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26 October 2012

The Independent Board Committee and the Independent Shareholders
SIM Technology Group Limited
Unit 2908, 29th Floor
248 Queen's Road East
Wanchai
Hong Kong

Dear Sirs,

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE
(II) APPLICATION FOR THE WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Whitewash Waiver. Details of the transactions are set out in the "Letter from the Board" contained in the circular of the Company dated 26 October 2012 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 5 October 2012, the Company proposes to issue not less than 852,499,500 Rights Shares but not more than 878,512,500 Rights Shares at the Subscription Price of HK$0.20 per Rights Share on the basis of one Rights Share for every two existing Shares held on the Record Date, to raise a minimum of approximately HK$170.5 million before expenses or a maximum of approximately HK$175.7 million before expenses.

The Rights Issue is available to all Qualifying Shareholders and is fully underwritten by Toman Investments Limited (the "Underwriter") subject to the terms and conditions set out in the Underwriting Agreement. Toman Investments Limited is a company held as to 25% by each of Mr. Wong Sun, Mr. Wong Hei, Simon, Mr. Wong Cho Tung and Ms. Yeung Man Ying. Mr. Wong Hei, Simon, Mr. Wong Cho Tung and Ms. Yeung Man Ying are

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executive Directors. Ms. Yeung Man Ying is the spouse of Mr. Wong Cho Tung, and both Mr. Wong Sun and Mr. Wong Hei, Simon are their sons. The Underwriter, being a company jointly controlled by the three executive Directors and their associate, is therefore a connected person of the Company. Accordingly, the transaction contemplated under the Underwriting Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.31(3)(c) of the Listing Rules, the allotment and issue of the Underwritten Shares is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, as the Company has made arrangements for the application of Rights Shares by the Qualifying Shareholders in excess of their entitlements under the Rights Issue as referred to in Rule 7.21(1) and complied with Rule 7.21(2) of the Listing Rules.

As at the Latest Practicable Date, the Underwriter and persons acting in concert with it are interested in an aggregate of 775,918,000 Shares, representing approximately 45.51% of the existing total issued share capital of the Company. Upon completion of the Rights Issue, assuming no acceptance of Rights Shares by the Qualifying Shareholders and no Shareholders exercise any Vested Options on or before the Record Date, the total number of Shares held by the Underwriter and persons acting in concert with it will increase to 1,628,417,500 Shares, representing the maximum proportion of approximately 63.67% of the total number of Shares in issue as enlarged by the Rights Issue.

Under Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances will trigger a mandatory general offer by the Underwriter for all the securities of the Company other than those already owned or agreed to be acquired by the Underwriter and persons acting in concert with it, unless, among others, a whitewash waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll. An application will be made by the Underwriter to the Executive for the whitewash waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code ("Whitewash Waiver"). The Whitewash Waiver, if granted, will be subject to the approval of the Independent Shareholders on a vote taken by way of poll at the SGM and such other condition(s) as may be imposed by the Executive. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Rights Issue will not become unconditional and will not proceed.

In summary, the Rights Issue is conditional, among other things, upon the following conditions being fulfilled:

(i) the approval of the Whitewash Waiver by the Independent Shareholders by passing of ordinary resolution at the SGM by way of poll, where the Underwriter and persons acting in concert with it, their respective associates, and all those parties who are involved or interested in the Whitewash Waiver will abstain from voting on the proposed resolution approving the Whitewash Waiver at the SGM; and

(ii) the Executive granting the Whitewash Waiver to the Underwriter and persons acting in concert with it on or before the Prospectus Posting Date and the satisfaction of any condition(s) attached to the Whitewash Waiver granted.

As at the Latest Practicable Date, the Independent Board Committee, comprising all the independent non-executive Directors namely Mr. Liu Hing Hung, Mr. Xie Linzhen and Mr. Dong Yunting, has been established to make recommendation to the Independent Shareholders as to whether the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole as well as how to vote in respect of the resolution relating to the Whitewash Waiver at the SGM.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, we will give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the resolution relating to the Whitewash Waiver at the SGM. In view of the Underwriter's interest as described above, the Underwriter and persons acting in concert with it shall abstain from voting at the SGM in respect of the Whitewash Waiver.

Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Whitewash Waiver, we have taken into consideration the following principal factors:

1. Background information of the Company

(a) Principal business

The Group is principally engaged in the manufacturing, design and development and sale of display modules, handsets and solutions, and wireless communication modules. The Group manufactures ODM mobile handsets for branded handset providers and develops wireless communications modules for industrial applications.

(b) Historical financial information

Set out below is a summary of the audited financial information of the Group for each of the three years ended 31 December 2011 and the unaudited results for the six months ended 30 June 2012 as extracted from the Group's respective annual and interim reports. For more details, please refer to the "Financial information of the Group" set out in Appendix I to the Circular.

