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## THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION

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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 your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Xian Yuen Titanium Resources Holdings Limited, you should at once hand this circular, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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### **Xian Yuen Titanium Resources Holdings Limited** **(森源鈦礦控股有限公司\*)**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code 353)**

## **CONNECTED AND MAJOR TRANSACTION**

### **DISPOSAL OF SUBSIDIARIES**

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



**Grand Vinco Capital Limited**

*(Wholly owned subsidiary of Vinco Financial Group Limited)*

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A notice convening an extraordinary general meeting of the Company to be held at Room 1102B, 11th Floor, Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong on 2 February 2009 at 2:30 p.m. is set out on pages 35 to 36 of this circular.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

12 January 2009

*\* for identification purpose only*

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## DEFINITIONS

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

“AIEL”	means Aurora International Enterprises Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of directors of the Company
“Company”	means Xian Yuen Titanium Resources Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange (stock code: 353)
“Connected Person”	shall have the meaning given to it in the Listing Rules
“Directors”	means directors of the Company
“EGM”	means the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the OC Agreement, the WM Agreement and the transactions contemplated thereunder
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Hui Zhou Orient”	means Hui Zhou Orient Carpet Manufacturing Co., Ltd. (惠州市東方地毯生產有限公司), a company incorporated under the laws of PRC and an indirect wholly-owned subsidiary of the Company prior to the OC Disposal
“Independent Board Committee”	means an independent committee of the Board comprising of Mr. Lum Pak Sum, Mr. Sun Tak Keung and Mr. Chow Pui Fung, the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in relation to the WM Disposal
“Independent Third Party(ies)”	means third party(ies) independent of the Company and the Connected Persons of the Company and is not a Connected Person of the Company
“Latest Practicable Date”	means 9 January 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

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## DEFINITIONS

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“Jackley”	means Jackley China Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Cheung”	means Mr. CHEUNG Hung Yuen, a substantial shareholder of Win Alliance
“Ms. Peng”	means 彭秋鳳 (Ms. PENG Qui Feng), an Independent Third Party and the purchaser under the WM Agreement
“OC Agreement”	means the sale and purchase agreement dated 4 December 2008 entered into between the Company and Jackley as vendors and Winroy as purchaser in relation to Orient Carpet
“OC Disposal”	means the disposal of the Orient Carpet Group pursuant to the provisions of the OC Agreement
“OC Shares”	means 10,000 ordinary shares of Orient Carpet of HK\$1.00 each, representing the entire issued share capital of Orient Carpet
“OC Vendors”	means the Company and Jackley, the vendors under the OC Agreement
“Orient Carpet”	means Orient Carpet Manufacturing (HK) Limited (東方地毯生產(香港)有限公司), a company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company prior to the OC Disposal
“Orient Carpet Group”	means Orient Carpet and Hui Zhou Orient
“PRC”	means the People’s Republic of China
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shares”	means ordinary shares of the Company
“Shareholders”	means holders of shares of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiary”	as defined under the Listing Rules

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## DEFINITIONS

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“Tang Shan Win Alliance”	means Tang Shan Win Alliance Wealthy Unit Carpet Limited (唐山勝盟豐盛工藝製毯有限公司), a company incorporated under the laws of PRC and an indirect non-wholly owned subsidiary of the Company prior to the WM Disposal
“Vinco Capital”	means Grand Vinco Capital Limited, a wholly-owned subsidiary of Vinco Financial Group Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, an independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Winroy”	means Winroy International Limited, a company incorporated under the laws of Hong Kong, an Independent Third Party and the purchaser under the OC Agreement
“Win Alliance”	means Win Alliance Development Limited (勝盟發展有限公司), a company incorporated under the laws of Hong Kong and an indirect non-wholly owned subsidiary of the Company prior to the WM Disposal
“Wise Mount”	means Wise Mount Management Limited (智峰管理有限公司), a company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company prior to the WM Disposal
“Wise Mount Group”	means Wise Mount, Win Alliance and Tang Shan Win Alliance
“WM Agreement”	means the sale and purchase agreement dated 4 December 2008 entered into between the Company and AIEL as vendors and Ms. Peng as purchaser in relation to Wise Mount
“WM Disposal”	means the disposal of the Wise Mount Group pursuant to the provisions of the WM Agreement
“WM Share”	means one (1) share of Wise Mount of HK\$1.00 representing the entire issued share capital of Wise Mount
“WM Vendors”	means the Company and AIEL, the vendors under the WM Agreement
“US\$”	means US dollars, the lawful currency of the United States of America
“%”	means per cent.

*Note:* For use in this circular and for illustration purpose only, the conversion of HK\$ into RMB is based on the approximate exchange rate of HK\$1.00 to RMB0.875.

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## LETTER FROM THE BOARD

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### **Xian Yuen Titanium Resources Holdings Limited** **( 森源鈦礦控股有限公司\*)**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code 353)**

*Executive Directors*

Mr. Tam Owen  
Mr. Law Fei Shing  
Mr. Fok Po Tin  
Mr. Chan Sung Wai

*Registered Office*

Cricket Squares  
Hutchins Drive, P. O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Non-executive Director*

Mr. Lam Shing Tsun Edmond

*Principal place of business  
in Hong Kong*

Room 1102B, 11th Floor  
Tower I, Admiralty Centre  
18 Harcourt Road  
Hong Kong

*Independent non-executive Directors*

Mr. Lum Pak Sum  
Mr. Sun Tak Keung  
Mr. Chow Pui Fung

12 January 2009

*To the Shareholders and the Independent Shareholders*

Dear Sir/Madam,

### **CONNECTED AND MAJOR TRANSACTION**

### **DISPOSAL OF SUBSIDIARIES**

#### **INTRODUCTION**

Reference is made to the announcement of the Company dated 12 December 2008 announcing that (1) on 4 December 2008, the OC Vendors entered into the OC Agreement with Winroy, an Independent Third Party, in connection with the OC Disposal; and (2) on 4 December 2008, the WM Vendors entered into the WM Agreement with Ms. Peng, an Independent Third Party, in connection with the WM Disposal.

The purpose of this circular is to provide you with, among other things, further information on the OC Agreement and the WM Agreement as detailed below.

*\* for identification purpose only*

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## LETTER FROM THE BOARD

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### THE OC DISPOSAL

#### 1. Date of the OC Agreement

4 December 2008

#### 2. Parties to the OC Agreement

1. The Company
2. Jackley
3. Winroy, an investment holding company. Winroy and its ultimate beneficial owners are Independent Third Parties.

#### 3. Assets to be disposed of

Subject to the terms and conditions of the OC Agreement, the OC Vendors have agreed to sell and Winroy has agreed to purchase the OC Shares.

Prior to the OC Disposal, Jackley was the legal and beneficial owner of the OC Shares. Upon completion of the OC Disposal, the Company will not hold any interest in the Orient Carpet Group and the members of which will cease to be subsidiaries of the Company.

