IT changed its name from Sichuan Changhong Zarva Information Technology Products Co., Ltd. to its present name on 20 March 2006.

(d) Changhong IT Digital

RMB

Registered capital

As at 1 January 2009	50,000,000
As at the Latest Practicable Date	50,000,000

(e) Changhong IT Intelligence

RMB

Registered capital

As at 3 November 2010	50,000,000
As at the Latest Practicable Date	50,000,000[(1)]

Note:

(1) 50% of the registered capital of Changhong IT Intelligence was contributed by Changhong IT Digital and the remaining 50% was contributed by Changhong IT.

(IV) Repurchase by the Company of Ordinary Shares

On 4 May 2012, the Shareholders passed an ordinary resolution to give a general mandate to the Directors to exercise the powers of the Company to repurchase its own shares. The Company would be allowed under the resolution approving the repurchase mandate to repurchase a maximum of 33,400,000 Ordinary Shares representing not more than 10% of the issued share capital of the Company as at 4 May 2012.

However, the Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing position which in the opinion of the Directors are from time to time appropriate for the Company.

This section includes the information required by the Stock Exchange to be included in this circular concerning the repurchase by the Company of its own securities.

(a) Regulations of the GEM Listing Rules

The GEM Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are set out below:

(i) Shareholders' approval

All repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transaction.

Note: Pursuant to the resolution passed by Shareholders on 4 May 2012, a general mandate to repurchase issued Ordinary Shares was granted to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant resolution, which is 4 May 2012. The repurchase mandate will be expired at the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws or any applicable laws to be held; or (iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking, varying or renewing the authority given to the Directors by the relevant resolution.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Bye-laws and the applicable laws and regulations of Bermuda. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange prevailing from time to time.

(b) Reasons for repurchases

Repurchases of issued Ordinary Shares will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per issued Ordinary Share.

(c) Funding of repurchases

In repurchasing issued Ordinary Shares, the Company may only apply funds legally available for such purpose in accordance with its Memorandum and Bye-laws and the applicable laws of Bermuda. The laws of Bermuda provide that the amount to be repaid in connection with a share repurchase may be paid from the profits of the Company and/or the proceeds of a new issue of Shares made for the purpose of the repurchase or out of capital, if the Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. Any premium payable on a repurchase over the par value of the Shares to be purchased must be provided for out of funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account. The Company may not purchase securities on the GEM of the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(d) General

The Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing position which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the GEM Listing Rules, the Memorandum and Bye-laws and the applicable laws of Bermuda.

None of the Directors and, to the best of their knowledge, having made all reasonable enquiries, none of their respective Associates, have any present intention, in the event that the repurchase mandate is approved by Shareholders, to sell any of the issued Ordinary Share to the Company. No connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell any of the issued Ordinary Share to the Company or has undertaken not to do so, in the event that the Company is authorised to make a purchase of Shares.

If as a result of a repurchase of Ordinary Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase in the Shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, Sichuan Changhong has an interest in an aggregate of 111,368,000 Ordinary Shares, representing approximately 33.34% of the issued share capital of the Company. Based on such shareholdings and in the event that the Directors exercised in full the power to repurchase Ordinary Shares under the repurchase mandate, the aggregate shareholdings of Sichuan Changhong would be increased to approximately 37.05% of the issued share capital of the Company. Then, Sichuan Changhong could be required under Rule 26 of the Takeovers Code to make a mandatory offer in respect of all the issued shares of the Company by reason of such increase. Other than that, the Directors are not aware of any consequence which may arise under the Takeovers Code as a consequence of any repurchases made under the repurchase mandate. The Directors have no intention to exercise the repurchase mandate which may result in a possible mandatory offer being made under the Takeovers Code. The Company may not repurchase issued Ordinary Shares which would result in the amount of issued Ordinary Shares held by the public being reduced to less than 25%.

(V) Intellectual Property Rights of the Target Group

Copyrights

As at the Latest Practicable Date, the Target Group has obtained copy rights in the following software:

Name of registered owner	Name of software	Version	Registration number and place	Date of registration
Changhong IT	Changhong IT Vehicle Information services	Version 1.00	2011SR007245 (PRC)	16 February 2011
	Changhong IT Logistics Management System	Version 3.0	2010SR022414 (PRC)	13 May 2010
	Changhong IT Call Centre System	Version 3.0	2010SR022381 (PRC)	13 May 2010
	Changhong IT Electronic Trading System	Version 3.0	2010SR022378 (PRC)	13 May 2010
	Changhong IT Enterprise Funds Management System	Version 2.0	2010SR022377 (PRC)	13 May 2010
	Changhong IT Project Management System	Version 2.0	2010SR022291 (PRC)	13 May 2010
	Changhong IT Customers Management System	Version 2.0	2010SR022290 (PRC)	13 May 2010
	Traffic Police Integrated Common and Control System for Expressways	Version 1.0	2007SR06537 (PRC)	8 May 2007
Changhong IT Digital	Network behavior Monitoring and Management System	Version 1.0	2011SR059059 (PRC)	20 August 2011
	Data Exchange Platform System	Version 1.0	2011SR058751 (PRC)	19 August 2011
	Enterprise Information Portal System	Version 1.0	2011SR058748 (PRC)	19 August 2011
	Integrated Business Information Management and Service System	Version 1.0	2011SR058747 (PRC)	19 August 2011
	Traffic Police Integrated Common and Control System for Expressways	Version 1.0	2010SR046550 (PRC)	6 September 2010
	Changhong IT Customers Management System	Version 2.0	2010SR046547 (PRC)	6 September 2010
	Changhong IT Project Management System	Version 2.0	2010SR046543 (PRC)	6 September 2010
	Changhong IT Electronic Trading System	Version 3.0	2010SR046539 (PRC)	6 September 2010
	Changhong IT Enterprise Funds Management System	Version 2.0	2010SR046536 (PRC)	6 September 2010
	Changhong IT Call Centre System	Version 3.0	2010SR046533 (PRC)	6 September 2010
	Changhong IT Logistics Management System	Version 3.0	2010SR046532 (PRC)	6 September 2010