	For the year ended 31 December			**For the six months ended 30 June**
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
Revenue	2,983,532	4,034,031	3,334,099	1,316,727
– Handsets and solutions	1,834,995	3,170,208	2,608,071	1,037,257
– Display modules	204,664	142,129	132,454	38,701
– Wireless communication modules	943,873	721,694	593,574	240,769
– Property development	–	–	–	–
Gross profit	289,855	492,247	268,880	131,419
Gross profit margin	9.72%	12.20%	8.06%	9.98%
Segment profit/(loss)				
– Handsets & solutions	15,038	203,764	(9,722)	(79,556)
– Display modules	(11,828)	(5,339)	(35,009)	(2,265)
– Wireless communication modules	127,371	69,663	10,529	9,706
– Property development	–	(2,653)	(6,244)	(3,414)
(Loss)/Profit before income tax	148,622	266,804	(41,626)	(65,770)
(Loss)/Profit for the year	133,620	237,624	(28,052)	(63,276)

	As at 31 December			As at 30 June
	2009	**2010**	**2011**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
Pledged bank deposit	329,114	616,828	171,890	262,190
Bank balance and cash	532,276	534,522	500,817	352,604
Net assets	1,544,469	1,819,090	2,074,890	2,005,124
Gearing ratio	17.6%	35.2%	24.7%	21.9%

Source: Company's 2009, 2010 and 2011 annual reports and 2012 interim report

For the year ended 31 December 2010

Based on the Company's annual report for the year ended 31 December 2010 (the "2010 Annual Report"), the Group recorded an audited consolidated revenue of approximately HK$4,034.0 million, representing an increase of approximately 35.2% from approximately HK$2,983.5 million for the year ended 31 December 2009. Profit for the year ended 31 December 2010 increased accordingly to approximately HK$237.6 million from approximately HK$133.6 million in the previous year.

As described in the 2010 Annual Report, much of the growth for the year ended 31 December 2010 was contributed by the Group's continuous success in ODM service to high-end handset customers and penetration in 3G product segments. The Group has strategically expanded the proportion of high-end ODM business. In particular, one of the key high-end ODM customers contributed over 25% of the revenue (in monetary term) for handset and solutions segment, while only taking up less than 3% of the sales volume (in units) for handset and solutions segment.

As at 31 December 2010, the Group's gearing ratio was approximately 35.2% (2009: approximately 17.6%), based on total borrowings of approximately HK$640.3 million (2009: approximately HK$271.1 million) and total equity of the Group of approximately HK$1,819.1 million (2009: approximately HK$1,544.5 million). The Group's bank balance and cash as at 31 December 2010 were approximately HK$534.5 million (31 December 2009: approximately HK$532.3 million). The increase in borrowings is in line with the increase in revenue of the Group.

For the year ended 31 December 2011

Based on the Company's annual report for the year ended 31 December 2011 (the "2011 Annual Report"), the Group recorded an audited consolidated revenue of approximately HK$3,334.1 million, representing a decrease of approximately 17.4% from approximately HK$4,034.0 million for the year ended 31 December 2010. Loss for the year ended 31 December 2011 amounted to approximately HK$28.1 million as compared to the profit for the year ended 31 December 2010 of approximately HK$237.6 million.

As described in the 2011 Annual Report, the significant deterioration in financial performance was caused by the difficulties involved in the Group's transitional period. In particular, customers' older-generation handset products were exiting the market while the replacement products were not in place to be launch. In addition, the financial performance from high-end ODM projects was not satisfactory and not profitable due to high costs of raw materials and processing incurred in order to meet the high quality standard of handsets for the Japanese market. As a result, the overall sales in the handsets and solutions segment were low during the year.

As at 31 December 2011, the Group's gearing ratio was approximately 24.7% (2010: approximately 35.2%) based on total borrowings of approximately HK$511.5 million (2010: approximately HK$640.3 million) and total equity of the Group of approximately HK$2,074.9 million (2010: approximately HK$1,819.1 million). The Group's bank balance and cash as at 31 December 2011 were approximately HK$500.8 million (31 December 2010: approximately HK$534.5 million). The Group had a lower amount of borrowings as at 31 December 2011 as compared with that of 31 December 2010 due to the credit tightening measures implemented by financial institutions in both the PRC and Hong Kong.

For the six months ended 30 June 2012

Based on the Company's interim report for the six months ended 30 June 2012 (the "2012 Interim Report"), the Group recorded an unaudited consolidated revenue of approximately HK$1,316.7 million and an unaudited loss amounted to approximately HK$63.3 million.

As described in the 2012 Interim Report, the Group recorded a loss in handset and solutions segment as the Group's customers were adversely impacted by the dominance of two leading global handset brands. One of the Group's customers in Japan also encountered unexpected difficulties and has cancelled certain projects with the Group.

As at 30 June 2012, the Group's gearing ratio was approximately 21.9% (31 December 2011: approximately 24.7%) based on total borrowings of approximately HK$438.4 million (31 December 2011: approximately HK$511.5 million) and total equity of the Group of approximately HK$2,005.1 million (31 December 2011: approximately HK$2,074.9 million). The Group's bank balance and cash as at 30 June 2012 were approximately HK$352.6 million (31 December 2011: approximately HK$500.8 million).