##### *(a) Information on Orient Carpet*

Name	:	Orient Carpet Manufacturing (HK) Limited (東方地毯生產(香港)有限公司)
Date of incorporation	:	2 April 1992
Place of incorporation	:	Hong Kong
Scope of business	:	trading of carpets and manufacture and sale of carpets
Authorized share capital	:	HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each
Issued share capital	:	HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each

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## LETTER FROM THE BOARD

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*(b) Information on Hui Zhou Orient*

Name	:	Hui Zhou Orient Carpet Manufacturing Company Limited (惠州市東方地毯生產有限公司)
Date of incorporation	:	11 June 1993
Place of incorporation	:	Hui Zhou, PRC
Duration of operation	:	From 11 June 1993 to 10 June 2018
Scope of business	:	Design, manufacture and sale of a wide range of carpets under its own name
Registered capital	:	US\$4,940,000
Total investment amount	:	US\$9,880,000

#### 4. Consideration

The consideration payable by Winroy to the OC Vendors for the OC Shares amounts to HK\$19,300,000 and shall be paid in the following manner:

- (a) a sum of HK\$12,200,000 shall be paid (i) by way of set off against the net current liabilities of Hui Zhou Orient as at 31 July 2008 in the total sum of approximately HK\$18,296,758 which Winroy will assume and (ii) Winroy accepts the transfer to it of the current assets and assuming the current liabilities incurred during the period commencing on 31 July 2008 and ending on the date of completion of the OC Agreement; and
- (b) a sum of HK\$6,100,000 (i.e., the remaining balance of the consideration HK\$7,100,000 less HK\$1,000,000 which had been paid by Winroy to the OC Vendors upon the execution of the memorandum of understanding dated 16 January 2008) shall be paid in cash on completion of the OC Agreement.

The consideration was arrived at after arm's length negotiations between the OC Vendors and Winroy and was determined with reference to (a) the net current liabilities of Hui Zhou Orient of approximately HK\$18,296,758 as at 31 July 2008, (b) the unaudited net liabilities of the Orient Carpet Group of approximately HK\$173,090,921 and the total amount due from the Orient Carpet Group to the Group of approximately HK\$185,314,719 as shown in its consolidated management accounts of the Orient Carpet Group as at 31 July 2008 and the expected costs and expenses for the OC Disposal.



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## LETTER FROM THE BOARD

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### 5. Conditions

The OC Agreement is conditional upon:

- (a) if necessary, the Company having convened an extraordinary general meeting at which resolutions shall have been duly passed by the Shareholders to approve the OC Disposal and the transactions (or any of them) contemplated in the OC Agreement; and
- (b) the information set out in the recitals of the OC Agreement is true and accurate and it is legal for the OC Vendors to sell the Orient Carpet Group to Winroy pursuant to the OC Agreement.

### 6. Assignment of Debt

On completion of the OC Agreement, the OC Vendors will enter into a deed of assignment with Winroy, pursuant to which the OC Vendors will assign the debt in the total sum of HK\$185,314,719 due from the Orient Carpet Group to Winroy or its nominee(s) for a consideration of HK\$1.00.

### 7. Financial information of the Orient Carpet Group

	<b>For the period from 1.1.2008 to 31.7.2008 (unaudited) HK\$'000 (Note)</b>	<b>For the year ended 31.12.2007 (unaudited) HK\$'000</b>	<b>31.12.2006 (unaudited) HK\$'000</b>
Revenue	6,418	13,632	10,071
Net loss before taxation	(3,804)	(36,940)	(18,874)
Net loss after taxation	(3,804)	(36,940)	(18,874)
	<b>As at 31.7.2008 HK\$'000</b>	<b>As at 31.12.2007 HK\$'000</b>	<b>As at 31.12.2006 HK\$'000</b>
Net liabilities	(173,091)	(170,870)	(128,294)

*Note:* The revenue included the inter-companies sales between International Carpet Company Limited and the Orient Carpet Group. 51% of International Carpet Company Limited was owned by the Group and was disposed by the Group in May.

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## LETTER FROM THE BOARD

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For the financial information of the Orient Carpet Group, the net loss included other operating expenses in the years 2007 and 2006. For the year ended 2007, the Orient Carpet Group made a deficit on the revaluation of property, plant and equipment in Hui Zhou Orient in the sum of approximately HK\$26,976,171. For the year ended 2006, the Orient Carpet Group made an underprovision for value added tax and the related penalty which were incurred in the previous years in the total sum of approximately \$8,938,447. These other operating expenses had been disclosed in the annual report for year 2007 and year 2006 respectively.

### 8. Effect of the OC Disposal on the Earning, Assets and Liabilities of the Company

Upon completion of the OC Disposal, members of the Orient Carpet Group will cease to be subsidiaries of the Company. The financial results of the Orient Carpet Group will not be consolidated into the Company. Set out below is a summary of unaudited financial information after completion of the OC Disposal.

	<b>The Group as at 30 June 2008 before the OC Disposal</b> (Unaudited) <i>HK\$'000</i>	<b>The Group as at 30 June 2008 after the OC Disposal</b> (Unaudited) <i>HK\$'000</i>
Total assets	750,984	723,005
Total liabilities	134,353	101,171

  

	<b>The Group for the year ended 31 December 2007 before the OC Disposal</b> (Audited) <i>HK\$'000</i>	<b>The Group for the year ended 31 December 2007 after the OC Disposal</b> (Unaudited) <i>HK\$'000</i>
Loss before income tax	(78,561)	(41,621)
Loss for the year	(78,561)	(41,621)

### 9. Reasons for and Benefits of the OC Disposal

The Orient Carpet Group had been suffering loss for the past years and had not been performing at forecast levels. The Directors do not foresee a significant turnaround in the near future and believe that it is more commercially favourable to dispose of the Orient Carpet Group. The Directors consider that it is necessary to reduce any further loss which the Group may incur. The Directors believe that the OC Disposal is aligned with the Group's business strategy to further develop its energy-related business and the OC Disposal is fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Upon completion of the OC Disposal, a loss of approximately HK\$12,233,798, being the sale proceeds less the carry amount of the net assets of the Orient Carpet Group including the assignment of debt due from the Orient Carpet Group, and recognition of exchange gain in exchange reserve, will arise. Shareholders should note that the actual loss on the OC Disposal to be recorded by the Group will depend on the net assets of the Orient Carpet Group as at the date of completion. The cash proceeds of approximately HK\$7,100,000 from the OC Disposal will be used to settle the liabilities of Orient Carpet.

### **10. Implications under the Listing Rules**

Upon completion of the OC Disposal, members of the Orient Carpet Group will cease to be subsidiaries of the Company. As the OC Disposal exceeds 25% but does not exceed 75% of one or more of the applicable percentage ratios (as defined in the Listing Rules), it constitutes a major disposal for the Company under the Listing Rules and will be subject to approval of the Shareholders.

## **THE WM DISPOSAL**

### **1. Date of the WM Agreement**

4 December 2008

### **2. Parties to the WM Agreement**

- (1) The Company
- (2) AIEL
- (3) Ms. Peng, an Independent Third Party.

### **3. Assets to be disposed of**

Subject to the terms and conditions of the WM Agreement, the WM Vendors have agreed to sell and Ms. Peng has agreed to purchase the WM Share.

Prior to the WM Disposal, AIEL was the legal and beneficial owner of the WM Share. Upon completion of the WM Disposal, the Company will not hold any interest in the Wise Mount Group and the members of which will cease to be subsidiaries of the Company.