Trademarks

As at the Latest Practicable Date, the Target Group had registered the following trademarks:

Name of registered owner	Trademark	Class	Registration number and place	Validity Period
Changhong IT	魔影	Class 9 (see Note 1)	5217683 (PRC)	14 April 2009 to 13 April 2019
		Class 9 (see Note 1)	5294036 (PRC)	7 May 2009 to 6 May 2019
	魔界	Class 9 (See Note 2)	5843666 (PRC)	21 October 2009 to 20 October 2019
	Reading Box	Class 9 (see Note 3)	4762902 (PRC)	7 August 2009 to 6 August 2019
	Reading Box	Class 28 (see Note 4)	44762903 (PRC)	28 February 2009 to 27 February 2019
	故事宝	Class 28 (see Note 4)	4762904 (PRC)	7 February 2009 to 6 February 2019
		Class 38 (see Note 5)	9846788 (PRC)	14 October 2012 to 13 October 2022
		Class 9 (see Note 6)	9846771 (PRC)	14 October 2012 to 13 October 2022
		Class 45 (see Note 7)	9846806 (PRC)	14 October 2012 to 13 October 2022

As at the Latest Practicable Date, the Target Group has applied for the following trademarks to be registered:

Name of registered owner	Trademark	Class	Registration number and place	Application date
Changhong IT	idealcar	Class 9 (see Note 8)	9134671 (PRC)	21 February 2011
	idealcar	Class 38	11233151 (PRC)	20 July 2012
	idealcar	Class 42	11233196 (PRC)	20 July 2012

Patents

As at the Latest Practicable Date, the Target Group had registered the following patents:

Name of registered owner	Category of Patent	Patent	Patent number and place of registration	Validity Period
Changhong IT	Design	Embedded navigation device 嵌入式導航設備	201130016670.X (PRC)	27 January 2011 to 26 January 2021
	Design	Embedded navigation device (housing) 嵌入式導航設備外罩	201130016669.7 (PRC)	27 January 2011 to 26 January 2021
	Utility model patent	A smooth arc lateral light and self-locking guide aperture structure 一種具有光滑弧面側向入光並能自鎖的導光圈結構	201120028119.1 (PRC)	27 January 2011 to 26 January 2021
	Utility model patent	Fixed socket structure model 一種具有固定插座作用的支架結構	201120028124.2 (PRC)	27 January 2011 to 26 January 2021

As at the Latest Practicable Date, the Target Group has applied for the following patents:

Name of registered owner	Category of Patent	Patent	Application number	Date of application
Changhong IT	Invention	Cross-region of a car radio automatically change channels method 一種車載收音機跨區域自動換台方法	201110147043.9 (PRC)	2 June 2011
Changhong IT	Invention	A map resolution base on mobile wireless network through a remote server 基於移動無綫網絡，通過遠程服務器進行地圖解析的方法	201110030507.8	28 January 2011

Domain Name

As at the Latest Practicable Date, the Target Group had registered the following domain names in the PRC:

Name of registered owner	Domain name	Date of expiry
Changhong IT	changhongit.com	30 June 2013
	changhongit.com.cn	1 July 2013
	长虹佳华.com	2 September 2013
	changhongLbs.com	10 December 2013
	changhonggps.com	11 April 2013
	idealcar.com.cn	4 March 2013 (See Note 9)
	guanhutong.com.cn	15 December 2014
	changhongLbs.com.cn	10 December 2013 (See Note 10)

Wireless Web Name

As at the Latest Practicable Dates, the Target Group had registered the following wireless web names in the PRC:

Name of registered owner	Wireless web name	Date of expiry
Changhong IT	長虹佳華	6 March 2013

Notes:

(1) The relevant subject goods under this class include computers, audio-visual teaching instruments and computer programs, smart card (IC card), word processor, electronic dictionary, electronic scoring device, electronic bulletin board, modem and record devices.

(2) The relevant subject goods under this class include music jukeboxes, earphones, personal stereo devices, recording apparatus, recording carrier, camera, battery charger, solar cells, photographic slides and DVD players.

(3) The relevant subject goods under this class include calculators, recorded computer programs, computing and peripheral equipment, smart card (IC card), oral dictation machine, optical character reader, music jukeboxes, monitors, magnetic password-cards and data processing equipments.

(4) The relevant subject goods under this class include games, smart toys, chess games, games counters, board game apparatus, sport balls, pressure vessels, Christmas tree ornaments (excluding lightning and confectionery) and non-television compatible video games.

(5) The relevant subject goods under this class include information delivery, telephone communications, computer terminal communication, ancillary information and image transmission to computer, telecommunications information, Methodist fiber-optic communications, telecommunications equipment rental, provision of telecommunications connectivity services to global computer network, rental of the global computer network access time and database access.

(6) The relevant subject goods under this class include electronic calendars, portable computers, navigation equipments, telephones, mobile phones, satellite navigation equipment, hand-held wireless phones, network communications equipments, radio and voice alarms.

(7) The relevant subject goods under this class include safety advice, safety and anti-theft alarm system monitoring, tracing investigation, personal background checks, social companionship, social escort (companionship), temporary care of infants, temporary care of pets, social networking service and temporary custody of property.

