



24 October 2016

To the Independent Board Committee,
the Independent Shareholders and the Independent Optionholders of
Perfectech International Holdings Limited

Dear Sirs,

**VOLUNTARY CONDITIONAL CASH OFFERS BY
YU MING INVESTMENT MANAGEMENT LIMITED
ON BEHALF OF
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
PERFECTECH INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED
TO BE ACQUIRED BY
STAR FLY LIMITED AND FRESH CHOICE HOLDINGS LIMITED AND
PARTIES ACTING IN CONCERT WITH THEM) AND
TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

INTRODUCTION

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the “**Independent Board Committee**”) of Perfectech International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) in relation to the voluntary conditional cash offers (the “**Offers**”) made by Yu Ming Investment Management Limited (“**Yu Ming**”) on behalf of Star Fly Limited (“**Star Fly**”) and Fresh Choice Holdings Limited (“**Fresh Choice**”, together with Star Fly, the “**Offerors**”) to (i) acquire all the issued shares of the Company (other than those shares already owned or agreed to be acquired by the Offerors and parties acting in concert with them); and (ii) cancel all outstanding share options of the Company in compliance with Rule 13 of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”). Details of the Offers are disclosed in the composite offer and response document in respect of the Offers jointly issued by the Offerors and the Company dated 24 October 2016 (the “**Composite Document**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Lam Yat Cheong, Mr. Yip Chi Hung and Mr. Choy Wing Keung, David, has been formed to advise the Independent Shareholders and the Independent Optionholders as to whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Our appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not connected with the Company, the Controlling Shareholders or the Offerors, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice to the Independent Board Committee in respect of the Offers. Apart from the normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Controlling Shareholders or the Offerors, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, amongst others, the announcement issued by the Company dated 1 June 2016 in respect of the Exclusivity Agreement (the “**June Announcement**”), the Joint Announcement, the annual reports of the Company for the two years ended 31 December 2014 and 31 December 2015 (the “**2014 Annual Report**” and the “**2015 Annual Report**”, respectively), the interim report of the Company for the six months ended 30 June 2016 (the “**2016 Interim Report**”), and the information contained in the Composite Document. We have also discussed with and reviewed the information provided by the management of the Group (the “**Management**”) regarding the business and outlook of the Group.

We have relied on the information and facts provided, and the opinions expressed, by the Directors and the Management, which we have assumed to be true, accurate, complete and not misleading in all material aspects as at the Latest Practicable Date and the Shareholders and the Optionholders will be notified of any material changes to such representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have sought and received confirmation from the Directors and the Management that no material facts have been omitted from the information provided and opinions expressed by them to us. We consider that the information which we have received is sufficient for us to reach our opinion and recommendations as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material information has been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group nor have we carried out any independent verification of the information provided.

We have not considered the tax and regulatory implications on the Independent Shareholders and Independent Optionholders of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, the Independent Shareholders and the Independent Optionholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offers and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFERS

Yu Ming, on behalf of the Offerors, makes the voluntary conditional cash offers to all Independent Shareholders and the Independent Optionholders (i) to acquire all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offerors and their Concert Parties); and (ii) to cancel all outstanding Options on the following basis:

The Share Offer

For each Offer Share HK\$1.815 in cash

The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all encumbrances and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

As at the Latest Practicable Date, there were 326,923,607 Shares in issue, and the Offerors and their Concert Parties were not interested in any Shares (other than as a result of the execution of the Irrevocable Undertakings).

The Option Offer

For outstanding Options with an exercise price of HK\$0.77 each

For the cancellation of each such Option HK\$1.045 in cash

For outstanding Options with an exercise price of HK\$1.46 each

For the cancellation of each such Option HK\$0.355 in cash

As at the Latest Practicable Date, there were 16,452,000 outstanding Options granted under the Share Option Scheme, carrying rights to subscribe for 16,452,000 new Shares. 16,366,000 of the outstanding Options have an exercise price of HK\$1.46, and the remaining 86,000 outstanding Options have an exercise price of HK\$0.77.

As at the Latest Practicable Date, Mr. Poon, being one of the Controlling Shareholders, and his Concert Parties held 6,058,000 Options carrying rights to subscribe for 6,058,000 new Shares.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

For further details of the Offers (including the terms and procedures for acceptance of the Offers), please refer to the "*Letter from Yu Ming*" as set out on pages 6 to 16 of the Composite Document, Appendix I to the Composite Document and the accompanying Form(s) of Acceptance. The Independent Shareholders and the Independent Optionholders are urged to read the relevant sections in the Composite Document in full.