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## LETTER FROM THE BOARD

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*(a) Information on Wise Mount*

Name	:	Wise Mount Management Limited (智峰管理有限公司)				
Date of incorporation	:	4 November 2005				
Place of incorporation	:	Hong Kong				
Scope of business	:	Investment holding				
Authorized share capital	:	HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each				
Issued share capital	:	1 share of HK\$1.00				
Shareholder(s)	:	<table><tr><td>Name of shareholder</td><td>% held</td></tr><tr><td>AIEL</td><td>100</td></tr></table>	Name of shareholder	% held	AIEL	100
Name of shareholder	% held					
AIEL	100					

*(b) Information on Win Alliance*

Name	:	Win Alliance Development Limited (勝盟發展有限公司)						
Date of incorporation	:	12 November 1991						
Place of incorporation	:	Hong Kong						
Scope of business	:	Trading of goods (including nursery products)						
Authorized share capital	:	HK\$1,000,000 divided into 1,000,000 ordinary shares of HK\$1.00 each						
Issued share capital	:	HK\$1,000,000 divided into 1,000,000 ordinary shares of HK\$1.00 each						
Shareholder(s)	:	<table><tr><td>Name of shareholder</td><td>% held</td></tr><tr><td>Wise Mount</td><td>70</td></tr><tr><td>Mr. Cheung, a Connected Person</td><td>30</td></tr></table>	Name of shareholder	% held	Wise Mount	70	Mr. Cheung, a Connected Person	30
Name of shareholder	% held							
Wise Mount	70							
Mr. Cheung, a Connected Person	30							

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## LETTER FROM THE BOARD

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(c) *Information on Tang Shan Win Alliance*

Name	:	Tang Shan Win Alliance Wealthy Unit Carpet Limited (唐山勝盟豐盛工藝製毯有限公司)
Date of incorporation	:	1 November 2004
Place of incorporation	:	Tang Shan, PRC
Duration of operation	:	From 1 November 2004 to 31 October 2034
Scope of business	:	Manufacture and trading of carpets
Registered capital	:	US\$2,100,000
Total investment amount	:	US\$3,500,000
Shareholder(s)	:	Name of shareholder Win Alliance
		% held 100

#### 4. Consideration

The consideration payable by Ms. Peng to the WM Vendors for the WM Share amounts to HK\$30,000 and shall be paid on completion of the WM Agreement.

The consideration was arrived at after arm's length negotiations between the WM Vendors and Ms. Peng and was determined with reference to (a) the unaudited net liabilities of the Wise Mount Group of HK\$7,705,102 and the amount due from the Wise Mount Group to the Group of approximately HK\$12,230,609 as shown in the consolidated management accounts of the Wise Mount Group as at 30 June 2008 and the expected costs and expenses for the WM Disposal, and (b) the agreement that Ms. Peng will discharge the Company's contingent liability including the legal proceeding issued by DBS Bank (Hong Kong) Limited on 24 June 2008 against Win Alliance in the High Court under HCA1154 of 2008 claiming outstanding bills of exchange in the sum of US\$622,182 (equivalent to approximately HK\$4,853,000) and accrued interest.

#### 5. Conditions

The WM Agreement is conditional upon:

- (a) if necessary, the Company having convened an extraordinary general meeting at which resolutions shall have been duly passed by the independent Shareholders to approve the WM Disposal and the transactions (or any of them) contemplated in the WM Agreement; and
- (b) the information set out in the recitals of the WM Agreement is true and accurate and it is legal for the WM Vendors to sell the Wise Mount Group to Ms. Peng pursuant to the WM Agreement.

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## LETTER FROM THE BOARD

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### 6. Assignment of Debt

On completion of the WM Agreement, the WM Vendors will enter into a deed of assignment with Ms. Peng, pursuant to which the WM Vendors will assign the debt in the total sum of HK\$12,230,609 due from the Wise Mount Group to Ms. Peng or her nominee(s) for a consideration of HK\$1.00.

### 7. Financial information on the Wise Mount Group

	<b>For the period from 1.1.2008 to 30.6.2008 (unaudited) HK\$'000</b>	<b>For the year ended 31.12.2007 (unaudited) HK\$'000 (Note)</b>	<b>31.12.2006 (unaudited) HK\$'000</b>
Revenue	—	15,051	—
Net loss before taxation	(10,992)	(1,568)	(43)
Net loss after taxation	(10,992)	(1,568)	(43)
	<b>As at 30.6.2008 HK\$'000</b>	<b>As at 31.12.2007 HK\$'000</b>	<b>As at 31.12.2006 HK\$'000</b>
Net assets/(liabilities)	(7,705)	3,287	(51)

*Note:* The financial information of Win Alliance and Tang Shan Win Alliance has been consolidated into Wise Mount since 15 February 2007.

For the financial information of the Wise Mount Group, Wise Mount had not yet commenced business in year 2006. During the year 2007, Wise Mount acquired 70% equity interest of Win Alliance and Tang Shan Win Alliance and incorporated their financial results from 15 February 2007. For the six months ended 30 June 2008, due to the dispute between DBS Bank (Hong Kong) Limited and Win Alliance, Win Alliance had difficulties in obtaining goods from the suppliers for trading, and as a result no revenue were generated.

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## LETTER FROM THE BOARD

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### 8. Effect of the WM Disposal on the Earning, Assets and Liabilities of the Company

Upon completion of the WM Disposal, members of the Wise Mount Group will cease to be subsidiaries of the Company. The financial results of the Wise Mount Group will not be consolidated into the Company. Set out below is a summary of unaudited financial information after completion of the WM Disposal.

	<b>The Group as at 30 June 2008 before the WM Disposal (Unaudited) HK\$'000</b>	<b>The Group as at 30 June 2008 after the WM Disposal (Unaudited) HK\$'000</b>
Total assets	750,984	732,879
Total liabilities	134,353	120,744

  

	<b>The Group for the year ended 31 December 2007 before the WM Disposal (Audited) HK\$'000</b>	<b>The Group for the year ended 31 December 2007 after the WM Disposal (Unaudited) HK\$'000</b>
Loss before income tax	(78,561)	(76,993)
Loss for the year	(78,561)	(76,993)

### 9. Reasons for and Benefits of the WM Disposal

The Wise Mount Group had been suffering loss for the past two years and had not been performing at forecast levels. The Directors do not foresee a significant turnaround in the near future and believe that it is more commercially favourable to dispose of the Wise Mount Group. Secondly, on 24 June 2008, DBS Bank (Hong Kong) Limited brought an action in the High Court under HCA1154 of 2008 against Win Alliance claiming outstanding bills of exchange in the sum of US\$622,182 (equivalent to approximately HK\$4,853,000) and accrued interest. The Company did not provide any guarantee to the Wise Mount Group in respect of the bills of exchange. Although the Directors have made full amount of provision in respect of this claim, the Directors believe that as no one can foresee the outcome of the legal proceedings, it will be more favourable to the dispose of the Wise Mount Group, thereby preventing any possible additional loss which the Group may incur. Furthermore, the Directors believe that the WM Disposal is fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Upon completion of the WM Disposal, a loss of approximately HK\$4,495,507, being the sale proceeds less the carry amount of the net assets of the Wise Mount Group including the assignment of debt due from the Wise Mount Group, and recognition of minority interest in equity will arise. Shareholders should note that the actual loss on the WM Disposal to be recorded by the Group will depend on the net assets of the Wise Mount Group as at the date of completion. The cash proceeds of approximately HK\$30,000 from the WM Disposal will be used as general working capital.

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## LETTER FROM THE BOARD

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### 10. Implications under the Listing Rules

Upon completion of the WM Disposal, members of the Wise Mount Group will cease to be subsidiaries of the Company. As the WM Disposal exceeds 25% but does not exceed 75% of one or more of the applicable percentage ratios (as defined in the Listing Rules), it constitutes a major disposal for the Company under the Listing Rules and will be subject to the approval of the Shareholders.