(8) The relevant subject goods under this class include recorded computer program (program), computer software (recorded), vehicles with navigation equipment (vehicle computer), navigation equipments, monitors (computer program), vehicles radio, alarm, electronic anti-theft devices and internal communications equipments.

(9) This domain name has been registered, but has not been put on record with the relevant PRC authorities, as the Target Group does not have current plan to use it.

(10) Target Group has ceased to use this domain name.

Except as disclosed above, there are no other trademarks, patents, domain names or other intellectual property rights which are material in relation to the business of the Group and the Target Group.

As advised by the Company's PRC legal advisers, there will be no material legal obstacles for the Target Group to complete the registration of the trademarks and patents that the Target Group has applied for.

3. FURTHER INFORMATION RELATING TO THE COMPANY AND THE WHITEWASH WAIVER

(I) The Company

As at the Latest Practicable Date,

(a) the Company did not have any interests in any securities, shares, options, warrants, derivatives or convertible securities of the Sichuan Changhong Concert Party Group and it had not dealt for value in any securities, shares, options, warrants, derivatives or convertible securities of any member of Sichuan Changhong Concert Party Group during the period between 23 October 2011, being six months prior to the Announcement dated 23 April 2012 and up to and including the Latest Practicable Date;

(b) except disclosed in section 5 of this Appendix, none of the Directors had any interests in the securities, shares, options, warrants, derivatives or convertible securities of the Company or of any member of the Sichuan Changhong Concert Party Group and, save that Mr. Ji sold 22,260,000 Ordinary Shares to Mr. Yu Shaobo, an Independent Third Party, on 20 January 2012 at a consideration of HK$0.50 per share, none of the Directors had dealt for value in any securities,

shares, options, warrants, derivatives or convertible securities of the Company or of any member of the Sichuan Changhong Concert Party Group during the period between 23 October 2011, being six months prior to the Announcement dated 23 April 2012 and up to and including the Latest Practicable Date;

(c) none of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company nor advisers to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company;

(d) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with the Company, or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code;

(e) there were no securities, shares, options, warrants, derivatives or convertible securities in the Company which were managed on a discretionary basis by fund managers connected with the Company;

(f) except as disclosed in section 5 of this Appendix, none of the Directors hold any Ordinary Shares; and

(g) none of the Directors or the Company had borrowed or lent any shares, warrants, options, convertible securities or derivatives of the Company and the members of the Sichuan Changhong Concert Party Group.

(II) The Sponsor

The Sponsor will make an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in, the New Ordinary Shares and the Conversion Shares to be issued pursuant to the conversion of the New Convertible Preference Shares. For the purpose of the deemed new listing application of the Company, China Merchants is considered as an independent sponsor pursuant to Rule 6A.07 of the GEM Listing Rules as elaborated under the paragraph "Negative Statements" in the sub-section "4. Further Information Relating to the Sichuan Changhong Concert Party Group and the Whitewash Waiver" in this Appendix.

As at the Latest Practicable Date:

(a) neither the Sponsor nor any persons controlling, controlled by or under the same control as it owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company;

(b) neither the Sponsor nor any persons controlling, controlled by or under the same control as it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities in the Company which may be an inducement to deal or refrain from dealing) with any persons; and

(c) there was no agreement, arrangement or understanding between the Sponsor or persons controlling, controlled by or under the same control as the Sponsor on the one part and any of the Directors or Shareholders on the other part, which was conditional on the outcome of or otherwise connected with or dependent upon the Acquisition Agreement, the allotment and issue of the New Ordinary Shares, the New Convertible Preference Shares or the underlying Ordinary Shares which fall to be issued upon conversion of the New Convertible Preference Shares, or the Whitewash Waiver.

(III) Others

As at the Latest Practicable Date, none of TC Capital, or any person controlling, controlled by or under the same control as TC Capital, any bank, financial and professional advisers to the Company in relation to the Acquisition Agreement and the Whitewash Waiver and any person controlling, controlled by or under the same control as such banks, financial and professional advisers, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company.

(IV) Dealings in securities

None of the Directors or the Company had dealt in any securities, shares, options, warrants, derivatives or convertible securities of Sichuan Changhong or any member of the Sichuan Changhong Concert Party Group or any of their subsidiaries during the period between 23 October 2011, being six months prior to the date of the Announcement, and up to and including the Latest Practicable Date. Save as disclosed in section 3 of this Appendix, none of the Directors had dealt in any Ordinary Shares or other securities, options, warrants, derivatives or convertible securities of the Company during the period between 23 October 2011, being six months prior to the date of the Announcement, and up to and including the Latest Practicable Date.

4. FURTHER INFORMATION RELATING TO THE SICHUAN CHANGHONG CONCERT PARTY GROUP AND THE WHITEWASH WAIVER

Principal members of the Sichuan Changhong Concert Party Group

Set out below are details of the principal members of the Sichuan Changhong Concert Party Group, and their respective directors:

	Address	Name of directors
Sichuan Changhong Electric Co., Ltd.	35, East Mianxing Road, High-Tech Park, Mianyang, Sichuan, China.	Zhao Yong (趙勇) Liu Tibin (劉體斌) Lin Maoxiang (林茂祥) Wu Yingjian (巫英堅) Wu Jiang (鄔江) Gao Lang (高朗) Qian Pengxiao (錢鵬霄) Gao Xiaosu (高筱蘇) Huang You (黃友) Jia Xiaoliang (賈小梁) Ning Xiangdong (甯向東)

	Address	Name of directors
Changhong (Hong Kong) Trading Limited	Unit 1412, 14/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong	Lou Guang Qiang (羅光強) Wu Jiang (鄔江) Tang Yun (唐云) Ye Hong Lin (葉洪林) Chen Hua (陳華)

