富昌融資
FULBRIGHT CAPITAL

富昌融資有限公司 Fulbright Capital Limited
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30 June 2014

To: the Independent Board Committee,
the Independent Shareholders and the Optionholders

Dear Sirs,

UNCONDITIONAL MANDATORY CASH OFFERS
BY KINGSTON SECURITIES LIMITED
FOR AND ON BEHALF OF ACHIEVE PROSPER CAPITAL LIMITED
TO ACQUIRE ALL THE ISSUED SHARES
(OTHER THAN THOSE ALREADY OWNED OR
AGREED TO BE ACQUIRED BY
ACHIEVE PROSPER CAPITAL LIMITED
AND PARTIES ACTING IN CONCERT WITH IT),
AND TO CANCEL ALL THE OUTSTANDING SHARE OPTIONS OF
STARLIGHT INTERNATIONAL HOLDINGS LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee, the Independent Shareholders and the Optionholders in respect of the Listco Offers. Details of the Listco Offers, among other things, are set out in the Composite Document dated 30 June 2014, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

Reference is made to the Joint Announcement and the Circular in relation to, among other things, the Sale and Purchase Agreement, the Group Restructuring, the Share Premium Reduction, the Distribution In Specie, the CB Subscription Agreement, the Disposal, the Framework Purchase Agreement, the Listco Offers and the Privateco Offer. On 19 June 2014, the resolutions in respect of, among other things, the Share Premium Reduction, the Distribution In Specie, the CB Subscription Agreement, the Framework Purchase Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares, by the Independent Shareholders and the Disposal by the Shareholders were approved at the SGM.

On 19 June 2014, all the conditions precedent for the Sale and Purchase Agreement were fulfilled and the Sale and Purchase Completion took place on 26 June 2014. Upon the Sale and Purchase Completion, the Offeror has acquired an aggregate of 1,076,758,361 Shares, representing approximately 52.94% of the issued share capital of the Company as at the Latest Practicable Date, for a total consideration of HK$185,202,438.09 (equivalent to HK$0.1720 per Sale Share). Accordingly, the Offeror is required (i) under Rule 26.1 of the Takeovers Code to make a mandatory cash general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it); and (ii) under Rule 13.5 of the Takeovers Code to make the Option Offer to cancel all outstanding Share Options. As the Offeror and parties acting in concert with it are holding more than 50% of the issued share capital of the Company, the Share Offer and the Option Offer are unconditional.

An Independent Board Committee, comprising the non-executive Director Mr. Peter Hon Sheung Tin and all the independent non-executive namely Mr. Chan Chak Chung, Mr. Chuck Winston Calptor and Mr. Tang Yee Man, has been formed to advise the Independent Shareholders and the Optionholders as to whether the terms of the Listco Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned and as to the acceptance of the Listco Offers. We, Fulbright Capital, have been appointed as the Independent Financial Adviser to give recommendation to the Independent Board Committee, the Independent Shareholders and the Optionholders as to whether the Listco Offers are fair and reasonable. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

BASIS OF OUR ADVICE

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations contained or referred to in the Composite Document and provided to us by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. The Independent Shareholders and the Optionholders will be notified of material change as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to the date throughout the offer period (as defined under the Takeovers Code). We have also assumed that all statements of belief, opinion, expectation and intention in the Composite Document were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Composite Document, the omission of which make any such statement contained in the Composite Document misleading.

We have been advised by the Directors and the Offeror (where applicable) and that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate, incomplete or misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the Offeror (where applicable), nor have conducted any independent investigation into the business, financial conditions, affairs and future prospect of the Group and the Offeror, and nor have we considered the taxation implication on the Group or the Shareholders as a result of the Share Offer. We have no reason to suspect that any information have been withheld, doubt the truth, accuracy and completeness of the information and representations, or the reasonableness of the opinions expressed by the Company and the Offeror (where applicable), their advisers and/or directors and/or management, which have been provided to us.

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The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Offeror, Hong Kong Shihua, Liaoning Shihua Property, their respective associates and parties acting in concert with them), and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinion expressed by the Offeror, Hong Kong Shihua, Liaoning Shihua Property, their respective associates and parties acting in concert with them) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The director of the Offeror, the director of Hong Kong Shihua and the director of Liaoning Shihua Property jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Group, the Vendors, the Privateco, their respective associates and parties acting in concert with them), and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinion expressed by the Group, the Vendors, the Privateco, their respective associates and parties acting in concert with them) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

This letter is issued to the Independent Board Committee, the Independent Shareholders and the Optionholders solely in connection with the Listco Offers, and except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Listco Offers, we have considered the following principal factors and reasons:

1. Background and key terms of the Listco Offers

On 19 June 2014, the resolutions in respect of, among other things, the Share Premium Reduction, the Distribution In Specie, the CB Subscription Agreement, the Framework Purchase Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares, by the Independent Shareholders and the Disposal by the Shareholders were approved at the SGM.

Upon the Sale and Purchase Completion on 26 June 2014 and as at the Latest Practicable Date, the Offeror and parties acting in concert with it became interested in 1,076,758,361 Shares, representing approximately 52.94% of the entire issued share capital of the Company. Accordingly, the Offeror is required (i) to make an unconditional mandatory cash offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) in accordance with Rule 26.1 of the Takeovers Code; and (ii) to make the Option Offer to cancel all outstanding Share Options under Rule 13.5 of the Takeovers Code.

As at the Latest Practicable Date, the Company has 2,033,808,485 Shares in issue. As (i) the Offeror and parties acting in concert with it own 1,076,758,361 Shares, 957,050,124 Shares will be subject to the Share Offer and the total consideration of the Share Offer would be approximately HK$164.6 million based on the Share Offer Price. In the event that the Share Offer is accepted in full, the maximum amount payable by the Offeror under the Share Offer will be (i) approximately HK$164.6 million (assuming no Share Option is exercised and the number of Shares subject to the Share Offer is 957,050,124 Shares); or (ii) approximately HK$164.8 million (assuming all outstanding Share Options are exercised and the number of Shares subject to the Share Offer is 958,306,281 Shares).

Kingston Securities, on behalf of the Offeror and in compliance with the Takeovers Code, is making the Listco Offers to (i) acquire all the Offer Shares; and (ii) cancel all the outstanding Share Options, on the following basis:

The Share Offer

For every Offer Share held . . . . HK$0.1720 in cash

The Share Offer Price is the same as the purchase price per Sale Share under the Sale and Purchase Agreement which was arrived at after arm's length negotiations between the Offeror and the Vendors. The Share Offer is not conditional upon any minimum level of acceptances of the Share Offer and is unconditional.

The Option Offer

For cancellation of each Share Option with exercise prices of HK$0.2053 and HK$0.2228 per Share . . . . HK$0.01 in cash

As at the Latest Practicable Date, the Company has outstanding Share Options conferring rights on the Optionholders to subscribe for up to an aggregate of 1,256,157 Shares, of which:

(i) 701,580 Share Options are vested and exercisable at HK$0.2228 per Share during an exercise period from 23 January 2008 to 20 January 2018; and

(ii) 554,577 Share Options are vested and exercisable at HK$0.2053 per Share during an exercise period from 28 January 2008 to 25 January 2018.

Save for the outstanding Share Options as mentioned above, the Company had no other outstanding warrants, derivatives or convertibles in issue which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

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In the event all the Share Options are exercised in full by the Optionholders prior to the Listco Offers Closing Date and the Share Offer is accepted in full (including all Shares allotted and issued as a result of the exercise of the Share Options), the Company will have to issue 1,256,157 new Shares, representing approximately 0.06% of the issued share capital of the Company as enlarged by the issue of the aforementioned new Shares. Under such circumstances, the total number of Shares subject to the Share Offer would increase to 958,306,281 Shares and the maximum value of the Share Offer will be increased to approximately HK$164.8 million as a result thereof. In that case, no amount will be payable by the Offeror under the Option Offer.