CONDITIONS OF THE OFFERS

The Share Offer is subject to the fulfillment or waiver, as applicable, the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offerors may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offers, will result in the Offerors and their Concert Parties together holding not less than 70% of the voting rights of the Company;
- (b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date save for any temporary suspension(s) of trading in the Shares as a result of the Offers and no indication being received on or before the Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn, other than as a result of the Offers; and
- (c) no events, up to the Closing Date, having occurred which would make the Offers or the acquisition of any of the Shares or cancellation of the Options under the Offers void, unenforceable or illegal or their implementation being prohibited or which would impose material conditions, limitations or obligations with respect to the Offers.

The Offerors reserve the right, acting jointly, to waive, in whole or in part, Condition (b). Conditions (a) and (c) cannot be waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offerors should not invoke Condition (c) so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offerors in the context of the Offers.

The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offerors reserve the right to revise the terms of the Offers in accordance with the Takeovers Code.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the terms of the Offers, we have considered the following principal factors and reasons:

1. Business, financial performance and prospects of the Group

A. Business of the Group

The Company was incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacture and sale of novelties, decorations and toys products.

Due to the increasing costs of production in the PRC in the last decade, it has become more difficult for manufacturers to survive. The Management had already ceased the business in sale of PVC films and plastic materials in 2012 and sale of packaging products in 2013 as a result of the continuous loss incurred in these two segments. Following the trim down of business scale, the Management has been striving to improve the production efficiency by reallocating the resources to the profitable business in sale of novelties and decorations and sale of toys. Unfortunately, the performance of the remaining business was still undesirable due to the keen competition as well as the ever increasing labour cost in the PRC.

Apart from the manufacturing business, the Group makes use of the available funds on hand to invest in the financial market and investment properties in an attempt to earn stabilized income and capital gain from the investments.

B. Financial performance of the Group

Set forth below are (i) the audited consolidated financial information of the Group for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 ("FY2013", "FY2014" and "FY2015", respectively) as extracted from the 2014 Annual Report and the 2015 Annual Report; and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 June 2015 and 30 June 2016 ("PE2015" and "PE2016", respectively) as extracted from the 2016 Interim Report:

Table 1: Financial highlights of the Group

	FY2013	FY2014	FY2015	PE2015	PE2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	248,741	225,549	198,088	75,311	87,355
– Novelties and decorations products	66,216	57,077	36,154	11,082	7,542
– Toy products	182,525	168,472	161,934	64,229	79,813
Gross Profit	66,050	56,538	44,939	10,371	20,518
Other income, gains and losses	9,425	1,682	(3,842)	7,879	3,121
Profit/(loss) attributable to owners of the Company for the year/period	12,512	7,677	(16,090)	(13,440)	1,565

	As at 31 December		As at 30 June	
	2013	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)
Non-current assets	79,363	116,331	100,955	98,814
Current assets	201,243	147,805	152,086	170,073
(Current liabilities)	(65,609)	(66,919)	(54,148)	(62,130)
Net current assets	135,634	80,886	97,938	107,943
Equity attributable to owners of the Company	200,909	182,301	182,987	190,617

Source: the annual reports and interim report of the Company

(i) For the year ended 31 December 2014 (i.e. FY2014)

In FY2014, the Group recorded revenue of approximately HK\$225.5 million, representing a decrease of approximately 9.3% as compared to that in FY2013. Revenue from sales of toy products decreased from approximately HK\$182.5 million in FY2013 to approximately HK\$168.5 million in FY2014. The decrease in revenue was mainly due to the unfavourable global economy, especially in Europe, and the weak demand for consumer products. The revenue generated from Europe recorded a significant decrease from approximately HK\$85.6 million in FY2013 to approximately HK\$53.4 million in FY2014, representing a decrease of approximately 37.6%.

In FY2013, the Group recorded a profit from investments of approximately HK\$2.9 million and an increase in fair value in investment property of approximately HK\$1.2 million. However, in FY2014, the Group recorded a loss from investments of approximately HK\$1.7 million and a minimal increase in fair value in investment property of approximately HK\$34,000.

Profit attributable to owners of the Company decreased substantially from approximately HK\$12.5 million in FY2013 to approximately HK\$7.7 million in FY2014, representing a decrease of approximately 38.6%.