	Address	Name of director
Fit Generation Holding Limited	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin, Islands	Zhao Qi Lin (趙其林)

Negative statements

As at the Latest Practicable Date:

(i) except disclosed in section 5 of this Appendix, none of the Sichuan Changhong Concert Party Group nor any person acting in concert with them (including respective directors) owned or controlled any shares or convertible securities, warrants, options or derivatives of the Company;

(ii) none of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company nor advisers to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Sichuan Changhong Concert Party Group;

(iii) none of Sichuan Changhong Concert Party Group or any persons acting in concert with any of them have entered into any outstanding derivative in respect of securities in the Company;

(iv) none of the members of the Sichuan Changhong Concert Party Group or any person acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with any person;

(v) there was no agreement, arrangement or understanding (including any compensation arrangement) between any member of the Sichuan Changhong Concert Party Group or any person acting in concert with any of them, and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Acquisition and the Whitewash Waiver;

(vi) none of the members of the Sichuan Changhong Concert Party Group (including their respective directors) had borrowed or lent any shares, warrants, options, convertible securities or derivatives of the Company and members of the Sichuan Changhong Concert Party Group;

(vii) none of the members of the Sichuan Changhong Concert Party Group nor any person acting in concert with any of them (including their respective directors) has dealt for value in any shares or convertible securities, warrants, options or derivatives of the Company during the period between 23 October 2011, being six months prior to the date of the Announcement, and up to the Latest Practicable Date;

(viii) no person has made an irrevocable commitment to vote for or against the Acquisition, the proposed grant of specific mandate to issue Shares, the Whitewash Waiver, the non-exempt continuing connected transactions (including the related proposed annual caps), the proposed change of name of the Company, the proposed increase in authorised share capital and the proposed amendments to the Memorandum and Bye-laws; and

(ix) there was no agreement, arrangement or understanding entered into by any member of the Sichuan Changhong Concert Party Group or any person acting in concert with any of them for the transfer, charge or pledge of the Ordinary Shares to any other persons.

5. DISCLOSURE OF INTERESTS

(i) Shareholding as at the Latest Practicable Date and after completion of the Acquisition

Details of the shareholding structure of the Company under different scenarios before and after completion of the Acquisition are set out below (assuming that the issued share capital of the Company will remain uncharged before the Completion):

	As at the Latest Practicable Date		Immediately after the allotment and issue of the New Ordinary Shares but before conversion of any New Convertible Preference Shares		Immediately after the allotment and issue of the New Ordinary Shares and after the conversion of the New Convertible Preference Shares with a minimum public float of 25% *(Note 3)*		Immediately after full conversion of the New Convertible Preference Shares (This scenario will not happen because of the minimum public float requirement of 25% and this column is set out for illustration purpose only) *(Note 3)*		Immediately after full conversion of the New Convertible Preference Shares with a minimum public float of 25% (This scenario is for illustration purpose only and is not a term under the Acquisition Agreement) *(Note 3)*	
	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital	Number of Ordinary Shares held	Approximate percentage of total issued ordinary share capital
Sichuan Changhong *(Note 5)*	95,368,000	28.55%	95,368,000	20.33%	95,368,000	20.32%	95,368,000	4.06%	95,368,000	3.21%
Changhong (Hong Kong) Trading	16,000,000	4.79%	16,000,000	3.41%	16,000,000	3.41%	16,000,000	0.68%	16,000,000	0.54%
Fit Generation	–	–	135,000,000	28.79%	135,450,640	28.85%	2,012,868,000	85.77%	2,012,868,000	67.71%
Subtotal of Sichuan Changhong Concert Party Group (including Fit Generation) *(Note 4)*	111,368,000	33.34%	246,368,000	52.53%	246,818,640	52.58%	2,124,236,000	90.51%	2,124,236,000	71.46%
Sichuan Investment *(Note 6)*	83,009,340	24.85%	83,009,340	17.70%	83,009,340	17.68%	83,009,340	3.54%	83,009,340	2.79%
Mr. David Ji Long Fen *(Notes 1 and 2)*	22,260,000	6.66%	22,260,000	4.75%	22,260,000	4.74%	22,260,000	0.95%	22,260,000	0.75%
Public	117,362,660	35.15%	117,362,660	25.02%	117,362,660	25.00%	117,362,660	5.00%	743,168,447	25.00%
Total	334,000,000	100%	469,000,000	100%	469,450,640	100%	2,346,868,000	100%	2,972,673,787	100%

Notes:

1. Mr. David Ji Long Fen is an executive Director of the Company.

2. Ms. Liu Ru Ying is the spouse of Mr. David Ji Long Fen and under Section 316 of the SFO, is therefore deemed interested in all the 22,260,000 Ordinary Shares in which Mr. David Ji Long Fen is interested.

3. The holder(s) of the New Convertible Preference Shares shall have the right to convert any New Convertible Preference Shares into Conversion Shares at any time during the Conversion Period at the Conversion Price. If the Company shall issue Conversion Shares fully converted from the New Convertible Preference Shares and at the same time having a 25% of public float to meet the minimum public float requirement under the GEM Listing Rules, the shareholding interest of the Sichuan Changhong Concert Party Group will be 71.46%. For illustration purpose only, if the Company shall issue Conversion Shares fully converted from the New Convertible Preferences Shares and at the same time meeting the minimum public float requirement of 25% under the GEM Listing Rules, the Company shall issue a minimum number of 625,805,787 Shares to the public and the pro forma earnings per Share will be HK$0.06 and the pro forma net asset per Share will be HK$0.25 (both based on a total of 2,972,673,787 Shares).

