



普頓資本有限公司
PROTON CAPITAL LIMITED

Suites 06-07, 28/F, Shui On Centre,
6-8 Harbour Road, Wanchai, Hong Kong

12 May 2014

*To: the Independent Board Committee of
Sunlink International Holdings Limited*

Dear Sirs,

**UNCONDITIONAL MANDATORY CASH OFFER BY
GET NICE SECURITIES LIMITED
ON BEHALF OF RICH PRO INVESTMENTS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES
(OTHER THAN THOSE ALREADY OWNED BY
RICH PRO INVESTMENTS LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)
OF SUNLINK INTERNATIONAL HOLDINGS LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Offer, details of which are contained in the Composite Document dated 12 May 2014 jointly issued by the Company and the Offeror to the Shareholders, 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.

The Company was informed by the Vendor (the controlling Shareholder immediately before the Sale and Purchase Completion) on 28 March 2014 (after trading hours) that the Vendor and the Offeror had entered into the Sale and Purchase Agreement, pursuant to which the Offeror had conditionally agreed to acquire and the Vendor had conditionally agreed to sell the Sale Shares, being 750,000,000 Shares, for a total consideration of HK\$418,800,000, equivalent to HK\$0.5584 per Sale Share. The Sale Shares represent approximately 69.83% of the entire issued share capital of the Company as at the Latest Practicable Date. The Sale and Purchase Completion took place on 1 April 2014.

Immediately following the Sale and Purchase Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in 750,000,000 Shares, representing approximately 69.83% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned by the Offeror and parties acting in concert with it. Get Nice Securities is making the Offer on behalf of the Offeror.

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee comprising two independent non-executive Directors, namely, Mr. Chiang Bun and Ms. Wong Wai Yin, Viola, who have no direct or indirect interest in the Offer, has been formed to advise the Independent Shareholders on whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to the acceptance of the Offer. As Mr. Sun Ka Ziang, Henry, an independent non-executive Director, is also an independent non-executive director of Get Nice Holdings Limited, a company listed on the Stock Exchange (Stock code: 64) and the holding company of both Get Nice Securities and Get Nice Capital. Mr. Sun Ka Ziang, Henry has voluntarily requested to be removed as a member of the Independent Board Committee. The non-executive Director, Mr. Suen, is not a member of the Independent Board Committee as Mr. Suen is the sole beneficial owner of the Vendor. We, Proton Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of Proton Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, 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 that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

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, Hailiang Group, the directors of Hailiang Group, Mr. Feng, their respective associates and parties acting in concert with any of them), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinions expressed by the Offeror, Hailiang Group, the directors of Hailiang Group, Mr. Feng, their respective associates and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained in the Composite Document misleading.

The information contained in the Composite Document relating to the Offeror and its intention has been supplied by the Offeror. The director of the Offeror and the directors of Hailiang Group jointly and severally accept full responsibility for the accuracy of the information (other than any information relating to the Group, its associates and parties acting in concert with it) contained in the Composite Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than the opinions expressed by the Group, its associates and parties acting in concert with it) 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 in the Composite Document misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Vendor, the Offeror and Hailiang Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group and the Shareholders as a result of the Offer. The Company has been separately advised by its own professional advisers with respect to the Offer and the preparation of the Composite Document (other than this letter).

We have assumed that the Offer will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date. Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Proton Capital is to ensure that such information has been correctly and fairly extracted and presented from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Offer, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Offer

The Company was informed by the Vendor (the controlling Shareholder immediately before the Sale and Purchase Completion) on 28 March 2014 (after trading hours) that the Vendor and the Offeror had entered into the Sale and Purchase Agreement, pursuant to which the Offeror had conditionally agreed to acquire and the Vendor had conditionally agreed to sell the Sale Shares, being 750,000,000 Shares, for a total consideration of HK\$418,800,000, equivalent to HK\$0.5584 per Sale Share, which was agreed between the Offeror and the Vendor after arm's length negotiations. The Sale Shares represent approximately 69.83% of the entire issued share capital of the Company as at the Latest Practicable Date. The Sale and Purchase Completion took place on 1 April 2014.