Further details of the Listco Offers are set out in the "Letter from Kingston Securities" and Appendix I to the Composite Document and the accompanying Form(s) of Acceptance.

2. Information of the Listco Offers

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are manufacture and sale of electronic products (representing karaoke sets, television sets, video products and audio products) as well as property investment. The Group's major market is North America while its manufacturing facilities are located in the PRC.

2.1 Financial information of the Former Group

For the purpose of this section, "Former Group" refers to the Group prior to the completion of the Group Restructuring, the Distribution In Specie, the Disposal and the issue of the Convertible Bonds. Set out below is the summary of unaudited and audited financial information of the Former Group as set out in Appendix IIA to the Composite Document:

Table I – Selected financial information of the Former Group for the eight months ended 30 November 2013 and 2012, and the three years ended 31 March 2013, 2012 and 2011

	For the eight months ended 30 November		For the year ended 31 March		
	2013	2012	2013	2012	2011
	HK$ million (unaudited)	*HK$ million* (unaudited)	*HK$ million* (audited)	*HK$ million* (audited)	*HK$ million* (audited)
Turnover	318.0	477.1	515.4	631.8	637.6
Gross (loss)/profit	(38.3)	49.1	50.2	60.5	104.9
Loss for the period/year attributable to owners of the Company	(174.4)	(64.7)	(69.8)	(194.9)	(41.2)

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	As at 30 November 2013 *HK$ million* (unaudited)	As at 31 March 2013 *HK$ million* (audited)	2012 *HK$ million* (audited)	2011 *HK$ million* (audited)
Bank balances and cash	44.7	35.8	91.0	69.2
Borrowings	158.6	91.1	199.4	253.3
Net assets attributable to owners of the Company	302.6	472.9	517.5	674.7

Source: Annual reports of the Company for the three years ended 31 March 2013, 2012 and 2011 and announcement of the Company dated 23 May 2014 for unaudited results of the eight months ended 30 November 2013.

(i) For the eight months ended 30 November 2013

The Former Group recorded a turnover of approximately HK$318.0 million for the eight months ended 30 November 2013, represented a substantial decline in turnover of approximately 33.3% when compared to the prior corresponding period from approximately HK$477.1 million. Such decrease in turnover was mainly resulted from the consecutive declining orders of TV sales as resulted from the dwindling demand of TV sets in North America and the reduction in the selling price for certain products due to the increasingly fierce price competition in the market of TV sales. The gross loss of approximately HK$38.3 million for the eight months ended 30 November 2013 is mainly due to the substantial decrease in sales, higher factory overheads as resulted from the decrease in TV production levels and the fierce price competition thereby leading to the decrease in selling price of TV and resulting in the decrease in the gross profit margin and the recognition of provisions for obsolete and slow-moving inventories of approximately HK$60.7 million, as compared to a gross profit of approximately HK$49.1 million for the corresponding period in 2012. Loss attributable to the Shareholders was deteriorated to approximately HK$174.4 million for the eight months ended 30 November 2013, represented by a substantial increasing loss of approximately 169.6% from the loss in the corresponding period of approximately HK$64.7 million. As advised by the Directors, such deterioration was mainly due to the said increasing gross loss of approximately HK$87.4 million and the change in fair value of investment properties from an increase of approximately HK$37.2 million for the eight months ended 30 November 2012 to a decrease of approximately HK$17.4 million for the eight months ended 30 November 2013. The decrease in fair value change of investment properties was mainly due to one of the properties in the PRC had its business license revoked.

As for the assets and liabilities position of the Former Group, the net assets attributable to the Shareholders as at 30 November 2013 was approximately HK$302.6 million, representing further decrease in the net asset position since the financial year of 2011 as illustrated in Table I and a drop of approximately 36.0% as compared with approximately HK$472.9 million as at 31 March 2013, primarily attributable to the combined results of (a) a slight decrease in total assets of approximately HK$10.4 million, as a result of the decrease in investment properties, property, plant and equipment and inventories and the increase in the debtors, deposits and prepayment; and (b) a substantial increase in total liabilities of approximately HK$154.1 million resulted from the increase in creditors and accrued charges and borrowings between the said dates under review.

(ii) For the year ended 31 March 2013

The Former Group recorded a turnover of approximately HK$515.4 million for the year ended 31 March 2013, representing a drop of approximately 18.4% as compared to the prior financial year from approximately HK$631.8 million. The drop in sales was due to the withdrawal of digital imaging business line, strong competition and dwindling demand of TV market in North America brought by reduction in the selling price and orders of TV and DVD. Loss attributable to the Shareholders was improved from a loss of approximately HK$194.9 million in prior financial year to a loss of approximately HK$69.8 million for the financial year ended 31 March 2013. As advised by the management of the Company, such improvement was mainly due to (a) the decrease in distribution costs of approximately HK$73.1 million and administrative expenses of approximately HK$15.9 million as a result of the implementation of cost saving measures; and (b) the decrease in other losses of approximately HK$31.8 million in respect of allowance of doubtful debts, impairment loss in available-for-sale investments, goodwill and other receivables.

(iii) For the year ended 31 March 2012

For the year ended 31 March 2012, the turnover of the Former Group decreased slightly from approximately HK$637.6 million in prior financial year to approximately HK$631.8 million, representing a mild drop of approximately 0.9% was mainly due to the reduction of the selling price of digital imaging products. The Former Group recorded a loss attributable to the Shareholders of approximately HK$194.9 million for the year ended 31 March 2012, representing a substantial increase of loss approximately HK$153.7 million as compared with a loss of approximately HK$41.2 million in prior financial year. As advised by the management of the Company, such decrease in financial results was mainly attributable to the increase of cost of sales of approximately HK$38.6 million and overall increase in impairment of assets in other receivables, available-for-sale investments, property, plant and equipment and goodwill of approximately HK$54.4 million. The net assets attributable to the Shareholders as at 31 March 2012 was approximately HK$517.5 million, representing a decrease of approximately 23.3% as compared with approximately HK$674.7 million as at 31 March 2011.

2.2 *Financial information of the Remaining Subsidiaries*

Upon completion of the Group Restructuring and the Distribution In Specie, the Remaining Group only holds the Remaining Subsidiaries. The Remaining Subsidiaries are engaged in sale of electronic products such as karaoke, audio, video, musical instrument and clocks and other electronic products to external customers in the United States of America ("U.S.") and Canada. Set out below is the summary of the audited and unaudited financial information of the Remaining Subsidiaries, as extracted from notes to the accountants' report and review report of the SIH Group disclosed in Appendix III to the Composite Document:

Table II – Selected financial information of the Remaining Subsidiaries for the eight months ended 30 November 2013, and the three years ended 31 March 2013, 2012 and 2011

	For the eight months ended 30 November	For the year ended 31 March		
	2013	2013	2012	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
	(unaudited)	(audited)	(audited)	(audited)
Turnover	293.0	404.4	479.5	506.6
Gross profit	67.5	104.8	67.8	62.5
Profit/(loss) for the period/year	12.5	20.1	(41.6)	(25.6)

	As at 30 November	As at 31 March		
	2013	2013	2012	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
	(unaudited)	(audited)	(audited)	(audited)
Bank balances and cash	24.2	16.8	5.0	13.9
Borrowings	21.2	–	–	0.2
Net current liabilities	(92.9)	(127.3)	(134.5)	(105.4)
Net liabilities	(50.4)	(87.9)	(108.2)	(66.3)

Source: Review report and accountants' report of the SIH Group for the eight months ended 30 November 2013 and the three years ended 31 March 2013, 2012 and 2011 disclosed in Appendix III to the Composite Document.