4. In view of the concert party presumption between Sichuan Changhong and Sichuan Investment, an application was made to the SFC and on 17 April 2012, the SFC confirmed that the ruling issued on 18 March 2011 regarding the successful rebuttal of the presumption under the Takeovers Code that Sichuan Investment is a party acting in concert with Sichuan Changhong remain unchanged.

   In view of the confirmation from the SFC, Sichuan Investment should not be regarded as a party presumed to be acting in concert with Sichuan Changhong for purposes of the Acquisition.

5. Sichuan Changhong, the issued A-shares of which are listed on the Shanghai Stock Exchange (stock code: 600839.SH), was held as to 23.19% by 四川長虹電子集團有限公司 (Sichuan Changhong Electric Group Co., Ltd) ("SCEG"). The entire interest in SCEG in turn is held by 綿陽市國有資產監督管理委員會 (Mianyang Municipality State-owned Assets Supervision and Administration Commission) which is also the administrative authority for SCEG. The members of the Mianyang Municipality State-owned Assets Supervision and Administration Commission are appointed by the Mianyang Municipality People's Government.

   Sichuan Changhong has confirmed that there has not been any business dealings, financial or otherwise, between itself and Sichuan Investment.

   Each of the Company and Sichuan Changhong has also confirmed that Sichuan Investment was not involved nor consulted in the negotiations in relation to or in connection with the Acquisition save that Sichuan Investment is aware of the Acquisition through Ms. Shi Ping, its nominee on the Board. Ms. Shi Ping is an executive Director.

   Save as disclosed in this Note 5, there is no relationship between Sichuan Changhong, Sichuan Investment and their respective ultimate beneficial owners.

6. Sichuan Investment is an asset management company and is principally engaged in investment in technology-related business. As at the Latest Practicable Date, Sichuan Investment is wholly owned by 四川省投資集團有限公司 (Sichuan Provincial Investment Group Co., Ltd) ("SPIG"). The entire interest in SPIG is owned by 四川省國有資產監督管理委員會 (Sichuan Province State-owned Assets Supervision and Administration Commission) which is also the administrative authority for SPIG. The members of the Sichuan Province State-owned Assets Supervision and Administration Commission are appointed by the Sichuan Province People's Government.

Sichuan Investment has also confirmed that there has not been any business dealings, financial or otherwise, between itself and Sichuan Changhong.

Save as disclosed in this Note 6, there is no relationship between Sichuan Changhong, Sichuan Investment and their respective ultimate beneficial owners.

(ii) Interests (or long positions) and short positions in the shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests (or long positions) and short positions of Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO); or as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 the GEM Listing Rules, were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity	Interests in Ordinary Shares	Approximate percentage of total issued share capital of the Company
Mr. David Ji Long Fen	Beneficial owner	22,260,000 (L) *(Note 2)*	6.67% *(Note 1)*

Note:

1. The percentage is calculated based on the total number of issued Ordinary Shares as at the Latest Practicable Date, which were 334,000,000 Ordinary Shares. Ms. Liu Ru Ying is the spouse of Mr. David Ji Long Fen and under Section 316 of the SFO, is therefore deemed interested in all the 22,260,000 Ordinary Shares in which Mr. David Ji Long Fen is interested.

2. On 20 January 2012, Mr. Ji sold 22,260,000 Ordinary Shares to Mr. Yu Shaobo, therefore his interest decreased to approximately 6.67%.

Mr. David Ji Long Fen, who is a Director and also a Shareholder, intends to vote for the resolutions in relation to the Acquisition and the Whitewash Waiver in respect of his own beneficial shareholding.

Except as disclosed in this section 5 of this Appendix, as at the Latest Practicable Date, no other interests or short positions in the ordinary shares, underlying ordinary shares or debentures of the Company or any of its associated corporations were notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO; or were recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Except as disclosed in this section 5 of this Appendix, none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of

Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or which would be required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules;

(iii) Persons or entities who have interests (or long positions) and short positions in the shares or underlying shares of the Company and of other members of the Group

As at the Latest Practicable Date, the following persons (not being Directors and chief executive of the Company) had an interest (or long positions) or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO 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:

Long positions in the shares and underlying shares of the Company

Name of Substantial Shareholder	Capacity	Interests in Ordinary Shares	Approximate percentage of total issued share capital of the Company
Sichuan Changhong and its subsidiaries	Directly beneficially owned	111,368,000 *(Note 2)*	33.34% *(Note 1)*
Sichuan Investment	Directly beneficially owned	83,009,340	24.85%
Ms. Liu Ru Ying *(Note 3)*	Through spouse	22,260,000	6.67%
Mr. Yu Shaobo	Directly beneficially owned	22,260,000	6.67%

Notes:

1. The percentage is calculated based on the total number of issued Ordinary Shares as at the Latest Practicable Date, which were 334,000,000 Ordinary Shares.

2. Sichuan Changhong has an interest in an aggregate of 111,368,000 Ordinary Shares, of which it directly owns 95,368,000 Ordinary Shares and its wholly-owned subsidiary, Changhong (Hong Kong) Trading owns 16,000,000 Ordinary Shares. On 12 May 2011, Changhong (Hong Kong) Trading completed its subscription of 16,000,000 Ordinary Shares in the Company.

3. Ms. Liu Ru Ying is the spouse of Mr. Ji and, under Section 316 of the SFO, is therefore deemed to be interested in all 22,260,000 shares in which Mr. Ji is interested.

Except disclosed above, the Directors of the Company are not aware, as at the Latest Practicable Date, of any person (who are not Directors and chief executive of the Company) who had an interest (or long position) or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO 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.