Immediately following the Sale and Purchase Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it are interested in 750,000,000 Shares, representing approximately 69.83% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned by the Offeror and parties acting in concert with it.

Get Nice Securities is making the Offer for and on behalf of the Offeror to all the Independent Shareholders to acquire all the issued Shares other than those already owned by the Offeror and parties acting in concert with it, in compliance with Rule 26.1 of the Takeovers Code on the following basis:

For each Offer Share held HK\$0.5584 in cash

The Offer is unconditional in all respects.

As confirmed by the Company, as at the Latest Practicable Date, the Company had 1,074,073,845 Shares in issue.

As the Offeror and parties acting in concert with it owned 750,000,000 Shares as at the Latest Practicable Date, 324,073,845 Shares are subject to the Offer and the total consideration of the Offer would be approximately HK\$180,962,835 based on the Offer Price.

Further details of the Offer are set out in the “Letter from Get Nice Securities” and Appendix I to the Composite Document and the Form of Acceptance.

(2) Financial information on the Group

The principal activities of the Company is investment holding and the principal activities of its subsidiaries are sale of semiconductors and related products; and development and provision of electronic turnkey device solution products.

Set out below is the financial information of the Group for each of the two years ended 31 December 2013 as extracted from the Company’s annual report for the year ended 31 December 2013 (the “**2013 Annual Report**”):

	For the year ended 31 December	
	2012	2013
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(audited)	(audited)
Turnover	334,135	231,191
Gross profit	24,250	8,356
Profit/(Loss) before taxation	263,708	(1,420)
Profit/(Loss) for the year	262,800	(1,414)

	As at 31 December 2012 HK\$'000 (audited)	As at 31 December 2013 HK\$'000 (audited)
Consolidated net asset value attributable to owners of the Company	154,937	156,188

As set out in the above table, for the year ended 31 December 2013, the Group reported a turnover of approximately HK\$231,191,000, representing a 31% decline from last year (2012: approximately HK\$334,135,000), and gross profit of approximately HK\$8,356,000, showing a 66% drop from the prior year (2012: approximately HK\$24,250,000). According to the 2013 Annual Report, the declines in the Group's turnover and gross profit were primarily attributable to the drop in revenue and profit generated from the sales of used semiconductor and computer motherboard products. In addition, the provision for slow-moving inventories of approximately HK\$3,154,000 recognised by the Group's 50.21% owned subsidiary in the PRC also led to the drop in the Group's gross profit.

The Group reported loss of approximately HK\$1,414,000 for the year ended 31 December 2013 in contrast to the profit of approximately HK\$262,800,000 for the year ended 31 December 2012. According to the 2013 Annual Report, the aforesaid loss attributable to owners of the Company was mainly the combined results of the absence of gains on debts discharged under the scheme of arrangement and group reorganisation amounting to approximately HK\$227,219,000 and approximately HK\$30,589,000 respectively as recorded in the year ended 31 December 2012, the decreases in revenue and profit generated from the Group's used semiconductor and computer motherboard products resulting from the drop in demand from customers, and the recognition of provisions for slow-moving inventories and a doubtful debt totalling approximately HK\$4,684,000 in the year ended 31 December 2013.

According to the 2013 Annual Report, the Company had undergone a restructuring. On 30 September 2011, a formal restructuring agreement (the "**Restructuring Agreement**", details of the Restructuring Agreement were set out in the circular of the Company dated 23 December 2011) was signed to implement the proposed restructuring of the Company which included, inter alia, (i) capital restructuring; (ii) open offer; (iii) subscription of new shares; (iv) issue of shares to creditors; (v) issue of creditors convertible bonds; (vi) implementation of the scheme of arrangement with creditors of the Company (the "**Scheme of Arrangement**", details of the Scheme of Arrangement were set out in the circular of the Company dated 23 December 2011); and (vii) group reorganisation. On 23 February 2012, the Restructuring Agreement was completed. On 24 February 2012, the then provisional liquidators of the Company were discharged and the petition for winding-up of the Company was dismissed by the High Court. Upon the grant from the Stock Exchange, trading in the shares of the Company was resumed on 28 February 2012. As a result of the completion of the Restructuring Agreement, the Company recorded gains on debts discharged under the Scheme of Arrangement and group reorganisation amounting to approximately HK\$227,219,000 and approximately HK\$30,589,000 respectively in the year ended 31 December 2012.