Win Alliance is owned as to 70% by Wise Mount and the remaining 30% by Mr. Cheung. As Mr. Cheung is a substantial shareholder of a subsidiary of the Company, he is a Connected Person under Rule 14A.11(1). Mr. Cheung is also a controller of Win Alliance as he is entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of Win Alliance. In the circumstances, the WM Disposal constitutes a non-exempt connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules and is subject to the requirements of reporting, announcement and the approval of the independent Shareholders (by way of poll) as set out in Chapter 14A of the Listing Rules at the EGM. Mr. Cheung and his associates are required to abstain from voting on the resolutions at the EGM in respect of the WM Agreement and the transactions contemplated thereunder.

### INFORMATION ON THE COMPANY

The Company is an investment holding company and its subsidiaries are principally engaged (a) in the design, manufacture and sale of a wide range of carpets under its own brand name and the trading of carpets, and (b) the exploration and mining of natural resources. Upon completion of the OC Disposal and the WM Disposal, the Group will continue to be principally engaged in (a) the trading of a wide range of carpets, and (b) the exploration and mining of natural resources.

The OC Disposal and the WM Disposal are not inter-conditional and are not related to each other. Winroy and Ms. Peng are not related to each other and do not have any relationships with the purchasers of the disposals entered by the Group in the past 12 months including without limitation the disposals announced by the Company on 19 March 2008.

The Orient Carpet Group is engaged in the design, manufacture, sale and trading of carpets. Upon completion of the OC Disposal, the Group will discontinue the manufacturing business of the Group but the trading of carpets by the Group will continue and be conducted through other wholly-owned subsidiaries of the Company, namely, 626 Limited and Ho Fai Carpet Trading Limited. Both 626 Limited and Ho Fai Carpet Trading Limited have commenced the trading business and have the relevant assets and expertise to conduct such business. As at the Latest Practicable Date, 626 Limited has already completed one transaction and has secured a purchase order in the sum of more than HK\$3,000,000.

The exploration and mining of natural resources business of the Group will not be affected by the OC Disposal and the WM Disposal and will continue to be conducted through Qinghai Forest Source Mining Industry Development Company Limited (青海森源礦業開發有限公司), an indirectly wholly-owned subsidiary of the Company, which holds an exploration licence in respect of the Existing LRM Mine (as defined in the Company's circular dated 6 June 2008) located in Inner Mongolia, the People's Republic of China which confers the right to conduct exploration work for the mineral resources in the areas of the Target Mine (as defined in the Company's circular dated 6 June 2008).



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## LETTER FROM THE BOARD

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### THE EGM

A notice convening the EGM to be held at Room 1102B, 11th Floor, Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong on 2 February 2009 at 2:30 p.m. is set out on pages 35 to 36 in this circular.

As far as the Directors are aware of, having made all reasonable enquiries, as at the Latest Practicable Date, Mr. Cheung and his associates did not held any Shares. Mr. Cheung and his associates are required to abstain from voting on the resolution in respect of the WM Agreement and the transactions contemplated thereunder at the EGM. No other Shareholders will be required to abstain from voting for the OC Agreement, the WM Agreement and all transactions contemplated thereunder at the EGM. The resolutions at the EGM will be vote by poll.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instruction printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you wish to do so.

### RECOMMENDATION

Taking into consideration of the advice from Vinco Capital and the reasons set out in the paragraphs headed “Reasons for and benefits of the OC Disposal” and “Reasons for and benefits of the WM Disposal” above, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the OC Agreement and the WM Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the above agreements and all transactions contemplated thereunder.

### FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on page 16 of this circular, and the letter from Vinco Capital to the Independent Board Committee and Independent Shareholders in respect of the WM Agreement set out on pages 17 to 25, and the information set out in the Appendices to this circular.

By Order of the Board  
**Xian Yuen Titanium Resources Holdings Limited**  
**Law Fei Shing**  
*Chief Executive Officer and Executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### **Xian Yuen Titanium Resources Holdings Limited**

**( 森源鈦礦控股有限公司\*)**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code 353)**

12 January 2009

*To the Independent Shareholders*

Dear Sir or Madam,

#### **CONNECTED AND MAJOR TRANSACTIONS**

#### **DISPOSAL OF SUBSIDIARIES**

As the Independent Board Committee, we have been appointed to advise you in connection with the proposed WM Disposal, the details of which are set out in the letter from the Board contained in this circular of the Company to the Shareholders dated 12 January 2009 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

The transaction under the WM Agreement constitutes a major and a non-exempt connected transaction for the Company under Rule 14.08 and Rule 14A.13(1)(b)(i) of the Listing Rules respectively and is subject to the requirements of reporting, announcement and the approval of the independent Shareholders (by way of poll) as set out in Chapter 14A of the Listing Rules at the EGM.

Having considered the terms of the WM Agreement and the advice of Vinco Capital in relation thereto as set out on pages 17 to 25 of the Circular, we are of the opinion that the proposed WM Disposal is in the interests of the Company and the Shareholders as a whole and that the terms of the WM Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend that you vote in favour of the resolutions to be proposed at the EGM in relation to the aforesaid.

Yours faithfully,

**Mr. Lum Pak Sum**

**Mr. Sun Tak Keung**  
*Independent Board Committee*

**Mr. Chow Pui Fung**

*\* for identification purpose only*

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## LETTER FROM VINCO CAPITAL

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*The following is the text of a letter of advice from Grand Vinco Capital Limited to the Independent Board Committee and the Independent Shareholders in connection with the WM Disposal which has been prepared for the purpose of incorporation in this circular:*



**Grand Vinco Capital Limited**  
Units 4909-4910, 49/F., The Center  
99 Queen's Road Central, Hong Kong

12 January 2009

*To the Independent Board Committee  
and the Independent Shareholders of  
Xian Yuen Titanium Resources Holdings Limited*

Dear Sirs,

### **CONNECTED AND MAJOR TRANSACTION DISPOSAL OF SUBSIDIARIES — WM DISPOSAL**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the connected and major transaction regarding the terms of WM Agreement and transactions contemplated thereunder, details of which are set out in the section headed "Letter from the Board" in the circular (the "Circular") issued by the Company to the Shareholders dated 12 January 2009 of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 12 December 2008, the Company announced that the WM Vendors entered into the WM Agreement with Ms. Peng on 4 December 2008, pursuant to which, amongst other things, AIEL (being the legal and beneficial owner of the WM Share and is interested in the entire issued share capital of the Wise Mount prior to the WM Disposal) has agreed to sell and Ms. Peng has agreed to purchase the WM Share at an aggregate consideration of HK\$30,000 (the "Consideration"). Upon completion of the WM Disposal, the Company will not hold any interest in the Wise Mount Group and the members of which will cease to be the subsidiaries of the Company.