(iv) Directors' remuneration

The following table summarises the directors' remuneration of the Company for the three years ended 31 December 2009, 31 December 2010 and 31 December 2011:

	31 December		
	2009	**2010**	**2011**
	HK$	*HK$*	*HK$*
Executive Director:			
Fees	–	–	–
Other emoluments:			
– salaries, allowances and benefits in kind	1,942,000	1,788,000	2,445,000
– performance related bonuses	–	111,000	116,000
– retirement scheme contribution	24,000	24,000	31,000
– share-based payments	–	–	–
Non-executive Director and independent non-executive Directors:			
Fees	360,000	495,000	540,000
Total	2,326,000	2,418,000	3,132,000

Except as disclosed above, no other payments have been paid or are payable, or any benefits in kind granted, in respect of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011, by the Company or any of its subsidiaries to the Directors.

The aggregate remuneration currently estimated to be payable to the Directors, for the year ending 31 December 2012 is approximately HK$3,300,000.

(v) Arrangements affecting the Directors

(a) As at the Latest Practicable Date, there was no material contract entered into by the Company or by any member of the Sichuan Changhong Concert Party Group in which any of the Directors had a material personal interest.

(b) None of the Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Acquisition and Whitewash Waiver, and there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Acquisition and Whitewash Waiver or otherwise connected with the Acquisition and Whitewash Waiver.

(vi) Competing interests

As at the Latest Practicable Date, save as disclosed under the section titled "Relationship with the Controlling Shareholders – Directors' Competing Interests" in this circular, none of the Directors and their respective Associates had any interest in any business (other than the business of the Enlarged Group) which was competing or was likely to compete, either directly or indirectly, with the business of the Enlarged Group.

(vii) Interests in the five largest suppliers and customers

As at the three years ended 31 December 2011 and to the knowledge of the Directors, there is no existing Shareholder who hold more than 5% of the Ordinary Shares and who had substantial interests in one of the five largest customers of the Group.

As at the three years ended 31 December 2011 and to the knowledge of the Directors, there is no existing Shareholder who hold more than 5% of the Ordinary Shares and who had substantial interests in one of the five largest suppliers of the Group.

None of the Directors, their respective associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

6. MARKET PRICES

The table below shows the closing prices of the Ordinary Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement and ending on the Latest Practicable Date; (ii) 28 March 2012, being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement; and (iii) 7 December 2012, the Latest Practicable Date.

	Closing price of Ordinary Shares on the last trading day of each of the six months immediately preceding the date of the Announcement *HK$*
31 October 2011	1.95
30 November 2011	1.70
30 December 2011	1.82
31 January 2012	1.80
29 February 2012	1.75
28 March 2012	1.74
30 April 2012	1.74
31 May 2012	1.74
29 June 2012	1.74
31 July 2012	1.70
31 August 2012	1.70
28 September 2012	1.70
31 October 2012	1.70
30 November 2012	1.66
As at the Latest Practicable Date	1.66

The highest and lowest closing prices of the Ordinary Shares as recorded on the Stock Exchange during the period between 23 October 2011, being the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date, were HK$1.99 on 24 October 2011 and HK$1.65 on 16 November 2012, respectively.

7. MISCELLANEOUS

None of the Directors nor any of the persons whose names are listed in the sub-section headed "16. Consents" in this Appendix:

(a) is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this circular been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(b) is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group; and

(c) have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in all member of the Group or is an officer or servant or a partner or in the employment of an officer or servant of the Group.

8. MATERIAL CHANGE OF THE GROUP SINCE 31 DECEMBER 2011

The Directors confirmed that there is no any material change in the financial or trading position or outlook of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

9. LITIGATION

As at the Latest Practicable Date, no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group or any member of the Target Group.

As at the Latest Practicable Date, no member of the Group is, or may become, a party to any litigation, arbitration or claim of material importance was known to the Directors.

10. SUMMARY OF MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business carried on or intended to be carried on by any member of the Group, had been entered into by members of the Group after the date two years before the date of the Announcement and up to the Latest Practicable Date, and are or may be material:

(1) The Acquisition Agreement dated 28 March 2012 between the Company, Changhong (Hong Kong) Trading and Fit Generation in relation to the sale by Fit Generation and acquisition by the Company of the entire issued share capital of Target Co BVI at the aggregate consideration of HK$2,012,868,000.

(2) The loan extension agreement dated 30 June 2010 between Changhong (Hong Kong) Trading and COD in connection with an extension of loan term of less than 1 year for the aggregate loan amount of US$8,000,000 at an annual interest rate of 2.5%.

(3) The share subscription agreement dated 25 January 2011 between the Company and Changhong (Hong Kong) Trading pursuant to which Changhong (Hong Kong) Trading shall subscribe for 16,000,000 new ordinary shares of the Company at the subscription price of HK$0.50 each.

(4) The loan extension agreement dated 15 June 2011 between Changhong (Hong Kong)

Trading and COD in connection with the repayment of loan amount of US$3,000,000 and an extension of loan term of 1 year for the remaining loan amount of US$5,000,000 at an annual interest rate of 3.5%.

(5) The New Master Purchase Agreement dated 7 December 2012 between the Company and Sichuan Changhong in relation to the purchase of certain consumer electronic products by the Enlarged Group from the Sichuan Changhong Group on an ongoing basis and the prices of such products are to be determined and negotiated based on normal commercial terms and with reference to the prevailing fair market prices of comparable products, and such prices shall be no less favourable to the Enlarged Group than that available from third parties, subject to annual caps for the three years ending 31 December 2012, 2013 and 2014.