The Group recorded lower bank borrowings as at 30 June 2012 as it happened to be the amount of subsisting bank borrowings as at the particular period end date. In fact, during the six months ended 30 June 2012 the Group has increased the use of short-term financing. During the six months ended 30 June 2012, the Group raised new bank borrowings of approximately HK$219.6 million, as compared with approximately HK$127.2 million for the corresponding period in previous year, as general working capital.

Based on the above financial performance of the Group, we concur with the view of Directors that the operating environment of the Group was and will continue to be challenging.

(c) *Recent developments*

Extension of credit terms

As disclosed in the "Letter from the Board", the Group has shifted its business strategy by focusing to build up and to serve key players in the handset industry, namely high-end ODM customers, as opposed to small or medium sized customers in the past.

We understand from the Directors that the Group will however be required to grant better credit terms in order to secure on-going collaborative relationship with its major ODM customers. In particular, two major customers, who in aggregate constituted approximately 45.1% of the Group's revenue for the six months ended 30 June 2012, demanded for better credit terms by shifting a portion of payment from before delivery to after delivery, thereby lengthening the Group's working capital requirement period.

Notwithstanding the current competitive operating environment for handset and solutions industry, the Directors consider that it is justifiable to further invest in this business segment due to the fact that:

(i) handset and solutions segment is a key business segment of the Group, contributing most of the Group's revenue;

(ii) the Group has expanded its handset and solutions segment to overseas market and is able to meet more stringent standards, which is an advantage over other competitors; and

(iii) despite the handset and solutions segment being competitive, the Directors consider that there remains potential for growth in view of the fact that the market penetration of high-end products in the PRC is still low as compared to overseas market.

We have also reviewed the framework agreements between the Group and the two major customers along with the relevant tender documents as well as the Group's working capital requirement. We noted that the credit terms extended to these two major customers, which have shifted a portion of payment from before delivery to after delivery, will delay cash inflow and thus exert pressure on working capital, taking into account (1) the amount of current liability which is to be settled within 1 year, in particular, the short-term nature of the new bank loans raised during the period ended 30 June 2012; and (2) the fact that the Group's cash and cash equivalents were maintained at various operating subsidiaries which are PRC companies and thus their respective cash balance could not be deployed interchangeably.

Based on the above, we concur with the Directors that despite the keen competition in the handset and solutions market, it is still growing. The Group has to accommodate the requests of the two major customers in order to maintain business relationships and consequently, the associated level of sales. Meanwhile, to support the requisite production volume and the lengthened credit period, the Group has to operate with more working capital for its daily operations.

Wireless module business

According to the 2012 Interim Report, the Group has maintained its leading market share in the communication module business. The Group intends to further strengthen its leading position by developing the wireless module business in order to capture growing business opportunity in the market serving certain specific industries.

As disclosed in the "Letter from the Board", we understand that it is the intention of the Group to further invest in the development of wireless module business. According to the segment information as disclosed in the Group's 2011 Annual Report and 2012 Interim Report, wireless communication module segment is the only segment which remained profitable. The Directors consider further development in the wireless module business will bring future economic benefits to the Group.

We have reviewed a report titled "The Global Wireless M2M Market" published by Berg Insight in 2012 (based on the information provided by various industry practitioners as acknowledged therein) in respect of wireless module industry and noted that the Group is one of the market leaders in cellular wireless modules in the PRC and ranks as one of the top five producers worldwide both in terms of turnover and sales volume.

According to their corporate website, Berg Insight offers premier business intelligence to the telecom industry and produce concise reports providing key facts and strategic insights about wireless machine-to-machine, location-based services, mobile value-added services and next generation technologies. We have reviewed the credentials of Berg Insight to ascertain the reliability of their research. Based on information on their corporate website, Berg Insight has a list of clients which include

(1) network operators and service providers; (2) information technology and telecom vendors; (3) investment banks and management consultancies; and (4) other industries and various government agencies. According to the management of the Company, reports from Berg Insight are commonly referred to by practitioners of wireless module industry.

Given the Group's expertise in the wireless modules industry, its track records and its established sales network, we concur with the Directors that it is justifiable to further invest in this business, including further collaborations with local operators on machine-to-machine projects.

In view of the abovementioned recent developments and taking into account the financial performance of the Group, as well as the challenges it faces, namely market competition and product compatibility, we consider that it is justifiable for the Company to raise additional funds to enable it to continue pursuing its strategies on the handset and solutions business and wireless module business.

2. Reasons for the Rights Issue and use of proceeds

Funding for its business operations in response to recent developments

Taking into account the change in strategy as set out in the section headed "Recent developments" above, it is proposed that the Rights Issue be implemented to raise additional funds for implementing the Group's business operations.