(i) For the eight months ended 30 November 2013

The Remaining Subsidiaries recorded a turnover of approximately HK$293.0 million for the eight months ended 30 November 2013, with a slightly decline in gross profit margin of approximately 23.0% as compared to 25.9% for the year ended 31 March 2013, resulting from (a) further decline in demand for LCD TV sets produced by the members of the Group which are transferred to the Creditors' Scheme upon it becoming effective as described in the Circular (the "**Scheme Subsidiaries**"), with an increasing cost of sales for the eight months ended 30 November 2013; and (b) excess inventory of karaoke products by retail customers of the Remaining Subsidiaries from last year coupled with production delay from several of vendors of the Remaining Subsidiaries led to decrease in sales and gross profit margin. Net profit of the Remaining Subsidiaries was recorded at approximately HK$12.5 million for the eight months ended 30 November 2013.

The net liabilities of the Remaining Subsidiaries as at 30 November 2013 was recorded at approximately HK$50.4 million, representing an improvement of 42.7% from net liabilities of approximately of HK$87.9 million as at 31 March 2013, as mainly attributable to the combined results of (a) the decrease in inventories, amounts due from ultimate holding company and fellow subsidiaries of approximately HK$37.9 million, HK$74.1 million and HK$228.1 million, respectively; (b) the increase in debtors, deposits and prepayments of approximately HK$108.5 million; (c) the increase in creditors and accrued charges and amount due to ultimate holding company of approximately HK$53.4 million and HK$118.3 million, respectively; and (d) decrease in amounts due to fellow subsidiaries of approximately HK$451.5 million. The inter-company balances of the Remaining Subsidiaries were set-off and assigned to the extent practicable to facilitate the Group Restructuring, the Disposal and the Distribution in Specie, resulting in substantial changes in the inter-company balances.

(ii) For the year ended 31 March 2013

The Remaining Subsidiaries recorded a turnover of approximately HK$404.4 million for the year ended 31 March 2013, representing a continuous drop of approximately 15.7% as compared to the prior financial year from approximately HK$479.5 million. The Remaining Subsidiaries had continued to increase market share of home karaoke system and recorded approximately 16% increase in sales of karaoke products. However, the continuous drop in sales was mainly attributable to the withdrawal of digital imaging business line, the continuous decline in orders of TV and DVD sales as resulted from the increasing competition and the dwindling demand of TV market in North America brought by reduction in the selling price and orders of TV and DVD. Net profit of the Remaining Subsidiaries was improved from a loss of approximately HK$41.6 million in prior financial year to a profit of approximately HK$20.1 million for the financial year ended 31 March 2013. As advised by the Directors, such improvement was mainly attributable to (a) the increase in gross profit for the financial year ended 31 March 2013 in terms of the increasing gross profit margin from approximately 14.1% in the prior financial year to approximately 25.9% as a result of increasing proportion of sales of home karaoke products which were less affected by the price competition and yielded higher margin; and (b) the decrease of taxation are primarily arising from tax credit on recognition of previously unrecognised tax losses.

As for the assets and liabilities position of the Remaining Subsidiaries, the net liabilities of the Remaining Subsidiaries as at 31 March 2013 was recorded at approximately HK$87.9 million, representing an improvement of approximately 18.8% from net liabilities of approximately HK$108.2 million as at 31 March 2012, as attributable to the combined results of (a) the increase in deferred tax assets and bank balances and cash of approximately HK$12.4 million and HK$11.8 million, respectively; (b) the decrease in inventories and debtors, deposits and prepayments of approximately HK$14.2 million and HK$12.7 million, respectively; and (c) the decrease in amounts due to fellow subsidiaries of approximately HK$20.3 million.

(iii) For the year ended 31 March 2012

The Remaining Subsidiaries recorded a decrease in turnover for the year ended 31 March 2012 of approximately 5.3% from approximately HK$506.6 million in prior financial year to approximately HK$479.5 million as a result of the continuous fierce price competition in TV and DVD market. The Remaining Subsidiaries provided sales discounts to U.S. chain store customers for a longer period in the traditional peak season and successfully recorded a boost in sales. However, the Remaining Subsidiaries were not able to raise back the prices afterwards since its U.S. chain store customers requested the Remaining Subsidiaries to sell products to them at discounts. The Remaining Subsidiaries recorded a net loss of approximately HK$41.6 million for the year ended 31 March 2012, increased loss by approximately 62.5% when compared to a net loss for the year ended 31 March 2011 of approximately HK$25.6 million. As advised by the Directors, the increased loss is primarily resulted from combined results of (a) the increase in other income of approximately HK$8.6 million represented by the rising of gain in exchange differences and gain on sales of scrap materials; (b) the overall increase in other losses, distribution costs and tax expenses of approximately HK$35.1 million. The net liabilities of the Remaining Subsidiaries as at 31 March 2012 was recorded at approximately HK$108.2 million, representing an increase of approximately 63.2% from net liabilities of approximately HK$66.3 million as at 31 March 2011.

Notwithstanding the profitability of the Remaining Subsidiaries has been improved since the financial year of 2013, the Remaining Subsidiaries has recorded a continuous net current liabilities and net liabilities as at 31 March 2011, 2012 and 2013 and as at 30 November 2013, of which these liquidity position potentially indicate significant pressure on operating cash flows in near future.

2.3 *Unaudited pro forma financial information of the Remaining Group*

According to the unaudited pro forma financial information of the Remaining Group as disclosed in Appendix IV to the Composite Document, assuming the Group Restructuring, the Distribution In Specie, the Disposal and the issue of the Convertible Bonds had taken place on 1 April 2013, the Remaining Group would record a pro forma profit attributable to the Remaining Group of approximately HK$390.6 million for the eight months ended 30 November 2013, as compared a loss of approximately HK$174.4 million of the Former Group for the eight months ended 30 November 2013, such improvement were primarily attributable to pro forma adjustments by (a) excluding net loss on deconsolidation of the Scheme Subsidiaries of approximately HK$175.9 million; (b) excluding net profit on deconsolidation of the Privateco Group of approximately HK$295.1 million; (c) gain on the elimination of inter-company transactions of approximately HK$430.8 million; (d) gain on disposal of the Scheme Subsidiaries of approximately HK$275.8 million; and (e) interests expenses on issue of the Convertible Bonds, amount paid for implementation of the Creditors' Scheme and restructuring costs. Thus, the Remaining Group has recorded gain on deconsolidation of the Scheme Subsidiaries of approximately HK$275.8 million and reversal of provision for amounts due from fellow subsidiaries of approximately HK$134.6 million which are recognised as non-recurring and extraordinary income, following the pro forma adjustments of (b), (c) and (d) above. The pro forma gross profit of the Remaining Group for the eight months ended 30 November 2013 would be approximately HK$67.5 million, which represented a positive effect from the Former Group's gross loss of approximately HK$38.3 million. However, the Remaining Group will be loss making by excluding those non-recurring income following the pro forma adjustments as discussed above and also there is no guarantee to the Remaining Group's profitability from the trading of electronic products business which eventually brings uncertainty to the Remaining Group's financial and trading position in future is uncertain.