(6) The New Master Supply Agreement dated 7 December 2012 between the Company and Sichuan Changhong in relation to the supply of certain consumer electronic products and electronic components and parts by the Enlarged Group to the Sichuan Changhong Group on an ongoing basis and the prices of such products are to be determined and negotiated based on normal commercial terms and with reference to the prevailing fair market prices of comparable products, and such prices shall be no less favourable to the Enlarged Group than that available from third parties, subject to annual caps for the three years ending 31 December 2012, 2013 and 2014.

(7) The Deed of Non-Competition dated 7 December 2012 between the Controlling Shareholders and the Company as detailed in the paragraph headed "Corporate Governance Measures – Non-compete undertakings" in the section "Relationship with the Controlling Shareholders" in this circular.

(8) The Deed of Indemnity dated 7 December 2012 given by Changhong (Hong Kong) Trading in favour of the Company as detailed in the paragraphs headed "Property Interest-Remedial actions" and "Regulatory Compliance – (a) Social Insurance and Housing Provident Fund" in the section "Business of the Target Group" in this circular.

The following contracts, not being contracts in the ordinary course of business, had been entered into by members of the Target Group after the date two years before the date of the Announcement and up to the Latest Practicable Date, and are or may be material:

(1) The restructuring agreement dated 16 February 2012 between Sichuan Changhong, Changhong (Hong Kong) Trading, Changhong (Hong Kong) Enterprises, Fit Generation and Target Co BVI in connection with the Reorganisation.

11. SERVICE CONTRACTS

There was no service contract, letter of appointment or service agreement for Directors which has been entered into or amended within six months before the Announcement.

As at the Latest Practicable Date, none of the Directors had:

(a) entered into or amended any service contracts (including both continuous and fixed term contracts) with the Company or any of its subsidiaries or any of its associated companies within six months before the date of the Announcement;

(b) any continuous service contracts with the Company or any of its subsidiaries or associated companies with a notice period of 12 month or more; or

(c) any fixed term service contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.

As at the Latest Practicable Date, none of the Directors had a service contract with the Company or any of its subsidiaries which is not determinable within 12 months without payment of compensation (other than normal statutory obligations).

12. PROMOTER

The Company does not have a promoter.

13. TOTAL COMMISSIONS AND EXPENSES

The aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Acquisition, are estimated in aggregate to be approximately HK$23,000,000 in total.

14. ESTATE DUTY

The Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of Bermuda, the BVI, Hong Kong, or the PRC.

15. EXPERTS

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

Name	Qualification
China Merchants Securities (HK) Co., Limited	Licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
TC Capital Asia Limited	Licensed corporation to carry on Type 1 (dealing in securities), and Type 6 (advising on corporate finance) regulated activities for the purpose of the SFO
SHINEWING (HK) CPA Limited	Certified public accountants
Conyers Dill & Pearman	Bermuda legal advisers
Jun He Law Offices	PRC legal advisers
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent property valuer and consultant

16. CONSENTS

Each of the Sponsor, TC Capital, SHINEWING (HK) CPA Limited, Conyers Dill & Pearman, Jun He Law Offices and Jones Lang LaSalle Corporate Appraisal and Advisory Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter or valuation certificate or the references to its name included herein in the form and context in which they are respectively included.

17. MISCELLANEOUS

Except as disclosed in this Appendix to this circular:

(i) within the two years preceding the date of this circular:

(a) no share or loan capital of the Company or any of its subsidiaries had been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and

(c) no share or loan capital of the Company or any of it subsidiaries was under option or was agreed conditionally or unconditionally to be put under option.

(ii) none of the persons whose names are listed in the sub-section headed "Consents" in this Appendix had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(iii) there had not been any interruption in the business of the Group which may have had a significant effect on the financial position of the Group in the 12 months preceding the date of this circular;

(iv) neither the Company nor any of its subsidiaries had issued or agreed to issue any founder shares, management shares, deferred shares or any debentures;

(v) all necessary arrangements had been made with HKSCC for the Ordinary Shares to continue to be accepted as eligible securities of CCASS and investors should seek advice of their stockbroker or other professional advise for details of those settlement arrangement and how such arrangement will affect their rights and interest;

(vi) the Directors were not aware of any person who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries; and

(vii) none of the Company's equity or debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

The English text of this circular shall prevail over the Chinese text.

Copies of the following documents are available for inspection on the Company's website at www.cdb-holdings.com.hk and on the SFC's website at www.sfc.hk. The documents are also available for inspection at the office of Unit 3701, 37/F, West Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong during 9:00 a.m. to 5:00 p.m. on any weekday from Monday to Friday other than public holidays from the date of this circular up to and including the date of the SGM:

(a) the Memorandum and Bye-laws;

(b) the memorandum and articles of association of Fit Generation;

(c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders dated 12 December 2012, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(d) the letter of advice from TC Capital to the Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders dated 12 December 2012, the text of which is set out in the section headed "Letter from TC Capital" in this circular;

(e) the annual reports of the Company for each of the three years ended 31 December 2009, 2010 and 2011 respectively;

(f) the accountants' report on the Target Group prepared by SHINEWING (HK) CPA Limited, the text of which are set out in Appendix I to this circular;

(g) the audited financial statements of the Group as extracted from the annual reports of the Company for the years ended 31 December 2009, 2010 and 2011, the text of which is set out in Appendix II to this circular;

(h) the report from SHINEWING (HK) CPA Limited relating to the unaudited pro forma financial information of the Enlarged Group, the text of which are set out in Appendix III to this circular;

(i) the letter summarising certain aspects of Bermuda company law prepared by Conyers Dill & Pearman referred to in Appendix IV to this circular;

(j) the material contracts referred to in the section headed "10. Summary of material contracts" of Appendix V;

(k) the written consents referred to in the section headed "16. Consents" of Appendix V; and

(l) the final draft of the New Bye-Laws.