(3) Information on the Offeror

Set out below is the information on the Offeror according to the “Letter from Get Nice Securities” of the Composite Document:

The Offeror is an investment holding company incorporated in the BVI with limited liability on 2 January 2014. As at the Latest Practicable Date, the Offeror is wholly owned by Hailiang Group, a company incorporated in the PRC with limited liability, which is in turn owned as to approximately 98.29% by Mr. Feng and Mr. Feng’s Associates and as to approximately 1.71% by Four Individuals. As at the Latest Practicable Date, the sole director of the Offeror is Hailiang Group. Please refer to the section headed “PROPOSED CHANGE OF THE BOARD” in the “Letter from Get Nice Securities” for the biographic details of Mr. Feng.

Immediately prior to the entering into of the Sale and Purchase Agreement, the Offeror and its ultimate beneficial shareholders were independent third parties to the Company and did not hold any Shares.

(4) The Offeror’s Intention on the Group

Business and employment (save for the Directors’ employment)

According to the “Letter from Get Nice Securities”, following the close of the Offer, the Offeror intends to continue the existing principal businesses 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 in accordance with the Listing Rules. The Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business.

Proposed change of the Board

As at the Latest Practicable Date, the Board comprises of six Directors, being two executive Directors, namely, Mr. Sue Ka Lok (Chairman) and Mr. Lai Ming Wai (Chief Executive Officer), one non-executive Director, namely, Mr. Suen and three independent non-executive Directors, namely, Mr. Sun Ka Ziang, Henry, Mr. Chiang Bun and Ms. Wong Wai Yin, Viola.

As set out in the “Letter from Get Nice Securities”, pursuant to the terms of the Sale and Purchase Agreement, subject to the Sale and Purchase Completion, the Vendor shall cause such Directors as may be notified by the Offeror to the Vendor to give notice to resign as Directors at the earliest time permitted under the Takeovers Code. The resignation of the Directors will not take effect earlier than the date of the close of the Offer Period, subject to the requirements of the Takeovers Code.

In addition, pursuant to the terms of the Sale and Purchase Agreement, the Vendor shall cause such persons as the Offeror may nominate to be validly appointed as Directors with effect from the earliest time permitted under the Takeovers Code. Following the despatch of the Composite Document, it is proposed that Mr. Feng will be appointed as a non-executive Director, Mr. Cao Jianguo (曹建國先生), Mr. Zhou Diyong (周迪永先生) and Ms. Ji Danyang (季丹陽女士) will be appointed as executive Directors, and Mr. Chang Tat Joel, Mr. Ho Gilbert Chi Hang and Mr. Tsui Kun Lam Ivan will be appointed as independent non-executive Directors. While we have no view on the proposed Directors, their details are set out in the “Letter from Get Nice Securities”.

Compulsory Acquisition

According to the “Letter from Get Nice Securities”, the Offeror does not intend to exercise any right which may be available to it under the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) to acquire compulsorily any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

(5) Maintaining the listing status of the Company

With reference to the “Letter from Get Nice Securities” of the Composite Document, the Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer. In the event that after the completion of the Offer, the public float of the Company falls below 25%, the proposed Directors who will be nominated by the Offeror and appointed as Directors and the then director of the Offeror have undertaken 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 Offer to ensure that sufficient public float exists for the Shares.