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the WM Disposal are more than 25% but less than 100%, the WM Disposal constitutes a major transaction of the Company under Rule 14.06 of the Listing Rules. Besides, Win Alliance is owned as to 70% by Wise Mount and the remaining 30% by Mr. Cheung, a substantial shareholder of Win Alliance (being a subsidiary of the Company). As such, Mr. Cheung is a Connected Person of the

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## LETTER FROM VINCO CAPITAL

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Company. Accordingly, the WM Disposal constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) and is subject to, inter alia, the approval by Independent Shareholders taken by way of poll at the EGM. Under the Listing Rules, Mr. Cheung and his associates shall abstain from voting on the relevant resolutions in respect of the WM Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee, comprising Mr. Lum Pak Sum, Mr. Sun Tak Keung and Mr. Chow Pui Fung, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders on the WM Disposal. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the WM Disposal. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the terms of the WM Agreement are on normal commercial terms, in the ordinary course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the WM Disposal, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

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## LETTER FROM VINCO CAPITAL

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This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the WM Disposal and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the WM Disposal, we have considered the principal factors and reasons set out below:

#### 1. Information of the Group

The Group is an investment holding company and its subsidiaries are principally engaged in (a) the design, manufacture and sale of a wide range of carpets under its own brand name and the trading of carpets; and (b) the exploration and mining of natural resources.

Set out below is the financial summary for the two years ended 31 December 2007 as extracted from the Group's annual report 2007 and for the six months ended 30 June 2008 as extracted from the Group's interim report 2008:

	<b>For the year ended 31 December</b>		<b>For the six months ended 30 June</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Note)</i>	<i>(Note)</i>
Revenue	26,523	55,647	—
Loss for the year/period	46,157	78,561	72,332
Loss attributable to the equity holders of the Company	46,167	79,129	66,964
	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 December</b>	<b>30 June</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets value	62,801	624,628	616,631

*Note:* The financial results of both Win Alliance and Tang Shan Win Alliance have been consolidated into the Group since 15 February 2007.

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## LETTER FROM VINCO CAPITAL

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For the six months ended 30 June 2008, the Group recorded approximately nil revenue from its continuing operations (including both trading of goods and exploration of mine segments). The net assets value of the Group was approximately HK\$616,631,000, in which the amount attributable to the equity holders of the Company was approximately HK\$589,349,000 as at 30 June 2008.

For the year ended 31 December 2007, the Group recorded revenue of approximately HK\$55,647,000 (2006: approximately HK\$26,523,000), representing an increase of approximately 109.81%. Also, the Group's net assets value was amounted to approximately HK\$624,628,000 (2006: approximately HK\$62,801,000), indicating a remarkable increase of approximately 894.61%.

However, we noted that the Group's segment revenue from manufacturing of carpets, trading of carpets and trading of goods were approximately HK\$11,745,000 (2006: approximately HK\$8,825,000), approximately HK\$28,851,000 (2006: approximately HK\$17,698,000) and approximately HK\$15,051,000 (2006: nil). Although the abovementioned segments recorded an increase in the revenue when compared to year 2006, we noted that the segment results are still in deficit position.

According to the annual report 2007 and the interim report 2008, it is noted that the Group was determined to dedicate more resources to the exploration and development of its mining business so as to seize the opportunities arising from the continuing increase in the global demands for iron and titanium products. Given that the WM Disposal would allow the Group to focus on and to re-allocate resources to fund its investment in the mining business, we are thus of the view that the WM Disposal is in line with the Group's strategy and is in the interests of the Company and the Independent Shareholders as a whole.

## **2. Reasons for the WM Disposal**

### *i. Information of the Wise Mount Group*

The Wise Mount Group is comprised of Wise Mount, Win Alliance and Tang Shan Win Alliance.

Wise Mount is an investment holding company that incorporated under the laws of Hong Kong on 4 November 2005 with an authorized share capital of HK\$10,000. It is an indirect wholly-owned subsidiary of the Company and is legally and beneficially owned as to 100% by AIEL (being a wholly-owned subsidiary of the Company).

Win Alliance is a company incorporated under the laws of Hong Kong on 12 November 1991 with an authorized share capital of HK\$1,000,000, which is principally engaged in the trading of goods, including nursery products. It is an indirect non wholly-owned subsidiary of the Company and is beneficially owned as to 70% by Wise Mount (being an indirect wholly-owned subsidiary of the Company) and 30% by Mr. Cheung (being the Connected Person of the Company).

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## LETTER FROM VINCO CAPITAL

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Tang Shan Win Alliance is a company incorporated under the laws of PRC on 1 November 2004 with a registered capital of US\$2,100,000, which is principally engaged in the manufacturing and trading of carpets. It is an indirect non wholly-owned subsidiary of the Company and is beneficially owned as to 100% by Win Alliance (being an indirect non-wholly owned subsidiary of the Company).

Set out below is a table of financial summary of the Wise Mount Group (*Note 1*):

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>six months</b>
	<b>2006</b>	<b>2007</b>	<b>ended 30 June</b>
	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000
Revenue	— ( <i>Note 2</i> )	15,051	— ( <i>Note 3</i> )
Net loss after taxation	43	1,568	10,992
	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 December</b>	<b>30 June</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	HK\$'000	HK\$'000	HK\$'000
Net assets/(liabilities)	(51)	3,287	(7,705)

*Note:*

1. The financial results of both Win Alliance and Tang Shan Win Alliance have been consolidated into Wise Mount since 15 February 2007.
2. Wise Mount had not yet commenced business in year 2006.
3. During the six months ended 30 June 2008, the Wise Mount Group recorded no revenue due to the dispute between DBS Bank (Hong Kong) Limited and Win Alliance which leads to difficulties in obtaining goods from the suppliers for trading.

According to the unaudited financial information of the Wise Mount Group for the six months ended 30 June 2008 as set out in the Letter from the Board, the Wise Mount Group recorded no revenue but a loss of approximately HK\$10,992,000, which contributed to approximately 15.20% of the Group's loss for the period. Meanwhile, its net liabilities were amounted to approximately HK\$7,705,000.

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## LETTER FROM VINCO CAPITAL

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As set out in the Letter from the Board, for the year ended 31 December 2007, the unaudited net loss after taxation was approximately HK\$1,568,000 (2006: approximately HK\$43,000), representing a substantial downturn of approximately 3546.51% over the previous year. In addition, its net assets value as at 31 December 2007 was approximately HK\$3,287,000 (2006: net liabilities of approximately HK\$51,000). This substantial increase is mainly due to the 70% acquisition of equity interest of Win Alliance and Tang Shan Win Alliance by Wise Mount during the year.

*ii. Reasons for the WM Disposal*

As confirmed by the Directors, we noted that the Wise Mount Group is currently engaged in trading of goods (including nursery products) but has not yet commence the manufacturing and trading of carpet business.

With reference to the annual report 2007, we noted that despite the Group recorded revenue of approximately HK\$15,051,000 from the trading of goods segment, the Group still suffered from a loss of approximately HK\$1,568,000 in this segment. Besides, as revealed in the interim report 2008, the Group recorded nil revenue from trading of goods due to the dispute between DBS Bank (Hong Kong) Limited and Win Alliance which leads to difficulties in obtaining goods from the suppliers for trading. Accordingly, the Group suffered a loss of approximately HK\$10,992,000 in this segment, representing approximately 34.40% of the Group's total revenue for the six months ended 30 June 2008.

Meanwhile, DBS Bank (Hong Kong) Limited brought an action in the High Court under HCA1154 of 2008 against Win Alliance on 24 June 2008, claiming outstanding bills of exchange in the sum of US\$622,182 (equivalent to approximately HK\$4,853,000) and accrued interest. Although full amount of provision have been made in respect of this claim, the Group did not provide any guarantee to the Wise Mount Group. As discussed with the Directors, there are uncertainties in respect of this claim and it may be more favourable to dispose the Wise Mount Group and accordingly prevent any potential loss that may arise from the litigation of HCA1154. Pursuant to the WM Agreement, Ms. Peng has agreed to discharge the Company's contingent liability including this litigation case upon completion of the WM Disposal.