China Data Broadcasting Holdings Limited
(中華數據廣播控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8016)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of the shareholders of China Data Broadcasting Holdings Limited (the "**Company**") will be held at Gloucester Room, 2/F, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on Tuesday, 8 January 2013 at 9:30 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions numbered 1 to 5 as ordinary resolutions of the Company and passing (without modifications) the following resolutions numbered 6 to 7 as special resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (i) the conditional sale and purchase agreement dated 28 March 2012 (the "**Acquisition Agreement**") made among the Company as purchaser, Fit Generation as vendor and Changhong (Hong Kong) Trading as guarantor (both as defined in the circular of the Company dated 12 December 2012 (the "**Circular**"), a copy of which is marked "A" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purpose) in respect of the sale and purchase of the entire issued share capital of Target Co BVI (as defined in the Circular), a copy of which is marked "B" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purpose, and the transactions contemplated under it and all other incidental transactions be and are hereby approved, ratified and confirmed; and

   (ii) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign and execute all such documents, instruments and agreements, and to do all such acts or things, as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with item (i) of this Ordinary Resolution."

2. "**THAT**:

   (i) the waiver granted or to be granted by the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong (or any of his delegates) in accordance with Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation of the Sichuan Changhong Concert Party Group (as defined in the Circular) to make

an unconditional mandatory general offer for all the issued Ordinary Shares (as defined in the Circular) not already owned or agreed to be acquired by the Sichuan Changhong Concert Party Group as a result of the issue of the New Ordinary Shares (as defined in the Circular) to Fit Generation be and is hereby approved; and

(ii) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign and execute all such documents, instruments and agreements, and to do all such acts or things, as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with item (i) of this Ordinary Resolution."

3. "**THAT** conditional upon the passing of Ordinary Resolutions No. 1, No. 2 and No. 5 and the passing of Special Resolution No. 7 set out in the notice convening the Meeting, the grant of a specific mandate for the allotment and issue of the New Ordinary Shares, the New Convertible Preference Shares (as defined in the Circular) and the Conversion Shares be and is hereby approved."

4. "**THAT** conditional upon the passing of Ordinary Resolutions No.1 to No. 3 set out in the notice convening the Meeting:

(i) the New Master Supply Agreement (as defined in the Circular), a copy of which is marked "C" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purpose, and the continuing connected transactions contemplated under it be and are hereby approved, and the proposed annual caps of the continuing connected transactions contemplated under the New Master Supply Agreement set out in the Circular be and are hereby approved;

(ii) the New Master Purchase Agreement (as defined in the Circular), a copy of which is marked "D" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purpose, and the continuing connected transactions contemplated under it be and are hereby approved, and the proposed annual caps of the continuing connected transactions contemplated under the New Master Purchase Agreement set out in the Circular be and are hereby approved; and

(iii) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign and execute the New Master Supply Agreement and New Master Purchase Agreement and all such documents, instruments and agreements, and to do all such acts or things, as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with items (i) and (ii) of this Ordinary Resolution."

5. "**THAT** conditional upon the passing of Ordinary Resolutions No. 1 to No. 3 set out in the notice convening the Meeting:

(i) the authorised share capital of the Company be and is hereby increased from HK$30,000,000 to HK$200,000,000 by the creation of 3,000,000,000 non-redeemable restricted voting convertible cumulative preference shares of HK$0.025 each ("Convertible Preference Shares") and 3,800,000,000 new ordinary shares of HK$0.025 each, having the rights and restrictions as set out in the Bye-laws of the Company to be adopted pursuant to Special Resolution No. 7 set out in the notice convening the Meeting, such that following such increase, the authorised share capital of the Company will be HK$200,000,000 divided into 5,000,000,000 ordinary shares of HK$0.025 each and 3,000,000,000 Convertible Preference Shares of HK$0.025 each; and

(ii) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign and execute all such documents, instruments and agreements, and to do all such acts or things, as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with item (i) of this Ordinary Resolution."

SPECIAL RESOLUTIONS

6. "**THAT** conditional upon the passing of Ordinary Resolutions No. 1 to No. 3 set out in the notice convening the Meeting and:

(i) subject to and conditional upon the approval of the Registrar of Companies of Bermuda, the English name of the Company be changed to Changhong Jiahua Holdings Limited (the "**Primary Name**") and the Chinese name of 長虹佳華控股有限公司 (the "**Secondary Name**") be adopted as the new secondary name of the Company (the "**Change of Company Name**") with effect from the date on which the Primary Name and Secondary Name are entered on the register of companies maintained by the Registrar of Companies in Bermuda; and

(ii) any one or more Directors be and are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the proposed Change of Company Name."

7. "**THAT** conditional upon the passing of Ordinary Resolutions No. 1 to No. 3 and No. 5 and Special Resolution No. 6 set out in the notice convening the Meeting:

(i) "the Bye-laws of the Company in the form of the document marked "E" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purpose, which includes, inter alia, all of the terms of the Convertible Preference Shares referred to in Ordinary Resolution No.5 set out in the notice convening the Meeting, be approved and adopted as the new Bye-laws of the Company in substitution for and to the exclusion of the existing Bye-laws of the Company with immediate effect; and

(ii) the directors of the Company be and are hereby authorised for and on behalf of the Company to sign and execute all such documents, instruments and agreements, and to do all such acts or things, as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with this Special Resolution."

By order of the Board
China Data Broadcasting Holdings Limited
Yu Xiao
Chairman

Hong Kong, 12 December 2012

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