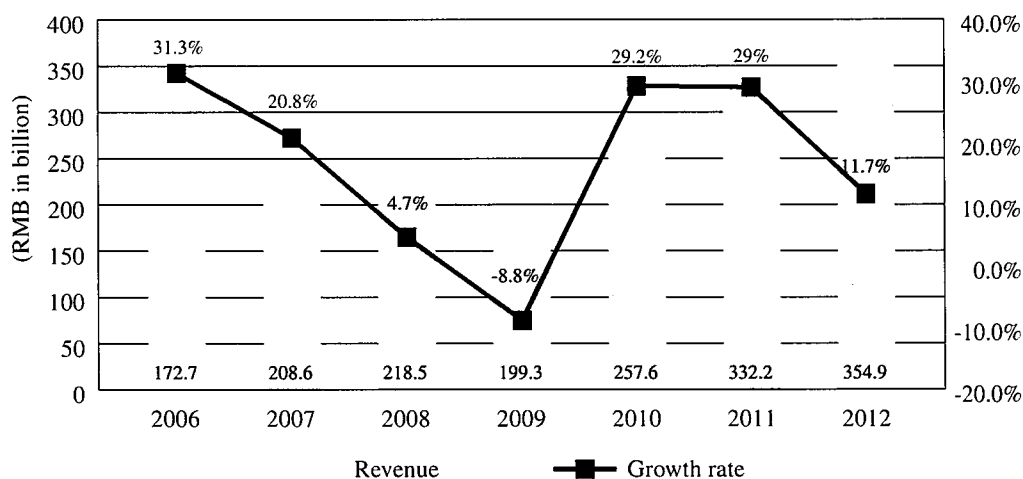
We have noted from the “Letter from the Board” of the Composite Document that in the event that after the completion of the Offer, the public float of the Company falls below 25%, the proposed Directors who will be nominated by the Offeror and appointed as Directors and the then director of the Offeror 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 Offer to ensure that sufficient public float exists for the Shares.

Nevertheless, we would like to remind the Independent Board Committee to draw the attention of the Independent Shareholders that the Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

(6) Industry Overview on China semiconductor industry

Semiconductors are electronic components which can generally be classified into two categories by functions, namely, integrated circuit and discrete components. Semiconductors are overwhelmingly used as building blocks for computers, mobile phones, tablets, handheld devices and many other widely available commercial information and communication technology products and systems. The functionality of semiconductors constantly evolves in order to meet consumer demands.

China semiconductor sales revenue, 2006-2012



Source: CSIA and CCID, "2013 Report on the Development of the Semiconductor Industry in China 中國半導體產業發展狀況報告 2013"

According to the 2013 Report on the Development of the Semiconductor Industry in China 中國半導體產業發展狀況報告2013 jointly published by China Center for Information Industry Development ("CCID"), a research unit under the Ministry of Industry and Information Technology of the PRC, and China Semiconductor Industry Association ("CSIA"), a national association founded in 1990 that comprises more than 500 member companies in the China semiconductor industry and as illustrated by the chart above, despite a decline in China's semiconductor sales revenue of 8.8% in 2009 due to the global financial crisis in 2008, semiconductor sales revenue in China experienced a positive growth at an annual growth rate ranged from 4.7% to 31.3% during the period from 2006 to 2012. The sales of semiconductor in China posed a strong rebound in 2010 by recording a growth of 29.2%, nevertheless, owing to the slowdown of Mainland economy, growth of semiconductor sales in China was going downtrend in 2012 by reporting growth rate of 11.7%.