As at 31 December 2014, the Group's net current assets, total assets and equity attributable to owners of the Company amounted to approximately HK\$80.9 million, approximately HK\$264.1 million and approximately HK\$182.3 million, respectively.

(ii) For the year ended 31 December 2015 (i.e. FY2015)

In FY2015, the revenue further decreased by approximately 12.2% from approximately HK\$225.5 million in FY2014 to approximately HK\$198.1 million in FY2015, which was primarily attributable to the slowdown of the global economy, including Europe and the PRC, and the weak demand for consumer products. The revenue generated from Europe further decreased from approximately HK\$53.4 million in FY2014 to approximately HK\$40.6 million in FY2015, representing a decrease of approximately 24.0%.

In FY2015, the loss from investments surged to approximately HK\$11.0 million from that of approximately HK\$1.7 million in FY2014. The gain from changes in fair value of investment property increased from approximately HK\$34,000 in FY2014 to approximately HK\$400,000 in FY2015.

In addition, the Group granted Options in FY2015 and therefore incurred share-based payment expenses of approximately HK\$10.9 million.

Owing to the further decrease in revenue, the loss in investment and the share-based payment expenses, the Group recorded loss attributable to owners of the Company of approximately HK\$16.1 million in FY2015.

As at 31 December 2015, the Group's net current assets, total assets and equity attributable to owners of the Company amounted to approximately HK\$97.9 million, approximately HK\$253.0 million and approximately HK\$183.0 million, respectively.

(iii) *For the six months ended 30 June 2016 (i.e. PE2016)*

In PE2016, the Group's revenue increased by approximately 16.0% from HK\$75.3 million in PE2015 to approximately HK\$87.4 million in PE2016. Such increase was mainly attributable to the increase in sales of toy products by approximately 24.3% to approximately HK\$79.8 million.

The profits from investments decreased from approximately HK\$4.3 million in PE2015 to approximately HK\$0.9 million in PE2016.

Since no share-based payments incurred in PE2016, administrative expenses decreased to approximately HK\$17.7 million in PE2016, representing a significant decrease of approximately 39.4% from approximately HK\$29.2 million in PE2015.

The Group recorded a profit attributable to owners of the Company of approximately HK\$1.6 million in PE2016 as compared with a loss attributable to owners of the Company of approximately HK\$13.4 million in PE2015.

As at 30 June 2016, the Group's net current assets, total assets and equity attributable to owners of the Company amounted to approximately HK\$107.9 million, approximately HK\$268.9 million and approximately HK\$190.6 million, respectively.

C. *Business prospects of the Group*

As advised by the Management, the costs of production in the PRC continued to maintain an increasing trend and it is not easy to recruit labour in southern China. The production facilities of the Group are located in Guangdong and thus the Group is facing pressure of significant increase in labour cost and shortage of labour. The direct labour costs as a percentage of the total costs of sales increased to approximately 31.9% in FY2015 as compared to approximately 29.4% in FY2014. According to the most recent statistics released by the Statistics Bureau of Guangdong Province, the average wage of employed persons in urban entities of the manufacturing sector in Guangdong Province increased from RMB31,277 per annum in 2010 to RMB57,419 per annum in 2015, representing a continuous upward trend with compound annual growth rate of approximately 12.9%.

On the other hand, the majority of the Group's revenue is derived from the export sale. As disclosed in the 2016 Interim Report, approximately 41.0%, 30.3% and 23.8% of the Group's revenue in PE2016 was derived from Asia (other than Hong Kong), America and Europe, respectively, and thus the Group's performance is directly affected by the global economy. The recent British referendum to exit from European Union, the economic slowdown in Europe and political uncertainties in America will bring uncertainties to the Group's business operation and financial performance.

Taking into consideration the factors as mentioned above, we are of the opinion that there remains uncertainty in the future performance of the Group.