Given that (i) the Wise Mount Group had been suffering losses for the past two and a half years and had not been performing at forecast levels; (ii) the Directors expect that there would not be a significant turnaround in the performance of Wise Mount Group in the near future, in particular, after the outbreak of the global financial turmoil; and (iii) the potential benefits of being discharged from the contingent liabilities that may arise from the litigation in respect to HCA1154 of 2008 upon completion of the WM Disposal, we consider that the WM Disposal provides an opportunity for the Group to dispose of its investments in the Wise Mount Group so that the Group can better deploy its resources in its business operation. Accordingly, we are of the view that the WM Disposal is in the ordinary course of business and is in the interest of the Company and its Independent Shareholders as a whole.



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## LETTER FROM VINCO CAPITAL

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### 3. Principal terms of the WM Agreement

#### *i. Basis of the Consideration*

Pursuant to the WM Agreement, the Consideration of HK\$30,000 in aggregate, was determined at after arm's length negotiations between the WM Vendors and Ms. Peng with reference to (i) the unaudited net liabilities of the Wise Mount Group of HK\$7,705,102 and the amount due from the Wise Mount Group to the Group of approximately HK\$12,230,609 as shown in the consolidated management accounts of the Wise Mount Group as at 30 June 2008; (ii) the expected costs and expenses incurred for the WM Disposal; and (iii) the agreement that Ms. Peng will discharge the Company's contingent liability including the legal proceeding issued by DBS Bank (Hong Kong) Limited on 24 June 2008 against Win Alliance in the High Court under HCA1154 of 2008 claiming outstanding bills of exchange in sum of US\$622,182 (equivalently to approximately HK\$4,853,000) and the respective accrued interest.

As set out in the Letter from the Board, the Group is expected to record a loss of approximately HK\$4,495,507 upon the completion of the WM Disposal, which would be subject to the adjustment in accordance with the sales proceeds and the carry amount of the net assets of the Wise Mount Group (including the assignment of debt due from the Wise Mount Group). As such, the actual loss on the WM Disposal will depend on the net assets of the Wise Mount Group as at the date of completion. As at 30 June 2008, the Wise Mount Group was indebted to the Group a total sum of approximately HK\$12,230,609.

As stated in the letter from the Board and discussed with the Directors, we understand that the Consideration was arrived at after arm's length negotiations between the WM Vendors and Ms. Peng having made reference to (i) the unaudited net liabilities of the Wise Mount Group of HK\$7,705,102 and the amount due from the Wise Mount Group to the Group of approximately HK\$12,230,609 as at 30 June 2008; (ii) the expected costs and expenses incurred for the WM Disposal; and (iii) the potential benefits from being discharged from the contingent liabilities that may arise from the litigation in respect to HCA1154 of 2008 in the sum of US\$622,182 (equivalent to approximately HK\$4,853,000) and accrued interest. In view of the above, we concur with the Directors that the basis of determining the Consideration is fair and reasonable so far to the Company and the Independent Shareholders as a whole.

Given that (i) the Wise Mount Group was at net deficit position as at 30 June 2008; (ii) the Wise Mount Group has been reporting losses for the past two and a half years; and (iii) the Wise Mount Group had not declared any dividends to its shareholders during the past two years, the price to earnings ratio, the price to book ratio and the dividend yield analysis, being the commonly used approaches to assess the consideration of a disposal transaction, are inapplicable in assessing the fairness and reasonableness of the Consideration.

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## LETTER FROM VINCO CAPITAL

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We have also reviewed the other major terms (including the conditions precedent, the completion terms and the termination terms) of the WM Agreement and are not aware of any uncommon terms. In addition, we have compared the aforementioned major terms of the WM Agreement with agreements of similar transactions of other companies listed on the Stock Exchange and we noted that the major terms of WM Agreement are comparable to the market practice. Based on the foregoing, we are of the view that the terms of the WM Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Although the Consideration is expected to result in a loss of approximately HK\$4,495,507 to the Group, given that (i) the Consideration was arrived at after arm's length negotiation between the WM Vendors and Ms. Peng; (ii) the Wise Mount Group has been reporting losses for the past two and a half years; (iii) the potential benefits of being discharged from the contingent liabilities that may arise from the litigation in respect to HCA1154 of 2008 in the sum of US\$622,182 (equivalent to approximately HK\$4,853,000) and accrued interest, we are thus of the opinion that the Consideration of the WM Agreement are fair and reasonable so far to the Company and the Independent Shareholders as a whole.

#### 4. Financial effects of the WM Disposal

##### *i. Earnings*

Upon completion of the WM Disposal, the Group will not hold any interest in the Wise Mount Group and the members of which will cease to be subsidiaries of the Group.

##### *ii. Net assets*

As revealed in the interim report 2008, the unaudited net assets value as at 30 June 2008 was approximately HK\$616,631,000. As discussed with the Directors, we noted that there should not be any material adverse impact on the Group arising from the drop in the net assets assuming the completion of the WM Disposal.

##### *iii. Working Capital*

As set out in the interim report 2008, the Group's net current assets as at 30 June 2008 were amounted to approximately HK\$29,048,000. After discussing with the Directors, we considered that there should be an improvement in the net current assets of the Group assuming the completion of the WM Disposal.

##### *iv. Gearing*

As at 30 June 2008, the Group's gearing level (being calculated as total liabilities over total assets of the Group) was approximately 0.18 times. As discussed with the Directors, we are of the view that the gearing level of the Group should be improved assuming the completion of the WM Disposal.

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## LETTER FROM VINCO CAPITAL

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### CONCLUSION

Having taken into consideration of the following principal factors and reasons regarding the WM Disposal, including:

- a) the unsatisfactory performance of the trading of goods segment;
- b) the basis of the Consideration is fair and reasonable to the Company and the Independent Shareholders as a whole;
- c) the terms of the WM Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and
- d) the overall financial effects upon the WM Disposal,

we are thus of the view that the WM Disposal is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the WM Disposal was entered into upon normal commercial terms and is in the ordinary and usual course of business of the Group. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote and the Independent Shareholders to vote in favour of the WM Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,  
For and on behalf of  
**Grand Vinco Capital Limited**

**Alister Chung**  
*Managing Director*

**1. WORKING CAPITAL OF THE GROUP**

As of the Latest Practicable Date, the Directors were of the opinion that the working capital available to the Group is sufficient.

**2. INDEBTEDNESS OF THE GROUP****(a) Borrowings**

As of the Latest Practicable Date, the Group did not have any outstanding borrowings except for the obligation under a finance lease of HK\$136,176 and unsecured loans of approximately HK\$6,697,792.

**(b) Securities**

As of the Latest Practicable Date, the Group did not have any outstanding debt security.

**(c) Mortgages and charges**

As of the Latest Practicable Date, the Group had not pledged any of its assets to any third party.

**(d) Contingent**

As of the Latest Practicable Date, the Group did not have any contingent liability.

Save as aforesaid, or as otherwise disclosed in Appendix II of this circular and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans debt securities or other similar indebtedness, finance leases or hire purchases commitments, liabilities under acceptance or acceptance credits or any guarantee or other material contingent liabilities outstanding as at the Latest Practicable Date.