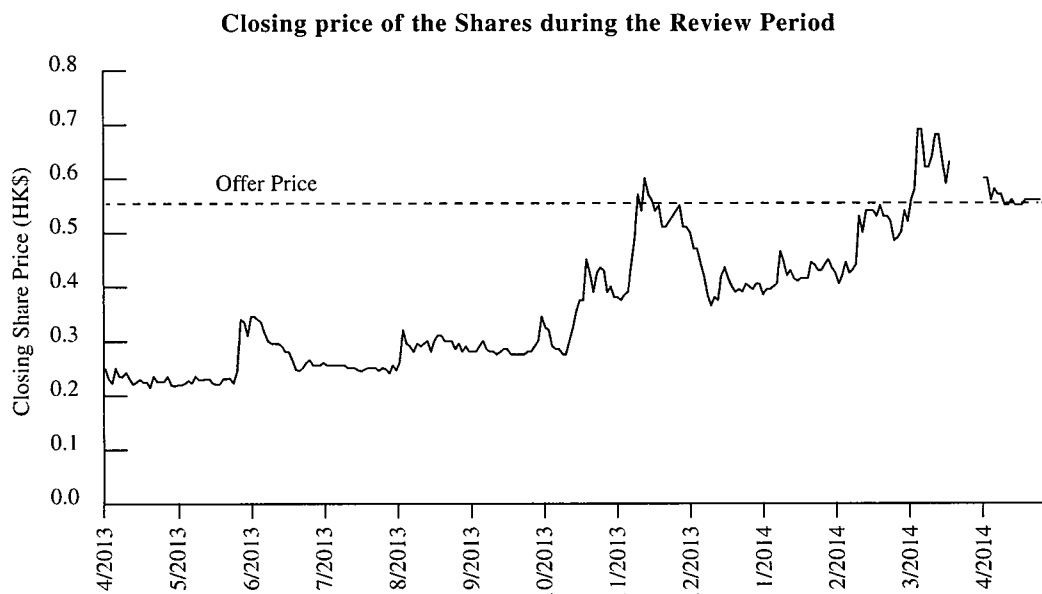
(7) The Offer Price

The Offer Price of HK\$0.5584 per Share represents:

- (i) a discount of approximately 11.37% to the closing price of HK\$0.63 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 13.02% to the average closing prices of the Shares as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day of HK\$0.642 per Share;
- (iii) a discount of approximately 13.69% to the average closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day of HK\$0.647 per Share;
- (iv) a premium of approximately 0.02% over the average closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.5583 per Share;
- (v) a premium of approximately 10.16% over the average closing prices of the Shares as quoted on the Stock Exchange for the 50 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.5069 per Share;
- (vi) a premium of approximately 285.10% over the audited consolidated net asset value attributable to owners of the Company of approximately HK\$0.145 per Share (based on the number of issued Shares as at the Latest Practicable Date) as at 31 December 2013, the date to which the latest audited financial results of the Group were made up; and
- (vii) a discount of approximately 0.29% to the closing price of HK\$0.56 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

(a) *Historical price performance of the Shares*

We have reviewed the daily closing price of the Shares as quoted on the Stock Exchange in each month during the period commencing from 2 April 2013, being approximately 12-month period leading up to 28 March 2014, being the Last Trading Day (both dates inclusive) (the “**Pre-Announcement Period**”) and from 11 April 2014 to the Latest Practicable Date (both dates inclusive) (the “**Post-Announcement Period**”), collectively known as the “**Review Period**”). The following chart sets out the closing price of the Shares as quoted on the Stock Exchange during the Review Period:



Source: the Stock Exchange web-site (www.hkex.com.hk)

Pre-Announcement Period

With reference to the above graph, the closing price of the Shares ranged from HK\$0.69 per Share to HK\$0.214 per Share with an average of HK\$0.358 during the Pre-Announcement Period. The Offer Price had been above or equal to the closing prices of the Shares on 229 trading days out of the total 245 trading days (i.e. approximately 93.5% of the total number of trading days) in the Pre-Announcement Period and represented significant premium of approximately 103.05% over the lowest closing price of the Shares of HK\$0.275 per Share recorded on both days of 16 and 17 October 2013, a premium of 55.98% over the average closing price of the Shares of HK\$0.358 during the Pre-Announcement Period.