The Company will raise a minimum of approximately HK$170.5 million, before expenses, by way of Rights Issue of not less than 852,499,500 Rights Shares and a maximum of approximately HK$175.6 million, before expenses, by way of Rights Issue of not more than 877,889,500 Rights Shares and the estimated net proceeds from the Rights Issue will be approximately HK$165.0 million. The price per Rights Share is HK$0.20. The Company intends to use the net proceeds: (i) as to approximately HK$143.0 million for additional funding of the working capital requirement resulting from the extension of the credit terms offered to two major customers; and (ii) as to approximately HK$22.0 million for the capital expenditure for wireless module business.

Fund raising alternatives

We have been advised by the Directors that they have consulted certain financial institutions and considered alternative means of fund raising, such as bank borrowings, share placement and issue of convertible securities. The Directors are of the view that bank borrowings will inevitably increase interest expenses of the Group and adversely impact the Group's gearing ratio. In addition, given the current stock market sentiment, the Directors believe that it would be difficult to raise fund through share placement and issue of convertible securities. The Directors also consider that any further placement of the Shares and/or issue of convertible securities would be dilutive to the interest of the existing Shareholders as they will not be able to participate on an equitable basis. In comparison, by taking up their allotments under the Rights Issue in full, the Rights Issue would enable the Qualifying Shareholders to maintain their respective percentage interests in the Company and continue to participate in the future growth and development of the Company.

Given the abovementioned reasons, the Board considers that the Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and hence, the Board considers that fund raising through the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

Based on the above and taking into consideration that:

- bank borrowings are not desirable as it would increase the interest costs of the Group (at a time when it is making losses) and increase the gearing ratio of the Company;

- the Rights Issue will increase the capital base of the Company without incurring any additional financing costs;

- share placement or issue of convertible securities would dilute the interests of the existing Shareholders as they will not be able to participate on an equitable basis;

- the Rights Issue provides an opportunity for the Qualifying Shareholders to maintain their relative percentage interests in the Company; and

- Qualifying Shareholders who do not wish to take up their entitlements under the Rights Issue in full will have the opportunity to realise the value of their nil-paid Rights Shares by trading them in the stock market;

we concur with the views of the Directors that the Rights Issue is a fair and reasonable fund raising method for the Company to obtain long-term capital.

3. Principal terms of the Rights Issue

(a) Basis of the Rights Issue

For details of the issue statistics of the Rights Issue, please refer to the "Letter from the Board".

(b) Subscription Price

The Subscription Price of HK$0.20 per Rights Share is payable in full upon acceptance of the relevant offer of Rights Shares. The Subscription Price represents:

(i) a discount of approximately 55.6% to the closing price of HK$0.450 per Share as quoted on the Stock Exchange of the Last Trading Date;

(ii) a discount of approximately 53.7% to the average closing price of approximately HK$0.432 per Share for the last 5 trading days as quoted on the Stock Exchange up to and including the Last Trading Date;

(iii) a discount of approximately 53.5% to the average closing price of approximately HK$0.430 per Share for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Date;

(iv) a discount of approximately 52.1% to the average closing price of approximately HK$0.417 per Share for the previous 1 month as quoted on the Stock Exchange up to and including the Last Trading Date;

(v) a discount of approximately 48.5% to the average closing price of approximately HK$0.388 per Share for the previous 2 months as quoted on the Stock Exchange up to and including the Last Trading Date;

(vi) a discount of approximately 47.2% to the average closing price of approximately HK$0.379 per Share for the previous 3 months as quoted on the Stock Exchange up to and including the Last Trading Date;

(vii) a discount of approximately 45.5% to the theoretical ex-entitlement price of approximately HK$0.367 per Share based on the closing price of HK$0.45 per Share as quoted on the Stock Exchange on the Last Trading Date;

(viii) a discount of approximately 44.4% to the closing price of HK$0.360 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(ix) a discount of approximately 85.1% to the audited consolidated net assets value per Share as at 31 December 2011 of approximately HK$1.342 per Share.

According to the "Letter from the Board", the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the recent trend of prices of the Shares, the financial conditions of the Group and current market conditions. For reference purpose, the recent monthly average closing prices of the Shares are set out below:

2012	**Average closing price**	**Total transaction volume**
	HK$	*No. of Shares*
April	0.548	30,192,000
May	0.477	40,263,500
June	0.433	19,005,470
July	0.373	20,809,000
August	0.358	83,525,400
September	0.407	164,175,000

The Group published an announcement pursuant to Rule 13.09 of the Listing Rules in respect of its unaudited monthly revenue of June 2012 and the unaudited revenue for the six months ended 30 June 2012 on 10 July 2012, and profit warning announcement on 31 July 2012. It is noted that the closing prices per Share decreased from HK$0.43 in early July 2012 to HK$0.33 in late July 2012. The Share prices maintained within the range of HK$0.33 to HK$0.36 until 23 August 2012, where the price closed at HK$0.395 per Share, following the publication of the interim result for the six months ended 30 June 2012 on 21 August 2012. The price per Share gradually increased from late August 2012 and maintained above HK$0.40 in most of September 2012 and up to the Last Trading Date.

The Directors confirm us that they are not aware of any reasons for such increase in Share prices and transaction volume in September 2012.