**3. FINANCIAL PROSPECT OF THE GROUP**

The Group is principally engaged in (a) the design, manufacture and sale of a wide range of carpets under its own brand name and the trading of carpets, and (b) the exploration and mining of natural resources.

**Trading of carpets**

Upon completion of the OC Disposal, the Group will discontinue the manufacturing business of the Group but the trading of carpets by the Group will continue and be conducted through other wholly-owned subsidiaries of the Company, namely, 626 Limited and Ho Fai Carpet Trading Limited. Both 626 Limited and Ho Fai Carpet Trading Limited have commenced the trading business and have the relevant assets and expertise to conduct such business. As at the Latest Practicable Date, 626 Limited has already completed one transaction and has secured a purchase order in the sum of more than HK\$3,000,000. At the current year, the Group had been suffering a loss in trading and manufacturing of carpets business.

**Exploration and mining of natural resources**

In July 2008, the Group acquired the remaining 49% of the issued share capital in Kanson Development Limited which indirectly owned the Xiaohongshan iron-titanium-vanadium mine located in Inner Mongolia. The mine was in a 2km by 1km rectangular area owned by an indirect subsidiary of Kanson. For details of the said acquisition, please refer to the Company's circular dated 6 June 2008.

The Directors consider that the Group may broaden its source of income by diversifying into the exploration and mining of natural resources and by exploring the opportunities for deriving from the sales of mineral resources extracted from the Xiaohungshan mine when the relevant mining licence is obtained.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors or chief executives of the Company in the Shares and the underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Beneficial interests and long positions in Shares at the Latest Practicable Date:

Name of Director	Capacity	Number of Shares held	Approximate % of interest held
Law Fei Shing ( <i>Note</i> )	Personal	15,450,000	0.51%
Chow Pui Fung	Personal	10,000,000	0.33%

*Note:* Mr. Law Fei Shing has entered into an agreement with Ms. Leung Lai Ching Margaret on 5 November 2007 pursuant to which Ms. Leung Lai Ching Margaret has agreed to transfer to Mr. Law Fei Shing an aggregate of 15,450,000 Shares as the consideration for Mr. Law Fei Shing to enter into a service contract with the Company. The above Shares will be transferred to Mr. Law Fei Shing on 5 November 2008, 5 November 2009 and 5 November 2010. For details, please refer to the Company's announcement dated 5 November 2007. As at the Latest Practicable Date, no Shares had been transferred from Ms. Leung Lai Ching Margaret to Mr. Law Fei Shing.

Apart from the above, as at the Latest Practicable Date, there were no interest of the Directors or chief executives of the Company in the Shares and the underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (other than the Directors or chief executives of the Company as disclosed in the above) had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital as at the Latest Practicable Date:

#### (a) Interests in the Shares of the Company

Name of Shareholder	Number and class of securities	Capacity	Approximate % of interest
Golden Mount Limited (Note 1)	784,272,000	Interest of a controlled corporation	25.93%
Leung Lai Ching, Margaret	7,420,000	Beneficial owner	0.25%

#### (b) Interests in underlying Shares of the Company

Name of Shareholder	Number and class of securities	Capacity	Approximate % of interest
Leung Lai Ching, Margaret (Notes 2 and 3)	2,338,120,000	Beneficial owner	77.30%
Yue Wai Keung (Note 4)	894,000,000	Beneficial owner	29.56%

Notes:

1. Golden Mount Limited is a company incorporated under the laws of the British Virgin Islands, the entire issued share capital of which is legally and beneficially owned by Mr. Chim Pui Chung.
2. 2,338,120,000 underlying Shares consist of Shares to be issued upon the conversion of (i) the outstanding Tranche 1 Bonds (as defined in the circular of the Company dated 15 October 2007) (which, based on the conversion price of HK\$0.60 per Share, can be converted into 67,333,333 Shares); (ii) the Tranche 2 Bonds (as defined in the circular of the Company dated 15 October 2007) (which, based on the conversion price of HK\$0.60 per Share, can be converted into 666,666,667 Shares); (iii) the outstanding Tranche 3 Bonds (as defined in the circular of the Company dated 6 June 2008) (which, based on the conversion price of HK\$0.25 per Share, can be converted into 81,000,000 Shares); and (iv) the Tranche 4 Bonds (as defined in the circular of the Company dated 6 June 2008) (which, based on the conversion price of HK\$0.25 per Share, can be converted into 1,523,120,000 Shares).

3. The Tranche 2 Bonds and Tranche 4 Bonds have not been issued.
4. 894,000,000 underlying Shares consist of Shares to be issued upon the conversion of (i) the outstanding Tranche 1 Bonds (which, based on the conversion price of HK\$0.60 per Share, can be converted into 131,000,000 Shares); and (ii) the outstanding Tranche 3 Bonds (which, based on the conversion price of HK\$0.25 per Share, can be converted into 763,000,000 Shares).

Save as disclosed in this circular, so far as was known to the Directors or chief executives of the Company, there is no other person (other than the Directors or chief executives of the Company as disclosed in the above) who had interests or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital as at the Latest Practicable Date.

#### **4. DIRECTORS' SERVICE CONTRACTS**

On 5 November 2007, Mr. Law Fei Shing entered into a service contract with the Company, under which the Company appointed Mr. Law Fei Shing and Mr. Law Fei Shing agreed to act as the chief executive officer, the executive director, the company secretary, the authorised representative and the qualified accountant of the Company for a term of 3 years.

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

#### **5. LITIGATION**

On 24 June 2008, DBS Bank (Hong Kong) Limited brought an action in the High Court under HCA1154 of 2008 against a non wholly-owned subsidiary of the Company, Win Alliance, claiming outstanding bills of exchange in the sum of US\$622,182 (equivalent to approximately HK\$4,853,000) and accrued interest. Win Alliance is taking legal advice to the merits of the proceedings. The Directors have made full amount of provision in respect of this claim.

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



## 6. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular, the following agreements, being contracts not entered into in the ordinary course of business, have been entered into by members of the Company and is or may be material:

- (a) a placing agreement dated 5 March 2007 entered into between Enlighten Securities Limited as placing agent and the Company, pursuant to which an aggregate of 87,000,000 new Shares were placed by the placing agent on behalf of the Company, on a fully underwritten basis at the price of HK\$0.308 per placing share with at least six independent investors. The gross proceeds of the placing is estimated to be approximately HK\$26.8 million and the net proceeds of the placing is approximately HK\$26 million. Please refer to the Company's announcement dated 5 March 2007 for further details;
- (b) an agreement dated 27 March 2007 entered into between Aurora Logistic Capital Assurance Limited, Liaohai International Investments Limited and 河北大盛行擔保有限公司 (Hebei Da Sheng Warranty Company Limited) relating to the investment by Aurora Logistic Capital Assurance Limited and Liaohai International Investments Limited into Hebei Da Sheng Warranty Company Limited;
- (c) a placing agreement dated 18 July 2007 entered between the Company and Guotai Junan Securities (Hong Kong) Limited as placing agent, pursuant to which 135,000,000 new Shares were placed by the placing agent, on a fully underwritten basis at the price of HK\$0.69 per share. The gross proceeds of the placing is estimated to be approximately HK\$93.15 million and the net proceeds of the placing is approximately HK\$90.7 million. Please refer to the Company's announcement dated 20 July 2007 for further details;
- (d) a share transfer agreement dated 8 July 2007 entered into between Ms. Leung Lai Ching Margaret as vendor and Smooth Way International Limited as purchaser in relation to the acquisition of 51% equity interests in Kanson Development Limited ("**Kanson**") for a total consideration of HK\$1,000,000,000. Please refer to the Company's announcement dated 20 July 2007 and the circular dated 15 October 2007 for further details;
- (e) a loan agreement dated 27 November 2007 entered into between the Company and Kanson pursuant to which the Company agreed to provide a loan facility up to HK\$7,840,000 to Kanson upon and subject to the terms and conditions contained therein;
- (f) a loan agreement dated 24 December 2007 entered into between the Company and Kanson pursuant to which the Company agreed to provide a loan facility up to HK\$2,156,000 to Kanson upon and subject to the terms and conditions contained therein;
- (g) a share sale agreement dated 10 March 2008 entered into between Jackley China Limited as vendor and Mr. Chan Tat Keung Arthur as purchaser relating to the sale and purchase of 51% interests in International Carpet Company Limited;