We noted that prices of the Shares had been on upward trend since late February 2014 and reached the record high of HK\$0.69 in mid March 2014 and the Offer price represents a discount of approximately 13.69% to the average closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day of HK\$0.647 per Share. However, we have been advised by the Company that it is not aware of any reasons for such increase in the price of the Shares. Therefore, there is no guarantee that the trading price of the Shares will sustain and will or will not be higher than the Offer Price during and after the Offer Period. In view of the aforesaid temporary increase in price of the Shares due to unknown reason, we consider that it is more appropriate to consider the price of the Shares for a medium term of 30 days and a long term of 50 days. In view that the Offer Price represents:

- (i) a premium of approximately 0.02% over the average closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.5583 per Share; and
- (ii) a premium of approximately 10.16 % over the average closing prices of the Shares as quoted on the Stock Exchange for the 50 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.5069 per Share;

we consider that the Offer Price is fair and reasonable.

Trading of the Shares was suspended from 31 March 2014 to 10 April 2014 pending for the release of the Joint Announcement.

Post-Announcement Period

Trading of the Shares was resumed on 11 April 2014.

During the Post-Announcement Period, the closing price of the Shares ranged from HK\$0.60 to HK\$0.55. Closing price of the Shares slid from HK\$0.60 on 11 April 2014 to HK\$0.55 on 23 April 2014, 24 April 2014 and from 28 April 2014 to 30 April 2014. The Offer Price represents a discount of approximately 6.93% to the aforesaid highest closing price of HK\$0.60 and a premium of approximately 1.53% over the aforesaid lowest closing price of HK\$0.55. As at the Latest Practicable Date, the closing price of the Share was HK\$0.56. We also noted that besides the Joint Announcement, the Company had not published other material announcements at the relevant time. Hence, we consider that closing prices of the Shares during the Post-Announcement Period reflected the market reaction in relation to the Offer and the change of controlling Shareholder. As such, the current closing prices of the Shares in the Post-Announcement Period may not be sustained after the close of the Offer.

(b) Historical trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date, during the Review Period are tabulated as below:

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") Shares	% of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 2) %	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 3) %
2013				
April	20	366,710	0.11	0.03
May	21	5,010,368	1.55	0.47
June	19	4,423,316	1.36	0.41
July	22	583,109	0.18	0.05
August	21	2,492,720	0.77	0.23
September	20	523,820	0.16	0.05
October	21	7,323,437	2.26	0.68
November	21	7,559,248	2.33	0.70
December	20	2,383,940	0.74	0.22
2014				
January	21	1,169,800	0.36	0.11
February	19	2,650,605	0.82	0.25
March (Note 1)	20	4,855,190	1.50	0.45
April (Note 1)	12	4,332,483	1.34	0.40
May (up to and including the Latest Practicable Date)	5	628,360	0.19	0.06

Source: The official website of the Stock Exchange

Notes:

- (1) Trading in the Shares was suspended from 31 March 2014 to 10 April 2014 pending the release of the announcement in relation to the Offer.
- (2) Based on 324,073,845 Shares held by the public as at the Latest Practicable Date.
- (3) Based on 1,074,073,845 Shares in issue as at the Latest Practicable Date.

We noted from the above table that save for October and November in 2013, trading in the Shares had been inactive during the Review Period, with the average daily trading volume being below 2% of the total number of issued Shares held by the public in the Review Period. In light of the Shares were illiquid throughout nearly the entire Review Period, disposal of large block of the Shares held by the Shareholders in the open market would likely to trigger price slump of the Shares.

As the Offer Price was fixed before the Post-Announcement Period, we consider that it is appropriate to consider the fairness and reasonableness of the Offer Price with reference to the medium and long term closing prices of the Shares during the Pre-Announcement Period. Given that:

- (i) the Offer Price had been above or equal to the closing prices of the Shares on 229 trading days out of the total 245 trading days (i.e. approximately 93.5% of the total number of trading days) in the Pre-Announcement Period;
- (ii) the Offer Price represents a premium of approximately 0.02% over the average closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.5583 per Share;
- (iii) the Offer Price represents a premium of approximately 10.16 % over the average closing prices of the Shares as quoted on the Stock Exchange for the 50 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.5069 per Share; and
- (iv) low liquidity of the Shares in the Review Period, there is no guarantee that Independent Shareholders will be able to realise their investments in the Shares (especially those with relatively sizeable shareholdings) at a price higher than the Offer Price;

we, therefore, are of the view that the Offer Price is fair and reasonable and the Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares. Nonetheless, Independent Shareholders should take into account of their individual risk preference and tolerance level before making any investment decision in relation to the Shares. If any Independent Shareholders who would like to realise their investments in the Shares are able to dispose of their Shares in the open market and/or identify potential purchaser(s) to acquire for their Shares at a price higher than the Offer Price, those Independent Shareholders may consider not accepting the Offer but selling their Shares in the open market and/or to such potential purchaser(s), as they wish to do so and as they think fit having regard to their own circumstances, in case the net proceeds from the sale of their Shares would exceed the net amount receivable under the Offer. However, those Independent

Shareholders who, after reading through the Composite Document and this letter, consider otherwise, may consider retaining all or any part of their Shares after considering their own circumstances together with the relevant risks and uncertainties based on their individual risk preference and tolerance level.

(c) Prospects of the Group in the electronic industry

According to the 2013 Annual Report, the Group principally performs a supply and procurement function of standardised semiconductors and related products for its customers mainly for applications in computer, consumer electronic and telecommunication products. In addition, the Group sells used transmission equipment containing recyclable semiconductor components. During the year ended 31 December 2013, primarily due to the continued slowdown of the Mainland economy that negatively affected the electronic industry in general, the price and profit margin of electronic products have been going downtrend that reduced the profitability of the Group's semiconductor products operation. In addition, we have enquired with and understand from the Directors that due to increase in competition, prices of the Group's products were under downward pressure which mainly caused the Group's gross profit margin dropped from 7.3% in 2012 to 3.6% in 2013. As such, the Group has been managing its businesses prudently by not entering into new business segment, either by geographical market or product type, with which the Group is not familiar.

Looking ahead, the Group will continue its prudent approach in managing its existing businesses and will cautiously look for new business opportunities that can add significant value and bring long term prosperity to the Group. In view of the decreases in revenue and profitability of the Group in 2013, the sales growth of semiconductor in China was going downtrend in 2012 as mentioned in the above section headed "Industry Overview on China semiconductor industry", and the Offeror has indicated in the "Letter from Get Nice Securities" that the Offeror will conduct a review on the financial position and the operations of the Company, we consider the prospects of the Group's existing business in the electronic industry are uncertain and challenging. The future prospects of the Group will depend on the long-term business plans and strategy of the Company to be formulated by the new Directors.

(d) Comparison with other comparable companies

Among the existing business segments of the Company, we noted that over 80% of the Group's turnover for the year ended 31 December 2013 was generated from the sale of semiconductors and related products.

In addition to our analysis on the fairness and reasonableness based on the factors as stated in earlier part of this letter, we try to further assess the fairness and reasonableness of the Offer Price by researching for companies which have published audited accounts since listing on the main board of the Stock Exchange and are

engaged in the same line of business as the Company, i.e. sale of semiconductors and related electronic products, and their market capitalisation as at the Latest Practicable Date were within the historical range of market capitalisation of the Company during the Review Period of approximately HK\$230 million to approximately HK\$741 million. Based on the aforesaid selection criteria, we have identified 5 comparable listed companies (the “**Comparable Companies**”). Although the operations and prospects of the Comparable Companies may not be exactly the same as the Company as each company has its uniqueness, since the Comparable Companies are engaged in the same line of business, with market capitalisation which are comparable to that of the Company and fulfilled our foresaid selection criteria, we consider those Comparable Companies to be fair, representative and exhaustive samples.