Assuming the Group Restructuring, the Distribution In Specie, the Disposal and the issue of the Convertible Bonds had taken place on 30 November 2013, the pro forma total assets of the Remaining Group would be approximately HK$335.2 million, mainly comprising of (a) debtors, deposits and prepayments of approximately HK$141.6 million; (b) bank balances and cash of approximately HK$83.3 million; and (c) inventories of approximately HK$66.6 million, representing a substantial decrease of approximately HK$340.1 million from the Former Group's total assets. Such decrease is mainly attributable to (a) the decrease in the investment properties of approximately HK$259.5 million; (b) the decrease in the property, plant and equipment of approximately HK$74.5 million; (c) the increase in bank balances and cash of approximately HK$38.6 million; and (d) the decrease in inventories of approximately HK$27.9 million, as a result of deconsolidation of the Privateco Group and the Scheme Subsidiaries and the issue of the Convertible Bonds. The pro forma total liabilities of the Remaining Group would be approximately HK$259.1 million, mainly comprising of (a) creditors and accrued charges of approximately HK$162.8 million, and (b) convertible bonds of approximately HK$75.1 million, representing a decrease of approximately HK$96.1 million as compared with the total liabilities of the Former Group of approximately

HK$355.2 million. Such decrease is mainly attributable to (a) the decrease in borrowing of approximately HK$137.3 million; and (b) the increase in convertible bonds of approximately HK$39.0 million.

The pro forma net current assets of the Remaining Group as at 30 November 2013 would be approximately HK$72.5 million, represented an increase of approximately HK$133.7 million from the Former Group's net current liabilities of approximately HK$61.2 million. The pro forma net assets of the Remaining Group as at 30 November 2013 would be deteriorated from the Former Group's net assets of approximately HK$320.2 million to approximately HK$76.1 million, which represented a drop of approximately HK$244.1 million. In addition, the gearing ratio of the Remaining Group is improved from approximately 0.50 times to approximately 0.28 times. Accordingly, the gearing and liquidity position of the Remaining Group shall be improved and the bank borrowings shall be decreased to approximately HK$21.2 million from approximately HK$158.6 million as a result of the deconsolidation of the Privateco Group and the Scheme Subsidiaries.

2.4 Prospect and outlook of the Remaining Group

(i) Overview of the global economy

The Remaining Group is principally trading electronic products such as karaoke, audio, video, musical instrument and clocks and other electronic products, which being classified as the audio and video equipment. The electronic products industry is primarily driven by global economic cycle and consumer demands. Set out below is the chart showing the trend of the gross domestic product ("**GDP**") in global, U.S. and Canada from the year of 2008 to 2015:

Table III – The GDP in global, U.S., and Canada between the year of 2008 and 2015

GDP (year-on-year growth %)	2008	2009	2010	2011	2012	2013	2014 *(Note)*	2015 *(Note)*
Global	2.8	(0.7)	5.1	3.9	3.2	3.0	3.6	3.9
U.S.	(0.3)	(2.8)	2.5	1.8	2.8	1.9	2.8	3.0
Canada	1.2	(2.7)	3.4	2.5	1.7	2.0	2.3	2.4

Source: The report of "World Economic Outlook" issued by International Monetary Fund in April 2014.

Note: The GDP for the year of 2014 and 2015 are projected figures.

According to the latest report of "World Economic Outlook" (the "**Economic Report**") issued by International Monetary Fund (the "**IMF**") in April 2014, the global economy is recovering and is expected to be positive in short run. The global GDP is projected to grow from 3.0% in 2013 to 3.9% in 2015. The GDP growth in U.S. is mainly driven by the accommodative monetary policy, the recovering real estate sector and the moderate fiscal consolidation, which is expected to rise from 1.9% in 2013 to 3.0% in 2015. The GDP in Canada is projected to grow from 2.0% in 2013 to 2.4% in 2015, due to rising in external demand for export and business investment.

(ii) The consumer electronic products industry in U.S. market

The economy in U.S. grows at a faster pace than expected since second half of 2013, led by increasing residential investment, robust inventory accumulation and strong export growth. The economic growth also implies a solid personal consumption, the improved employment condition, the reduction in household debt and the lower in interest rates. The disposable personal income is possible correlated positively with consumer consumption and reflects the overall state economy. According to the U.S. Census Bureau, the disposable personal income (year-on-year) in U.S. increased by 3.9% and 1.9% for the year of 2012/11 and 2013/12 respectively, indicated a slowdown increment of consumer consumption. According to the Economic Report issued by the IMF, the unemployment rate in U.S. fell to 6.7% in February 2014 from 9.6% in 2010, indicating a possible increase in consumer consumption. However, such decline is partly due to the reduction in labor force participation so as to the wages increment is expected to be sluggish, which might affect the personal consumption adversely.

According to the report of "Investing in the United State of America" in 2013 issued by the Economist Intelligence Unit, a global provider of country, in industry and management analysis, on the demand of household audio and video equipment, the demand in U.S. has increased steadily from approximately US$33 billion in 2009 to approximately US$36 billion in 2012 and is projected to approximately US$37 billion in 2013. Such upward trend was mainly attributable to the increasing demand of the digital music, digital book and digital film, which will also lead to phase out legacy products. However, the pace of innovation has been slowed down and hence the technological advancement becomes the major challenge for most of the consumer electronic products companies.

According to the statistics from U.S. Census Bureau, the domestic supply of audio and video equipment has recorded severe decline since 2009, which represented a drop of approximately 35.5% in 2009/08 and approximately 37.3% in 2010/09. Notwithstanding the domestic supply has restored since the year of 2012, the projected domestic supply for the year of 2013 increase by approximately 11.9% to approximately US$3,384 million. However, the domestic supply in 2013 performs significantly below the domestic supply of approximately US$7,671 million in 2008, which may indicate the recession in the audio and video equipment manufacturing sector in the U.S. market.

(iii) The consumer electronic products industry in Canada market

According to the Economic Report, the unemployment rate in Canada drop to 7.1% in 2013 from 8.3% in 2009, indicating possible rise in consumer consumption. Despite consumer expenditure might be increased due to a better economic situation, the demand of audio and video equipment in Canada is experiencing a declining trend. According to the Canada Census Bureau, the PRC is the largest import country of audio and video equipment in Canada, the value of import is accounted for approximately US$2,009 million in 2012 and approximately US$1,772 million in 2013, representing a decline of approximately 7.2% in 2012/11 and approximately 11.8% in 2013/12, illustrated a consecutive drop in demand of the consumer electronic products in Canada market.

(iv) Overview of the consumer electronic products industry

The recovery of U.S. economy may bring positive effect on consumer electronic products industry. Increased disposable personal income, lower unemployment rate and higher consumer confidence might encourage the consumer spending and increase the demand of audio and video equipment. While the said macroeconomic aspects lead to a positive trend, other specific factors including consumer preference, technology innovation, infrastructure development, product life cycle and intense competition in consumer electronic products market shall impact the industry and the Remaining Business in U.S. On the other hand, the audio and video equipment in Canada market is not optimistic despite the overall economic situation is moderately improving. Continuously decline in import value potentially indicates a decreasing demand for consumer electronic goods, in particular that the audio and video equipment is potentially facing critical challenges in the near future. Hence, the demand of the consumer electronic products sold by the Remaining Group in U.S. and Canada market remains uncertain.

(v) The implementation of the Creditors' Scheme

Reference is made to the Circular and the announcement dated 26 June 2014 in relation to, among others, the completion of the Group Restructuring and the Distribution In Specie, the Scheme Subsidiaries are transferred to a holding company deployed by the administrators for realisation for the benefit of the creditors of the Company who are subject to the Creditors' Scheme when the Creditors' Scheme has become effective. Upon the Creditors' Scheme becoming effective, the Company will proceed with the Disposal and is expected that the deconsolidation of the Scheme Subsidiaries will improve financial performance and position of the Remaining Group. As advised by the Directors, the Group's manufacturing operation (with the Scheme Subsidiaries being principally engaged in manufacturing and selling of electronic products to the Remaining Group or the Privateco Group for sale to external customers) is facing escalating manufacturing costs in the PRC and appreciation of Renminbi which in turn affect the competitiveness and the profitability of the Group. The falling demand and selling prices, together with the rising manufacturing costs, have caused wasted capacity of the manufacturing operations of the Group and substantial losses to the Group. The continuous losses have affected the Group's financial position and cash flow, as evidenced by the decline in net asset value and negative cash flow from operation for the three financial years ended 2011, 2012 and 2013 and for the eight months ended 30 November 2013. In light of the terms of the Creditors' Scheme are yet to be formulated and are subject to discussion with the creditors of the Company, the business operation and financial condition of the Remaining Group may be adversely affected by the continuing deterioration of the manufacturing operation in the event that the Company fail to implement the Creditors' Scheme successfully. Details of the Creditors' Scheme are disclosed in the section headed "H. Proposed Creditors' Scheme" under "Letter from the Board" in the Circular dated 24 May 2014.