- (h) a subscription agreement dated 10 March 2008 entered into between Capital Gain Assets Management Limited, Aurora International Enterprises Limited, Aurora Logistic Capital Assurance Limited and the Company relating to the deemed disposal of Aurora Logistics Finance (Hong Kong) Limited;
- (i) a loan agreement dated 17 March 2008 entered into between the Company and Kanson pursuant to which the Company agreed to provide a loan facility up to HK\$58,642,160 to Kanson upon and subject to the terms and conditions contained therein;
- (j) a sale and purchase agreement dated 8 April 2008 entered into between Ms. Leung Lai Ching Margaret as vendor and Smooth Way International Limited as purchaser for the acquisition of 49% equity interests in Kanson for a total consideration of HK\$960.78 million. Please refer to the Company's announcement dated 18 April 2008 and the circular dated 6 June 2008 for further details;
- (k) an equity transfer agreement dated 29 October 2008 made between Hong Kong Forest Source Mining Industry Holding Company Limited as vendor and Asiagoal Investment Limited as purchaser in relation to the disposal of 北京森源礦產品技術開發有限公司 (Beijing Forest Source Mining Industry Developing Company Limited);
- (l) the OC Agreement; and
- (m) the WM Agreement.

## **7. COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES**

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

## **8. INTEREST OF DIRECTORS OR PROPOSED DIRECTORS OR EXPERTS IN ASSETS ACQUIRED OR DISPOSED OF BY OR LEASED TO ANY MEMBER OF THE GROUP**

Since the date to which the latest published audited accounts of the Company were made up until the Latest Practicable Date, none of the Directors or proposed Directors or experts (as listed out in paragraph 10 below) had or had proposed to acquire or dispose or lease any interest, direct or indirect, in any assets to any member of the Group.

**9. CONTRACTS OR ARRANGEMENTS WHICH DIRECTORS ARE MATERIALLY INTERESTED AND ARE SIGNIFICANT IN RELATION TO THE BUSINESS OF THE GROUP**

As at the Latest Practicable Date, there were no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group.

**10. EXPERTS AND CONSENT**

The following are the qualifications of the experts who have been named in this circular or have given opinions or letters contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Vinco Capital	a corporation licensed to carry on business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As of the Latest Practicable Date, Vinco Capital has given and have not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

As of the Latest Practicable Date, Vinco Capital did not have any shareholding in any member of the Group and did not have the right to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

**11. MISCELLANEOUS**

- (a) The registered office of the Company is situated at Cricket Squares Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The company secretary and qualified accountant of the Company is Mr. Law Fei Shing. Mr. Law is a practicing Certified Public Accountant in Hong Kong. Mr. Law is also a member of American Institute of Certified Public Accountants (AICPA), USA and associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA).
- (c) The head office and principal place of business of the Company in Hong Kong is situated at Room 1102B, 11th Floor, Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong.
- (d) The principal share register of the Company is Bank of Bermuda (Cayman) Limited at P.O. Box 513 GT, 36C Bermuda House, British American Centre, George Town, Grand Cayman, Cayman Islands.
- (e) The branch share registrar of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

**12. MATERIAL ADVERSE CHANGE**

The Directors confirm that, as at the Latest Practicable Date, there were no material adverse changes in the financial or trading positions of the Company since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Company were made up.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company which is situated at Room 1102B, 11th Floor, Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong, for a period of 14 days from the date of this circular:

- (a) this circular;
- (b) the Memorandum and Articles of Association of the Company;
- (c) the published audited annual reports of the Company for two financial years ended 31 December 2006 and 31 December 2007;
- (d) the OC Agreement and the WM Agreement;
- (e) the letter from the Independent Board Committee as set out on page 16 of this circular;
- (f) the letter from Vinco Capital as set out on pages 17 to 25 of this circular;
- (g) the written consents of the experts as referred to in the paragraph headed “Experts and Consent” in this Appendix;
- (h) the contracts referred to in this circular including the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix; and
- (i) the circulars issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Company were made up, namely, (1) the circular dated 21 April 2008, (2) the circular dated 6 June 2008, (3) the circular dated 17 June 2008, and (4) the circular dated 17 November 2008.

**14. LANGUAGE**

In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

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## NOTICE OF EGM

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### **Xian Yuen Titanium Resources Holdings Limited** **(森源鈦礦控股有限公司\*)**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code 353)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Xian Yuen Titanium Resources Holdings Limited (the “**Company**”) will be held at Room 1102B, 11th Floor, Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong on 2 February 2009 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

#### **ORDINARY RESOLUTIONS**

1. “**THAT**, the share sale agreement (the “**OC Agreement**”) dated 4 December 2008 entered into between the Company and Jackley China Limited as vendors and Winroy International Limited as purchaser relating to the sale and purchase of 10,000 ordinary shares of Orient Carpet Manufacturing (HK) Limited of HK\$1.00 each, representing the entire issued share capital of Orient Carpet Manufacturing (HK) Limited at the consideration of HK\$19,300,000, and the transaction contemplated thereunder, be and hereby approved, confirmed and ratified and that the directors of the Company (the “**Directors**”) are hereby authorised to do all such further acts and things and executed such further documents which in their opinion may be necessary or expedient to give effect to the terms of the OC Agreement.”
2. “**THAT**, the share sale agreement (the “**WM Agreement**”) dated 4 December 2008 entered into between the Company and Aurora International Enterprises Limited as vendors and PENG Qui Feng as purchaser relating to the sale and purchase of 1 ordinary share of Wise Mount Management Limited of HK\$1.00 each, representing the entire issued share capital of Wise Mount Management Limited at the consideration of HK\$30,000, and the transaction contemplated thereunder, be and hereby approved, confirmed and ratified and that the directors of the Company (the “**Directors**”) are hereby authorised to do all such further acts and things and executed such further documents which in their opinion may be necessary or expedient to give effect to the terms of the WM Agreement.”

By Order of the Board  
**Xian Yuen Titanium Resources Holdings Limited**  
**Law Fei Shing**  
*Chief Executive Officer and Executive Director*

Hong Kong, 12 January 2009

*\* for identification purpose only*

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## NOTICE OF EGM

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*Notes:*

1. 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 of the Company 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 needs not be a member of a Company. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation is entitled to exercise the same powers on behalf of the member of the Company which he or they represent as such member of the Company could exercise.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officers, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer hereof if shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.
3. The instrument appointing a proxy and (if required by the board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than forty-eight (48) hours before the time appointed for holding the meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.
4. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.