The following table sets out (a) the price to earnings ratio (“**P/E**”) and market capitalisation of the Comparable Companies based on their closing price as at the Latest Practicable Date and their latest published audited financial information; and (b) the implied P/E as well as the market capitalisation of the Company based on the Offer Price and its latest published financial information:

Company name (Stock code)	Year end date	P/E (times)	Market capitalisation (HK\$)
Icube Technology Holdings Limited (139)	31/03/2013	N/A (Note 1)	264.39 million
QPL International Holdings Limited (243)	30/04/2013	N/A (Note 1)	237.89 million
AV Concept Holdings Limited (595)	31/03/2013	42.48	462.22 million
PacMOS Technologies Holdings Ltd. (1010)	31/12/2013	7.53	390.31 million
Advanced Semiconductor Manufacturing Corporation Ltd. (3355)	31/12/2013	34.15	346.68 million (Note 3)
Maximum		42.48	
Minimum		7.53	
Average		28.05	
The Company	31/12/2013	1,861.33 (Note 2)	599.76 million

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. This company recorded a net loss in the last financial year.
2. Calculated based on the Offer Price.
3. This is a joint stock company incorporated in the PRC. Save for the listing of its H shares on the Stock Exchange, none of its shares are listed at other stock exchange. The market capitalisation is calculated based on the number of H shares in issued.

As shown in the above table, two Comparable Companies recorded net losses in their last financial year whereas the remaining three Comparable Companies were trading at P/E ranged from 7.53 times to 42.48 times, with an average of 28.05 times. The implied P/E of the Company (based on the Offer Price) of approximately 1,861.33 times is substantially higher than average P/E of the three Comparable Companies. Since the implied P/E of the Company (based on the Offer Price) is higher than the average P/E of the Comparable Companies, we consider the Offer Price is fair and reasonable.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) the Offer Price represents a substantial premium of approximately 285.10% over the audited consolidated net asset value attributable to owners of the Company of approximately HK\$0.145 per Share (based on the number of issued Shares as at the Latest Practicable Date) as at 31 December 2013;
- (ii) the Offer Price represents a premium of approximately 10.16% over the average closing prices of the Shares as quoted on the Stock Exchange for the 50 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.5069 per Share;
- (iii) the Offer Price represents a premium of approximately 0.02% over the average closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.5583 per Share;
- (iv) during the Pre-Announcement Period, the Offer Price had been above the historical closing prices of the Shares during most (approximately 93.5%) of the trading days and represented a premium of 55.98% over the average closing price of the Shares of HK\$0.358 during the Pre-Announcement Period;
- (v) the disposal of large block of Shares held by the Independent Shareholders in the open market would likely to trigger price slump of the Shares in view of the thin trading volume of the Shares; and hence there is no guarantee that the current Share prices will sustain after the end of the Offer Period. Accordingly, the Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares;

- (vi) the uncertainty in future profitability of the Group in view that due to increase in competition, prices of the Group's products were under downward pressure which mainly caused the Group's gross profit margin dropped from 7.3% in 2012 to 3.6% in 2013; and
- (vii) the implied P/E of the Company (based on the Offer Price) of approximately 1,861.33 times is substantially higher than the average P/E of the Comparable Companies of 28.05 times (after excluding two Comparable Companies which were loss-making in their last financial year);

we consider that the terms of the Offer (including the Offer Price) are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

However, given the Offer Price is approximately equal to the current market prices of the Shares, we would like to advise the Independent Board Committee to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period and consider selling their Shares in the open market, where possible, instead of accepting the Offer, if the net proceeds from such sales exceed the net amount receivable under the Offer.

Those Independent Shareholders who decide to retain part or all of their investments in the Shares should carefully monitor the intention of the Offeror in relation to the Company in the future and they should note that they may not be able to dispose of their investments in the Shares after the close of the Offer in view of the thin trading volume of the Shares in the Review Period (i.e. the average daily trading volume being below 2% of the total number of issued Shares held by the public save for the months of October and November in 2013). Further terms and conditions of the Offer are set out in the "Letter from Get Nice Securities" and Appendix I to the Composite Document and the Form of Acceptance.

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.

Yours faithfully,
For and on behalf of
Proton Capital Limited



Josephine Lau
Director – Corporate Finance