There is no assurance that the Creditors' Scheme will be successfully implemented and completed. The Creditors' Scheme is subject to the approval from the creditors and sanctions from the high court of Hong Kong and Bermuda Court. Details of the Creditors' Scheme will be disclosed in further announcement to be issued by the Company when any developments take place.

3. Background of and its intention of the Offeror

3.1 Information of the Offeror

As stated in the "Letter from Kingston Securities", the Offeror and parties acting in concert with it are interested in total of 1,076,758,361 Shares, representing approximately 52.94% of the issued share capital of the Company as at the Latest Practicable Date. The Offeror is an investment holding company incorporated in Samoa with limited liability on 21 November 2013. The Offeror's entire issued share capital is registered in the name of Mr. Wang Xing Qiao, who is holding the same on trust for Hong Kong Shihua and is the sole director of the Offeror. The Offeror's ultimate holding company is Liaoning Shihua Property, which is a company established under the laws of the PRC on 12 January 1998 and is principally engaged in property development, property leasing, sales of construction materials, outdoor and shop advertising, and vehicle storage in the PRC, focusing on Liaoning province. As at the Latest Practicable Date, Liaoning Shihua Property is owned as to approximately 82.8% by Mr. Wang Jing, approximately 16.0% by Ms. Wang Yi Qiao and approximately 1.2% by Ms. Hu Bao Qin. Mr. Wang Jing is the sole director of Liaoning Shihua Property. Mr. Wang Jing and Ms. Hu Bao Qin are spouses to each other. Ms. Wang Yi Qiao and Mr. Wang Xing Qiao are the daughter and the son of Mr. Wang Jing respectively. Please refer to the section headed "(III) Information of the Offeror" under "Letter from Kingston Securities" to the Composite Document for more information.

3.2 Intention of the Offeror regarding the Remaining Group

Following the close of the Listco Offers, the Offeror intends to continue the Remaining Business of the Group. The Offeror will conduct a review on the financial position and the operations of the Company and will formulate long-term business plans and strategy of the Company, explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Company. Should such corporate actions materialise, further announcement(s) will be made by the Company in accordance with the Listing Rules. As set out in the "Letter from the Kingston Securities", save for the proposed change in the Board composition and subject to the result of the Offeror's review of the Company, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) implement major changes in the business of the Group, including the redeployment of the fixed assets of the Company other than those in its ordinary and usual course of business. Further details of the intention of the Offeror and the proposed changes in the Board composition, please refer to the section headed "(IV) Future intention of the Offeror in relation to the Company" under "Letter from Kingston Securities" to the Composite Document.

Furthermore, the Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Listco Offers. In the event that after the completion of the Listco Offers, the public float of the Company falls below 25%, the new Directors who will be nominated by the Offeror and to be appointed as Directors and then directors of the Offeror and the Company will undertake to the Stock Exchange that they will take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible following the close of the Listco Offers to ensure that sufficient public float exists for the Shares.

In view of that (i) the Offeror will conduct a review of the operations following the completion of the Listco Offers; (ii) the uncertainly outlook of the consumer electronic products industry as discussed in the section headed "2.4 Prospect and outlook of the Remaining Group" above and the nature of the consumer electronic products industry being traditionally characterized by constant changes in technological advancement and customer requirements, hence the ability of the Remaining Business to maintain its growth by effectively addressing the needs of the existing and prospective customers remains uncertain; (iii) the prevailing loss making track record of the Group for the past five consecutive financial years ended 31 March 2013 and continuous loss making for the eight months ended 30 November 2013 as published in the announcement of the Company dated 23 May 2014 in relation to the unaudited results for the eight months ended 30 November 2013; (iv) the consecutive net current liabilities and net liabilities position of the Remaining Subsidiaries as at 31 March 2011, 2012 and 2013 and 30 November 2013; and (v) the potential adverse effects to the Remaining Group in the event that the Creditors' Scheme fail to implement, we consider that there is no guarantee that the prospects of the Remaining Group will have a significant improvement in the near future and hence the future prospect of the Remaining Group is uncertain.

4. Principal terms of the Listco Offers

Assuming that no Share Options are exercised prior to the close of the Listco Offers, 957,050,124 Shares and 1,256,157 Share Options are subject to the Share Offer and the Option Offer respectively, and the Listco Offers are valued at approximately HK$164.6 million in aggregate.

Kingston Securities, on behalf of the Offeror and in compliance with the Takeovers Code, is making the Listco Offers to (i) acquire all the Offer Shares; and (ii) cancel all the outstanding Share Options, on the following basis:

4.1 The Share Offer

For every Offer Share held . . . . HK$0.1720 in cash

The Share Offer Price is the same as the purchase price per Sale Share under the Sale and Purchase Agreement which was arrived at after arm's length negotiations between the Offeror and the Vendors. The Share Offer Price of HK$0.172 per Share represents:

(a) a discount of approximately 20.0% to the closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date of HK$0.215 per Share;

(b) a discount of approximately 31.2% and 29.2% to the closing price of HK$0.250 and HK$0.243 per Share as quoted on the Stock Exchange on the last trading day before the MOU Announcement (i.e. 31 December 2013) and on the last full trading day before the MOU Announcement (i.e. 30 December 2013);

(c) a discount of approximately 33.8% to the closing price of HK$0.260 per Share as quoted both on the Stock Exchange on the Last Trading Day (i.e. 30 January 2014) and 29 January 2014, being the last full trading day for the Shares immediately preceding the Last Trading Day;

(d) a discount of approximately 35.1%, 36.3%, 35.3% and 12.2% to the average of the closing price per Share of HK$0.265, HK$0.270, HK$0.266 and HK$0.196 for the last 5, 10, 30 and 90 consecutive trading days up to and including the Last Trading Day; and

(e) a premium of approximately 364.9% over the unaudited pro forma consolidated net assets attributable to the shareholders of the Remaining Group as at 30 November 2013 of approximately HK$0.037 per Share based on the unaudited pro forma financial information of the Remaining Group as disclosed in Appendix IV to the Composite Document and the issued share capital of the Company as at 30 November 2013.

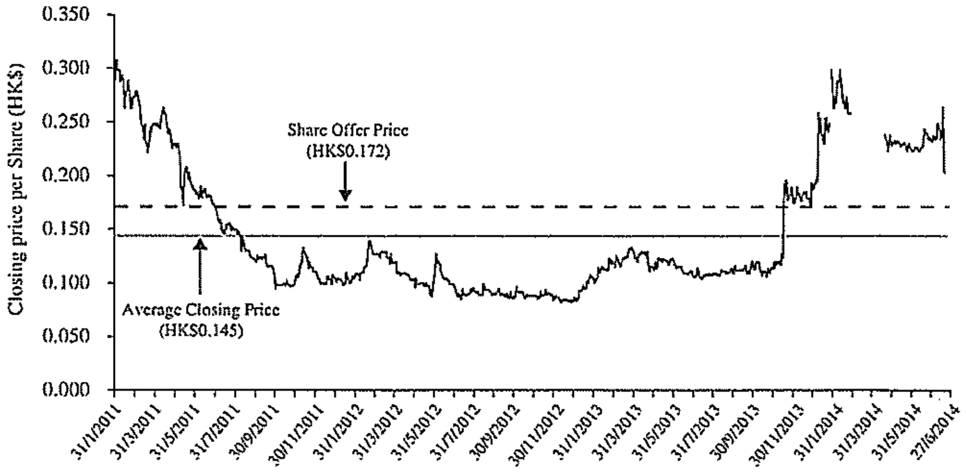
Further information of the making of the Listco Offers in relation to Hong Kong stamp duty, payment, taxation, the Shareholders or the Optionholders residing in overseas countries and other matters related to the Listco Offers, are set out in the section headed "(II) The Listco Offers" under "Letter from Kingston Securities" to the Composite Document.