As the Rights Shares are offered to all Qualifying Shareholders, the Directors have endeavoured to set the Subscription Price at a level that would encourage the Qualifying Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group. The negotiations between the Directors and the Underwriter had been carried on during July and August 2012 where the average closing price of the Shares was around HK$0.35.

In order to assess the reasonableness of the Subscription Price, we have compared the Rights Issue with rights issues/open offers conducted by other companies listed on the Stock Exchange in the six months preceding the Latest Practicable Date. While listed companies differ from one another, it is a common market practice to price a rights issue/open offer at a discount to the market price of the relevant shares in order to encourage subscription by their shareholders.

We have reviewed all rights issues/open offers with prospectus published by companies listed on the Stock Exchange during the six months period prior to the Latest Practicable Date. Details of our findings on these rights issues/open offers (the "List") are summarised in Table 1. During our analysis, we have identified certain exceptional rights issues/open offers which we consider not appropriate to compare with the Rights Issue ("Excluded Companies") for reason mainly due to prolonged suspension in the trading of their shares. The Excluded Companies and details for their exclusion are summarised in Table 2.

We consider the selection of such six months period to be sufficient and appropriate for our analysis for fund raising exercises such as rights issues/open offers, as the market sentiment at the relevant time in general plays an important role in the determination of the subscription price, while reasonable number of such fund raising exercises could be included for reference purposes. As far as we are aware, there were no fund raising exercises conducted by companies of similar principal business during 2012.

Table 1: List of companies listed on the Stock Exchange during the six months period prior to the Latest Practicable Date (except for the Excluded Companies set out in Table 2 below)

Prospectus date	Stock code	Company	Basis	Rights price	Last trading date price	Premium/ (discount) to Last trading date price	Theoretical ex-right price	Premium/ (discount) to theoretical ex-right price	Maximum dilution	Underwriting commission
2012.04.24	2326	BEP International Holdings Limited	1 for 2	0.192	0.320	-40.0%	0.277	-30.8%	33.3%	2.5%
2012.04.27	0495	Paladin Limited	2 for 5	0.155	0.120	29.2%	0.141	9.9%	28.6%	2.0%
2012.05.11	8082	Sage International Group Limited	1 for 2	0.100	0.219	-54.3%	0.204	-51.0%	33.3%	0.0%
2012.05.21	1207	SRE Group Limited	1 for 7	0.300	0.385	-22.1%	0.374	-19.8%	12.5%	0.0%
2012.05.22	1125	Lai Fung Holdings Limited	1 for 1	0.125	0.202	-38.1%	0.164	-23.8%	50.0%	2.0%
2012.05.31	2312	China Financial Leasing Group Limited	1 for 2	0.200	0.200	0.0%	0.200	0.0%	33.3%	2.5%
2012.06.04	0009	China Mandarin Holdings Limited	1 for 1	0.538	1.290	-58.3%	0.914	-41.1%	50.0%	2.0%
2012.06.05	0059	Skyfame Realty (Holdings) Limited	1 for 2	0.500	0.690	-27.5%	0.630	-20.6%	33.3%	3.0%
2012.06.11	8041	Luxey International (Holdings) Limited	1 for 2	0.050	0.083	-39.8%	0.072	-30.6%	33.3%	2.5%
2012.06.13	2320	Hop Fung Group Holdings Limited	1 for 2	0.180	0.410	-56.1%	0.333	-46.0%	33.3%	1.0%
2012.06.25	0362	China Zenith Chemical Group Limited	2 for 1	0.150	0.315	-52.4%	0.205	-26.8%	66.7%	2.5%
2012.06.27	8212	Hong Kong Life Group Holdings Limited (currently known as "Celebrate International Holdings Limited")	5 for 1	0.138	0.405	-65.9%	0.183	-24.6%	83.3%	3.5%
2012.07.11	0692	Bao Yuan Holdings Limited	7 for 2	0.120	0.160	-25.0%	0.129	-7.0%	77.8%	3.0%
2012.07.12	1428	Bright Smart Securities & Commodities Group Limited	1 for 2	0.550	0.690	-20.3%	0.643	-14.5%	33.3%	0.0%
2012.07.18	0399	United Gene High-Tech Group Limited	3 for 10	0.022	0.031	-29.0%	0.029	-24.1%	23.1%	5.0%
2012.07.24	8239	Ming Kei Holdings Limited	1 for 2	0.430	0.470	-8.5%	0.457	-5.9%	33.3%	3.5%
2012.07.25	0245	China Seven Star Shopping Limited	1 for 2	0.050	0.070	-28.6%	0.063	-20.6%	33.3%	2.0%
2012.08.21	8321	China Automotive Interior Decoration Holdings Limited	2 for 1	0.100	0.148	-32.4%	0.116	-13.8%	66.7%	3.0%
2012.08.22	8022	TLT Lottotainment Group Limited	1 for 2	0.050	0.045	11.1%	0.047	7.1%	33.3%	3.0%
2012.08.31	0736	China Properties Investment Holding Limited	1 for 2	0.068	0.186	-63.4%	0.147	-53.7%	33.3%	3.0%
2012.09.11	0616	Easyknit Enterprises Holdings Limited	1 for 2	0.077	0.077	0.0%	0.077	0.0%	33.3%	1.0%
2012.09.12	1037	Daiwa Associate Holdings Limited	1 for 4	0.200	0.420	-52.4%	0.376	-46.8%	20.0%	0.0%