(i) Historical price performance of the Shares

Set out below are charts showing the daily closing prices and daily trading volume of the Shares as quoted on the Stock Exchange for the period from 31 January 2011 (being the first trading day of the three years ending on the Last Trading Day) up to and including the Latest Practicable Date (the "**Review Period**"), we consider that such three-year period would be a long enough period to smooth out the effects of any short-term fluctuations in the stock market for our analysis on the Share Offer Price.

Chart I – Closing price per Share on the Stock Exchange

Closing Price per Share on the Stock Exchange



Source: The website of the Stock Exchange (www.hkex.com.hk) and Bloomberg (www.bloomberg.com).

Note: Trading in the Shares was suspended on 2 January 2014 and from 4 February 2014 to 21 March 2014, pending the release of the MOU Announcement and the release of the Joint Announcement, respectively.

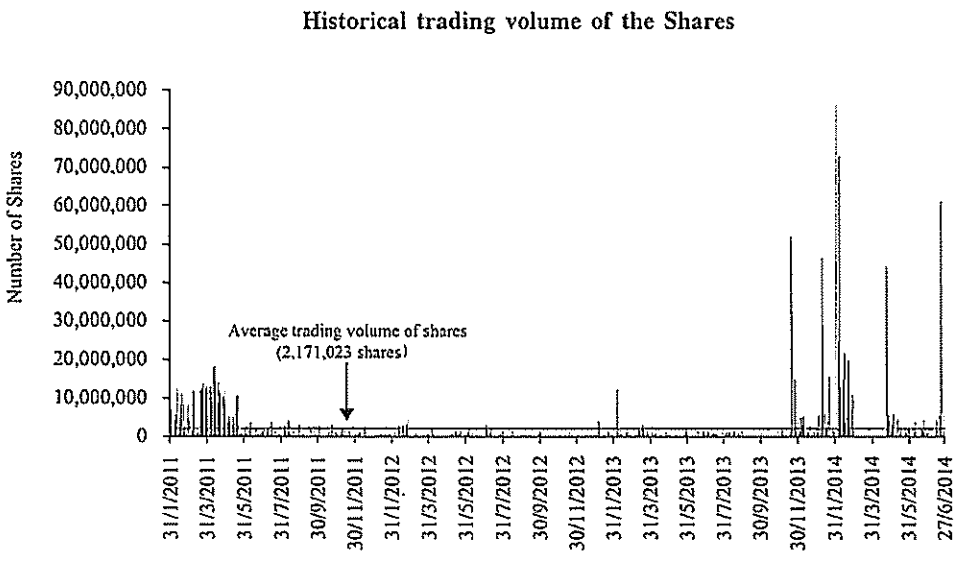
During the Review Period, the lowest closing price was HK$0.083 per Share on 21, 22 November 2012 and 6 December 2012 and the highest closing price was HK$0.310 per Share on 2 February 2011, with the average of the closing price of the Shares during the Review Period of approximately HK$0.145 per Share (the "**Average Closing Price**"). The Share Offer Price represents a premium of approximately 107.2% over the said lowest closing price per Share, and a discount of approximately 44.5% to the said highest closing price per Share during the Review Period, whilst the Share Offer Price also represents a premium of approximately 18.6% over the Average Closing Price during the Review Period. Based on the chart above, it can be noted that the closing price of the Shares (i) was peaked at HK$0.310 per Share on 2 February 2011 and then fell further in the following eight months to HK$0.096 per Share on 26 September 2011; (ii) hovered between HK$0.100 per Share and HK$0.150 per Share in the following two years from September 2011 to September 2013; (iii) resumed a substantial uptrend since end of October 2013 and peaked at HK$0.300 per Share during the early January 2014 following the release of the MOU Announcement; and (iv) hovered between HK$0.200 and HK$0.250 per Share following the release of the Joint Announcement and up to the Latest Practicable Date. Save for the release of the MOU Announcement and the Joint Announcement, the Directors confirmed that they were not aware of the reasons for the changes in price and trading volume of the Shares during the Review Period. Notwithstanding the closing prices during the relevant periods referred to (iii) and (iv) represented the premiums over the Share Offer Price, it should be noted that such comparison may not be indicative since (a) the surge in Share price may likely be driven by the market speculation rather than fundamentals of the Company; (b) the existing market price of the Shares following the period from the release of MOU Announcement up to the completion of the Group Restructuring and the Distribution In Specie reflects the investors' perceived value of the Former Group rather than the Remaining Group; and (c) the Shares closed at the Share Offer Price of HK$0.172 or higher in 232 days out of 802 days during the Review Period, indicated the Shares are mostly traded below the Share Offer Price as well as the 12-month Review Period as discussed below.

We also note that for the past 12-month period up to and including the Last Trading Day (i.e. during the period from 31 January 2013 to 30 January 2014) (the "**12-month Review Period**"), the highest closing price of the Shares as quoted on the Stock Exchange was HK$0.300 on both 3, 16 January 2014; and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.105 on 24, 25 June 2013, with the average of closing price of approximately HK$0.146 per Share. The Share Offer Price represents a premium of approximately 17.8% over the average closing price during the 12-month Review Period. In addition, the Shares closed at the Share Offer Price or higher in 67 days out of the 243 days during the 12-month Review Period. Accordingly, for most parts of the Review Period and the 12-month Review Period, the prices of Shares hovered below the Share Offer Price.

The Independent Shareholders who wish to realize their investment in the Shares are reminded that they should carefully and closely monitor the market price of the Shares during the offer period and consider selling their Shares in the open market during the offer period, rather than accepting the Share Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Share Offer. On the other hand, we consider that the Share Offer provide an alternative exit to the Independent Shareholders to realise their investment in the Company at the Share Offer Price.

(ii) The Liquidity

Chart II – Historical trading volume of Shares



Source: The website of the Stock Exchange (www.hkex.com.hk) and Bloomberg (www.bloomberg.com).

Note: Trading in the Shares was suspended on 2 January 2014 and from 4 February 2014 to 21 March 2014, pending the release of the MOU Announcement and the release of the Joint Announcement, respectively.

The trading volume of the Shares was relatively thin during the Review Period, with average daily trading volume of the Shares of approximately 2,171,023 Shares, representing approximately 0.1% of the average number of issued share capital of the Company during the Review Period. We also note that the average daily trading volume of approximately 3,095,275 Shares during the 12-month Review Period represents approximately 0.2% of the average number of issued share capital of the Company during the 12-month Review Period.

Save for the relatively high monthly trading volume in the month of January and March 2014 with the highest daily trading volume recorded on 3 January 2014 which is more likely the result of market speculation in relation to the MOU Announcement and the Joint Announcement, having considered the relatively thin trading volume of the Shares for most of the time under the Review Period as well as the 12-month Review Period, representing approximately 0.1% under the Review Period and approximately 0.2% during the 12-month Review Period of the average number of issue share capital of the Company during the relevant period respectively, the liquidity of the Shares in the Review Period has played out similarly to the patterns as the 12-month Review Period. Hence, we are of the view that analysis of the trading volume of the Shares during the 12-month Review Period is appropriate for our following analysis on the liquidity of the Shares. Hence, we have extracted the following table on the trading volume of the Shares during the 12-month Review Period and up to and including the Latest Practicable Date:

Table IV – Historical trading volume of the Shares

Month	Total monthly trading volume *(in number of shares)*	Approximate average daily trading volume *(in number of shares)* *(Note 1)*	Percentage of average daily trading volume to total number of issued Shares *(Approximately %)* *(Note 2)*	Percentage of average daily trading volume to number of Share held by the public float *(Approximately %)* *(Note 3)*
2013				
January (on 31 January 2013 only)	1,050,000	1,050,000	0.07%	0.12%
February	19,327,180	1,136,893	0.07%	0.13%
March	10,604,632	530,232	0.03%	0.06%
April	5,662,000	283,100	0.02%	0.03%
May	9,453,109	450,148	0.03%	0.05%
June	10,271,454	540,603	0.03%	0.06%
July	11,247,514	511,251	0.03%	0.06%
August	4,288,343	204,207	0.01%	0.02%
September	4,447,147	222,357	0.01%	0.02%
October	151,412,976	7,210,142	0.44%	0.78%
November	36,501,000	1,738,143	0.11%	0.19%
December	128,409,189	6,420,459	0.32%	0.70%
2014				
January *(Note 4)*	359,477,364	17,117,970	0.86%	1.85%
February *(Note 4)*	–	–	N/A	N/A
March *(Note 4)*	69,681,067	11,613,511	0.58%	1.26%
April	31,608,948	1,580,447	0.08%	0.17%
May	26,118,817	1,305,941	0.06%	0.14%
June (up to and including the Latest Practicable Date)	109,828,445	5,780,444	0.28%	0.62%

Source: The website of the Stock Exchange (www.hkex.com.hk) and Bloomberg (www.bloomberg.com)

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.

2. Calculated based on the average of the number of issued Shares in each relevant month during the 12-month Review Period and up to and including the Latest Practicable Date.

3. Calculated based on the average of the number of Shares held by the public in each month during the 12-month Review Period and up to and including the Latest Practicable Date as extracted from Bloomberg. The public represents the Shareholders excluding the Directors or senior officer of the Company or any person or entity beneficially owned more than 10% of the Company's voting Shares.

4. Trading in the Shares was suspended on 2 January 2014 and from 4 February 2014 to 21 March 2014, pending the release of the MOU Announcement and the release of the Joint Announcement, respectively.

As illustrated in the table above, during the 12-month Review Period and up to and including the Latest Practicable Date, the average daily trading volume of the Shares as a percentage of the average total issued Shares ranged from approximately 0.01% to 0.86% while the average daily trading volume of the Shares as a percentage of the average total number of the Shares held by the public float ranged from approximately 0.02% to 1.85%. It should be noted that the average daily trading volume of the Shares was below 0.50% of the total number of issued Shares in each relevant month during the 12-month Review Period and up to and including the Latest Practicable Date and below 1% of the average public float during the 12-month Review Period and up to and including the Latest Practicable Date except for the recent increase in the daily trading volume for the months of January and March 2014 following the release of the MOU Announcement and the Joint Announcement.

In view of the general low liquidity of the Shares during the 12-month Review Period and up to and including the Latest Practicable Date (save for the substantial increase for the months of January and March 2014 in trading volume of the Shares following the release of the MOU Announcement and the Joint Announcement), we are of the opinion that there may not be sufficient liquidity in the Shares for the Independent Shareholders to dispose their Shares in the open market without exerting a downward pressure on the price of the Shares. We therefore consider that the Share Offer provides an alternative exit to the Independent Shareholders to realise their investments in the Shares.

(iii) Comparison with comparable companies

In order to access the fairness and reasonableness of the Share Offer Price, we have considered two commonly adopted approaches in evaluation of a company, being price-to-earnings approach and price-to-book approach ("**PBR**"). Notwithstanding the Remaining Group recorded unaudited pro forma net profit attributable to the Remaining Group of approximately HK$390.6 million for the eight months ended 30 November 2013 according to the unaudited pro forma financial information of the Remaining Group for the eight months ended 30 November 2013 as disclosed in Appendix IV to the Composite Document, the Remaining Group has recorded gain on deconsolidation of the Scheme Subsidiaries of approximately HK$275.8 million and reversal of provision for amounts due from fellow subsidiaries of approximately HK$134.6 million which are recognised as non-recurring and extraordinary income, following the pro forma adjustments. Conversely, the Remaining Group will be loss making excluding these non-recurring incomes. As such, we are of the view that the price-to-earnings multiple of the Remaining Group is not appropriate for analysis with comparable companies.

Alternatively, we have adopted the PBR and conducted searches from the public domain and have identified 4 companies (the "**Comparables**"), being an exhaustive list, which (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in similar principal activities (but not the identical business) as the Group, i.e. the manufacturing and/or sale of electronic products (including but not limited to sounds system and audio-visual electronic products); (iii) with each of its turnover of the manufacturing and/or sale of related electronic products accounting for over 90% of the total turnover for the latest financial year as set out in their latest published annual reports; and (iv) had a market capitalisation of less than HK$1,000 million as at the Last Trading Day, and compared their PBR to that of the Remaining Group as implied by the Share Offer Price. Based on the aforesaid selection criteria, we consider the Comparables represent fair and representative samples considering that (a) the Comparables are engaged in principal business similar to that of the Remaining Group, i.e. manufacture and/or sale of electronic products, and with the majority of the turnover generated from the such business segment for the latest financial year, the PBR of these companies could reflect how the market values companies taking part in such industry; and (b) the Comparables with a market capitalisation of less than HK$1,000 million are similar to the prevailing market capitalisation of the Company, of which its market capitalisation was less than HK$1,000 million since the early year of 2008, which could provide a general reference when assessing the fairness and reasonableness of the Share Offer Price. The list of the Comparables and their respective PBR, which is exhaustive, are set out below:

Table V – Comparison with the Comparables

Company (Stock code)	Principal business	Closing Price at the Last Trading Day *(HK$)* *(Note 1)*	Market Capitalisation as at the Last Trading Day *(HK$ million)* *(Note 1)*	NAV to equity holders per share *(HK$/share)* *(Note 2)*	PBR *(times)*
Alco Holdings Ltd. (328.HK)	Designing, manufacturing and selling consumer electronic products and plastic products	1.34	777.3	3.20	0.4
Suga International Holdings Ltd. (912.HK)	Research and development, manufacturing and sales of electronic products, moulds and plastic products	1.80	490.1	1.81	1.0
Tonly Electronics Holdings Ltd. (1249.HK)	Research and development, manufacturing and sales of audio visual products (excluding TV sets)	6.17	822.6	3.19	1.9
Shinhint Acoustic Link Holdings Ltd (2728.HK)	Sales of communication peripheral, portable audio, desktop audio and speaker drivers	0.7	225.1	0.81	0.9
				Mean	1.1
				Max	1.9
				Min	0.4
The Remaining Group (485.HK)		0.172 (being the Share Offer Price)	519.4	0.037 (as at 30 November 2013)	4.6 *(Note 3)*

Source: The website of the Stock Exchange (www.hkex.com.hk).

Notes:

1. Based on the respective closing prices on the Last Trading Day and number of shares in issue as at 31 January 2014.

2. Based on the latest financial data as published in their respective annual/interim/quarterly reports or result announcement up to the Last Trading Day.

3. The implied PBR is calculated based on the Share Offer Price of HK$0.172 over the unaudited pro forma consolidated net asset value attributable to the Remaining Group per Share of approximately HK$0.037 as at 30 November 2013 according to the unaudited pro forma financial information of the Remaining Group for the eight months ended 30 November 2013 as disclosed in Appendix IV to the Composite Document.