Prospectus date	Stock code	Company	Basis	Rights price	Last trading date price	Premium/ (discount) to Last trading date price	Theoretical ex-right price	Premium/ (discount) to theoretical ex-right price	Maximum dilution	Underwriting commission
2012.09.20	0767	Pacific Plywood Holdings Limited	2 for 1	0.093	0.560	-83.4%	0.129	-28.0%	92.3%	2.0%
2012.09.21	0620	UDL Holdings Limited	1 for 3	0.700	1.650	-57.6%	1.410	-50.4%	25.0%	2.5%
2012.10.15	3813	Pou Sheng International (Holdings) Limited	1 for 4	0.491	0.475	3.4%	0.478	2.7%	20.0%	0.0%
2012.10.22	8198	MelcoLot Limited	3 for 1	0.078	0.099	-21.2%	0.083	-6.0%	75.0%	0.0%
		Maximum				29.2%		9.9%	92.3%	5.0%
		Minimum				-83.4%		-53.7%	12.5%	0.0%
		Average				-32.0%		-21.8%	42.0%	2.0%
		(those with premium to rights share excluded)								
		Maximum discount				-83.4%		-53.7%	92.3%	5.0%
		Minimum discount				0.0%		0.0%	12.5%	0.0%
		Average discount				-38.1%		-25.5%	42.0%	2.0%
	2000	**The Company**	**1 for 2**	**0.2**	**0.45**	**-55.6%**	**0.367**	**-45.5%**	**33.3%**	**2.0%**

Table 2: Excluded Companies

Prospectus date	Stock code	Company	Notes	Basis	Rights price	Last trading date price	Premium/ (discount) to Last trading date price	Theoretical ex-right price	Premium/ (discount) to theoretical ex-right price	Maximum dilution	Underwriting commission
2012.05.18	1139	Victory Group Limited	1	110 for 1	0.130	2.980	-95.6%	0.156	-16.7%	99.1%	2.5%
2012.08.10	1076	First Natural Foods Holdings Limited	2	7 for 1	0.562	23.600	-97.6%	3.442	-83.7%	87.5%	3.0%

Notes:

1. Trading of shares has been suspended since 27 September 2006.

2. Trading of shares has been suspended since 15 December 2008.

As shown in Table 1, the companies had subscription prices at a premium/discount to their respective closing price per share on the last full trading day prior to the release of the relevant announcement within a range from a discount of approximately 83.4% to a premium of approximately 29.2%, with an average of a discount of approximately 38.1% (this average discount has excluded the above 3 companies which recorded a premium). In the case of the Rights Issue, the discount of the Subscription Price of HK$0.20 to the closing price on the Last Trading Date is approximately 55.6% which is within the range of the companies set out in Table 1, but above their average discount (this average discount has excluded the above 3 companies which recorded a premium). With regard to the discount/premium to the theoretical ex-entitlement price per share of the companies set out in Table 1, they ranged from a discount of approximately 53.7% to a premium of approximately 9.9%, with an average of approximately 25.5% (this average discount has excluded the above 3 companies which recorded a premium). In the case of the Rights Issue, the Subscription Price has a discount of approximately 45.5% to the theoretical ex-entitlement price per Share, which also falls within the range of the companies set out in Table 1, but above their average discount (this average discount has excluded the above 3 companies which recorded a premium).

By excluding either one or both of the following:

(i) those with market capitalisation over HK$1 billion,

(ii) those with offering ratios other than 1 rights share for 2 existing shares;

there will be a minimum of 10 out of 26 companies of those set out in Table 1, and the discount of the Subscription Price in such scenarios will still fall within the discount ranged from 0% to 83.4%, but above the average discount of 31.1% (excluding those with premium).

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter, with reference to the trend of price of the Shares, and current stock market conditions. In addition, it is common market practice to price a rights issue/open offer at a discount to the market price of the shares so as to encourage subscription by the shareholders. By taking up their relevant offer of the Rights Shares, Qualifying Shareholders will be able to maintain their respective shareholding interests in the Company. As for all rights issues/open offers, the interests of the Qualifying Shareholders will not be prejudiced by the relatively deep discount of the Subscription Price so long as they are offered with an equal opportunity to participate in the exercise.

Having considered the above, we are of the view that the respective discounts as represented by the Subscription Price to the closing price and the theoretical ex-entitlement price are comparable to market trend during the past six months and in this respect, we are of the view that the Subscription Price is fair and reasonable.