As illustrated in the Table V above, the PBR of the Comparables ranged from approximately 0.4 times to approximately 1.9 times, with an average of approximately 1.1 times. The implied PBR of the Remaining Group as represented by the Share Offer Price of approximately 4.6 times, is significantly higher than (i) the highest of the PBR of the Comparables, representing a premium of 142.1% over the said highest of the PBR; and (ii) the average of the PBR of the Comparables, representing a premium of approximately 318.2% over the average PBR.

Despite the Share Offer Price represents (a) a discount of approximately 35.1%, 36.3%, 35.3% and 12.2% to the average of the closing price per Share for the last 5, 10, 30 and 90 consecutive trading days up to and including the Last Trading Day, respectively; (b) a discount of approximately 31.2% and 29.2% to the closing price of the last trading day and the last full trading day before the MOU Announcement, respectively; (c) a discount of approximately 33.8% to the closing price on both the Last Trading Day and the last full trading day before the Last Trading Day; and (d) a discount of approximately 20.0% to the closing price on the Latest Practicable Date, having considered that (i) the Share Offer Price represents a premium of approximately 364.9% over the unaudited pro forma consolidated net assets attributable to shareholders of the Remaining Group of approximately HK$0.037 per Share as at 30 November 2013; (ii) the Share Offer Price represents a premium of approximately 18.6% and 17.8% over the Average Closing Price and average closing price during the 12-month Review Period; (iii) the implied PBR of the Remaining Group by the Share Offer Price represents a premium of approximately 142.1% and 318.2% over the highest and average of the PBR of the Comparables, respectively; (iv) the outlook and prospect of the Remaining Group is uncertain as discussed above in the paragraph headed "Overview of the consumer electronic products industry" and "The implementation of the Creditors' Scheme" under section "2.4 Prospect and outlook of the Remaining Group", and its prospect set out under the section headed "3.2 Intention of the Offeror regarding the Remaining Group"; and (v) the Share Offer provides an alternative exit to the Independent Shareholders to realise their investment in the Company at the Share Offer Price without exerting a downward pressure on the price of the Shares when disposing of a large number of Shares in the open market, we are of the view that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

4.2 The Option Offer

As at the Latest Practicable Date, the Company has outstanding Share Options conferring rights on the Optionholders to subscribe for up to an aggregate of 1,256,157 Shares, of which:

a. 701,580 Share Options are vested and exercisable at HK$0.2228 per Share during an exercise period from 23 January 2008 to 20 January 2018; and

b. 554,577 Share Options are vested and exercisable at HK$0.2053 per Share during an exercise period from 28 January 2008 to 25 January 2018.

Based on the closing price per Share of HK$0.215 as quoted on the Latest Practicable Date, all the outstanding Share Options were out-of-money. As stated in the "Letter from Kingston Securities" to the Composite Document, based on the following Option Offer Prices for the cancellation of each outstanding Share Options, the total consideration of the Option Offer would be HK$12,561.57.

The Option Offer Price:

For cancellation of each Share Option with exercise prices of HK$0.2053 and HK$0.2228 per Share . . . . HK$0.01 in cash

Further terms of the Option Offer is set out in the "Letter from Kingston Securities" and Appendix I to the Composite Document.

The Share Options in (a) and (b) illustrated above are out-of-money as the respective exercise prices per Share are higher than the Share Offer Price and the closing price of HK$0.215 per Share as at the Latest Practicable Date. Accordingly, they have no intrinsic value and therefore make an offer to pay to the Optionholders a nominal value of HK$0.01 in cash in respect of every outstanding Share Options above to which the Optionholders are entitled to subscribe under the Share Options held by them, in consideration for such Share Options will be lapsed automatically upon the close of the Share Offer. We consider that the Option Offer Price is set at a nominal value as the Share Options are currently out-of-money, which is considered to be acceptable.

RECOMMENDATION

Notwithstanding that the Share Offer Price represents (i) a discount of approximately 35.1%, 36.3%, 35.3% and 12.2% to the average of the closing price per Share for the last 5, 10, 30 and 90 consecutive trading days up to and including the Last Trading Day, respectively; (ii) a discount of approximately 31.2% and 29.2% to the closing price of the last trading day and the last full trading day before the MOU Announcement, respectively; (iii) a discount of approximately 33.8% to the closing price on both the Last

Trading Day and the last full trading day before the Last Trading Day; and (iv) a discount of approximately 20.0% to the closing price on the Latest Practicable Date, having considered the above-mentioned principal factors and reasons for the Listco Offers, in particular the following:

(a) the Remaining Group had recorded a pro forma net profit for the eight months ended 30 November 2013 assuming the Group Restructuring, the Disposal and the Distribution In Specie had taken place on 1 April 2013, however, the Remaining Group will be loss making without taking into account of those non-recurring incomes (i.e. gain on the deconsolidation of the Scheme Subsidiaries and reversal of provision for amounts due from fellow subsidiaries);

(b) the outlook of the consumer electronic products industry is uncertain and prospect of the Remaining Group is subject to the Offeror's review following the completion of the Listco offers and whether the Remaining Business will be able to maintain its revenue given that the nature of the consumer electronic products industry being traditionally characterized by constant changes in technological advancement and customer requirements, and the uncertain outcome of the implementation of the Creditors' Scheme, hence the uncertainty on the development of the Remaining Business in short and medium term;

(c) the Share Offer Price represents (i) a premium of approximately 364.9% over the unaudited pro forma consolidated net asset attributable to Shareholders of the Remaining Group of approximately HK$0.037 per Share as at 30 November 2013, and (ii) a premium of approximately 18.6% and 17.8% over the Average Closing Price and average closing price during the 12-month Review Period as discussed in the paragraph headed "(i) Historical price performance of the Shares" under the section headed "4.1 The Share Offer";

(d) the implied PBR of the Remaining Group as represented by the Share Offer Price represents a premium of approximately 142.1% and 318.2% over the highest and average of the PBR of the Comparables, respectively;

(e) the overall liquidity of the Shares was relatively low during the Review Period and the 12-month Review Period, and the Independent Shareholders who intend to dispose a large number of the Shares may not be able to do so without exerting a downward pressure on the price of the Shares while the Share offer will lead to an alternative exit to the Independent Shareholders to realise their investment; and

(f) all the Option Offer Prices of the outstanding Share Options are acceptable as illustrated under the section headed "4.2. The Option Offer",

we are of the view that the terms of the Listco Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned. Having considered aforesaid factors, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer and the Optionholders to accept the Option Offer. Nonetheless, those Shareholders who have a positive view of the prospects of the Remaining Group after the change of control, despite the lack of plan for any acquisition of

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assets and/or business by the Remaining Group as at the Latest Practicable Date, may wish to retain part or all of their investment in the Company, hence they should carefully consider the future intention of the Offeror in relation to the Company and its future prospects under the new management, details of which are set out in the "Letter from Kingston Securities".

The Independent Shareholders and the Optionholders are advised that their decision to realise or to hold their investment in the Shares depends on their own individual circumstances and investment objectives. Overall speaking, we would also like to remind the Independent Board Committee to remind the Independent Shareholders and the Optionholders to closely monitor the market price and liquidity of the Shares during the Offer Period, especially that the disposal of large blocks of the Shares held by the Independent Shareholders in the open market may trigger price slump of the Shares as a result of thin trading of the Shares. Moreover, as different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholder who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

The Independent Shareholders and the Optionholders who wish to accept the Share Offer and the Option Offer respectively are recommended to read carefully the procedures for accepting the Share Offer and the Option Offer respectively as detailed in Appendix I of "Further terms and procedures for acceptance of the Listco Offers" to the Composite Document, and also the accompanying Form(s) of Acceptance.

Yours faithfully,
For and on behalf of
Fulbright Capital Limited

Arthur Kan
Director of Corporate Finance

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