(c) Excess application for Rights Shares

Qualifying Shareholders are entitled to apply, by way of excess application, for (i) any unsold nil-paid Rights Shares of the Non-Qualifying Shareholders; (ii) any unsold Rights Shares created by adding together fractions of nil-paid Rights Shares; and (iii) any nil-paid Rights Shares provisionally allotted to Qualifying Shareholders but not subscribed for. For details of application, please refer to the "Letter from the Board". We are of the view that the above excess application mechanism is fair and reasonable to Independent Shareholders as Qualifying Shareholders are given the first rights to subscribe for any Rights Shares not taken up before the Underwriter.

4. Possible financial effects of the Rights Issue

(a) Adjusted net tangible assets

Based on the information set out in the "Unaudited pro forma financial information of the Group" contained in Appendix II to the Circular, the pro forma adjusted consolidated net tangible assets of the Group ("Pro Forma NTA") would amount to approximately HK$1,947.3 million as a result of the completion of the Rights Issue and receipt of an estimated net proceeds from the Rights Issue of approximately HK$165.0 million.

Assuming completion of the Rights Issue, the Pro Forma NTA per Share would be approximately HK$0.76, representing a decrease of approximately 27.6% from net tangible asset per Share prior to the completion of the Rights Issue of approximately HK$1.05. This is due to the fact that the Subscription Price is fixed at a discount to the net tangible asset per Share prior to the completion of the Rights Issue. Shareholders should also take note of the assumptions made in the preparation of the unaudited pro forma financial information of the Group contained in Appendix II to the Circular; in particular, the pro forma financial information does not take into account any trading result or other transactions of the Group subsequent to 30 June 2012.

(b) Cash resources

As noted from the 2011 Annual Report, the Group had bank balances and cash of approximately HK$500.8 million as at 31 December 2011. According to the 2012 Interim Report, the Group had bank balances and cash of approximately HK$352.6 million as at 30 June 2012.

According to the Directors, such relatively low bank balances and cash as at 30 June 2012 as compared to that of 31 December 2011 was mainly due to the fact that more pledged bank deposit was required to secure bank borrowings as compared to the previous year. Accordingly, more cash was locked up as pledged bank deposit, while the bank borrowings amount was lower as compared to previous year. As at 30 June 2012, pledged bank deposit amounted to approximately HK$262.2 million was utilised to secure bank borrowings of approximately HK$438.4 million, as compared with pledged bank deposit of approximately HK$171.9 million pledged as security for bank borrowings of approximately HK$511.5 million as at 31 December 2011.

Based on the 2012 Interim Report and according to the management, part of the pledged bank deposit was deployed to secure certain short term bank borrowings to meet the short term working capital requirement. We have reviewed the internal financial records of the Group and noted that cash and cash equivalents were maintained at various operating subsidiaries in Shanghai and Shenyang which are PRC companies and thus their respective cash balance could not be deployed interchangeably.

With the net proceeds from the Rights Issue receivable by the Company (which is estimated to be no less than approximately HK$165.0 million), it is expected that the Group's working capital position can be strengthened.

(c) Gearing ratio

As noted from the 2011 Annual Report, the Group's total bank borrowings and total equity as at 31 December 2011 were approximately HK$511.5 million and HK$2,074.9 million respectively. The Company's gearing ratio (being the ratio of total bank borrowings to equity) was therefore approximately 24.7%. Based on the enhanced cash position and enlarged capital base upon completion of the Rights Issue, the Company's gearing ratio is expected to be improved.

Based on the above analysis where the Rights Issue would improve the overall financial position of the Company, we are of the view that, in this respect, it is beneficial to the Company and the Shareholders as a whole.

5. Terms of the Underwriting Agreement

Pursuant to the Underwriting Agreement, the Underwriter has agreed to fully underwrite not less than 852,499,500 Underwritten Shares and not more than 877,889,500 Underwritten Shares not taken up by the Qualifying Shareholders. Details on the conditions of the Underwriting Agreement are stated in the section headed "Underwriting Agreement" in the "Letter from the Board".

The Company will pay the Underwriter an underwriting commission of 2.0% of the aggregate Subscription Price underwritten by it (excluding Rights Shares provisionally allotted to connected persons of the Company, namely, Info Dynasty, Simcom (BVI), Intellipower, Mr. Wong Cho Tung and Ms. Yeung Man Ying and the Directors), which was arrived at after arm's length negotiations. The Directors believe that the underwriting commission accords with market rates and is fair and reasonable so far as the Independent Shareholders are concerned.

Based on our review of the underwriting arrangements of the companies set out in Table 1, we have noticed that the underwriting commission rates paid by the listed companies ranged from nil to 5.0% with an average of 2.0%. The rate of underwriting commission for the Rights Issue is within the range of the companies as set out in Table 1 and is the same as their average. We also note that no underwriting commission will be applicable to the portion of Underwritten Shares provisionally allotted to but not subscribed for by the Directors and the connected persons to the Underwriter. We consider that the underwriting commission of 2.0% in the present case and the aforesaid arrangement relating to connected persons to be in line with market practice and are fair and reasonable so far as the Independent Shareholders are concerned.

6. Possible dilution effect of the Rights Issue on the shareholding interests

As the Rights Issue is to be offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Rights Issue in full. Any Qualifying Shareholders who choose not to take up in full their assured allotments under the Rights Issue will have their shareholdings in the Company diluted by up to a maximum of approximately 33.3%. The possible dilution of the Rights Issue on shareholding interests were set out in the section headed "Changes in shareholding structure" in the "Letter from the Board".

As in all rights issues/open offers, a dilution in the shareholding of those Qualifying Shareholders who do not take up in full their assured entitlements under the Rights Issue is inevitable. The dilution magnitude of any rights issues/open offers depends mainly on the extent of the basis of entitlement under such exercises, where the higher the offering ratio of right shares to existing shares is, the greater the dilution on the existing shareholding would be. Based on our review of the companies set out in Table 1, the effect of such maximum dilution ranged from 12.5% to 92.3%. We also noted that 12 out of 26 companies set out in Table 1 conducted rights issues/open offers at the ratio of 1 for 2, which is the same offering ratio as the Rights Issue. The possible maximum dilution of 33.3% as in the case of the Rights Issue falls within the aforesaid range of the companies set out in Table 1 while the offering ratio of the Rights Issue corresponds to those commonly implemented by the companies set out in Table 1. We are of the view that the level of potential dilution to Qualifying Shareholders who do not take up their entitlements under the Rights Issue is acceptable.

7. Whitewash Waiver

As discussed in the section headed "Reasons for the Rights Issue and use of proceeds", we understand that the Company has enquired with certain financial institutions in respect of underwriting for the Rights Issue, and was informed that given the current stock market sentiment, the financial institutions were not interested in participating. Accordingly, the Directors have to explore other possibility in respect of the underwriting of the Rights Issue so as to facilitate the implementation of the Rights Issue.

Subsequent to various discussions and negotiations, Toman Investments Limited, a company held as to 25.0% by each of Mr. Wong Sun, Mr. Wong Hei, Simon, Mr. Wong Cho Tung and Ms. Yeung Man Ying, has agreed to take up the role as the Underwriter. Mr. Wong Hei, Simon, Mr. Wong Cho Tung and Ms. Yeung Man Ying are executive Directors. Ms. Yeung Man Ying is spouse of Mr. Wong Cho Tung, and both Mr. Wong Sun and Mr. Wong Hei, Simon are their sons. They are also the shareholders of Info Dynasty, the controlling shareholder of the Company. As at the Latest Practicable Date, the Underwriter and persons acting in concert with it were interested in a total of 775,918,000 Shares representing approximately 45.51% of the existing issued share capital of the Company.

Upon completion of the Rights Issue, the total number of Shares held by the Underwriter and persons acting in concert with it, may increase from 775,918,000 Shares (representing approximately 45.51% of the total number of Shares in issue as at the Latest Practicable Date) to 1,628,417,500 Shares (representing the maximum proportion of approximately 63.67% of the total number of Shares in issue as enlarged by the Rights Issue assuming no exercise of the Vested Option on or before the Record Date). It is expected that the individual with the largest effective shareholding in the group of persons acting in concert with the Underwriter will not change upon the completion of the Rights Issue. Accordingly, the Underwriter and persons acting in concert with it will be obliged under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all of the Shares and securities issued by the Company not already owned or agreed to be acquired by the Underwriter and persons acting in concert with it. An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

The Rights Issue is conditional upon, among other things, the Executive granting the Whitewash Waiver to the Underwriter. Meanwhile, the Executive has indicated that the Whitewash Waiver will be granted subject to, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM by way of poll. Based on our analysis of the financial information, the development of the Group and industry, the terms of the Rights Issue, reasons for the Rights Issue and the use of proceeds as described above, we consider that the Rights Issue is in the interests of the Company and the Shareholders as a whole. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders, the Rights Issue will not proceed and the Company will not receive the proceeds from the Rights Issue. Given our view that the terms of the Right Issue is fair and reasonable for the reasons as described above, we are of the view that, for the purposes of facilitating the Rights Issue as discussed above, the approval of the Whitewash Waiver by the Independent Shareholders is in the interests of the Company and the Shareholders as a whole and is fair and reasonable.

We wish to highlight that if the Whitewash Waiver is granted, the Underwriter and persons acting in concert with it may hold more than 50% of the then issued share capital of the Company upon completion of the Rights Issue. In this case, going forward, the

Underwriter and persons acting in concert with it will be free to acquire further voting rights in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

RECOMMENDATION

Having considered the above principal factors and reasons, we concur with the view of the Directors that the Rights Issue is a fair and reasonable method for the Company to obtain long-term capital, and are of the view that the Whitewash Waiver, which is to facilitate the implementation of the Rights Issue, is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend that the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Whitewash Waiver.

Yours faithfully
For and on behalf of
Altus Capital Limited

Arnold Ip	**Chang Sean Pey**
Executive Director	*Executive Director*