2. Principal terms of the Share Offer

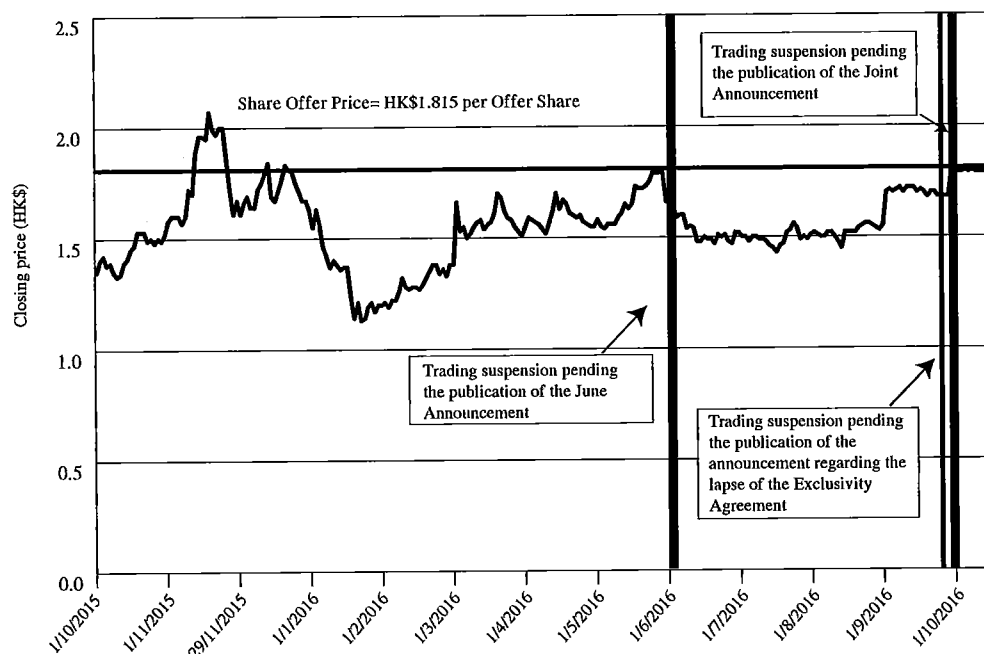
The Share Offer Price of HK\$1.815 per Offer Share represents:

- (i) a premium of approximately 8.04% over the closing price of HK\$1.68 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 7.40% over the average closing price of approximately HK\$1.69 per Share for the last five (5) trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 6.76% over the average closing price of approximately HK\$1.70 per Share for the last ten (10) trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 12.04% over the average closing price of approximately HK\$1.62 per Share for the last thirty (30) trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 1.40% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 2.88 times over the unaudited consolidated net asset value per Share as at 30 June 2016 of approximately HK\$0.63 (which was calculated by dividing the sum of the unaudited consolidated net asset value of the Group as at 30 June 2016 of approximately HK\$206.76 million by 326,923,607 Shares in issue as at the Latest Practicable Date).

A. Historical price performance of the Shares

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 28 September 2015, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the “Review Period”):

Chart 1: Share price performance during the Review Period



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

Note: During the Review Period, trading in the Shares was suspended from 30 May 2016 to 1 June 2016 (both days inclusive), 26 September 2016 and from 28 September 2016 to 30 September 2016 (both days inclusive), respectively.

As illustrated in the chart above, during the Review Period, the closing price of the Shares ranged from the lowest closing price of HK\$1.13 recorded on 20 January 2016 to the highest closing price of HK\$2.07 recorded on 17 November 2015, with an average of approximately HK\$1.56. The Shares were traded below the Share Offer Price of HK\$1.815 throughout the Review Period, except for the period from 11 November 2015 to 24 November 2015, 10 December 2015 and 17 December 2015. The Share Offer Price represents a premium of approximately 60.6% over the lowest closing price of the Shares during the Review Period and a discount of approximately 12.3% to the highest closing price of the Shares. After issue of the Joint Announcement, the market price of the Shares exhibited an upward momentum towards the Share Offer Price.

During the period commencing from 28 September 2015 to 27 September 2016 (being the Last Trading Day) (the “**Pre-announcement Period**”), the closing price of the Shares hit the highest point of HK\$2.07 on 17 November 2015 and then fell back from the top to the lowest point of HK\$1.13 on 20 January 2016. We have enquired with the Management and were advised that the Company is not aware of any particular reason for the price movement. At the request of the Company, trading in the Shares was suspended from 30 May 2016 to 1 June 2016 (both days inclusive) pending the publication of the June Announcement. Subsequent to the issue of the June Announcement, the closing price of the Shares decreased by approximately 7.3% to HK\$1.66 on 2 June 2016 (being the first trading day after the publication of the June Announcement) as compared to that of HK\$1.79 on 27 May 2016 (being the last trading day before the publication of the June Announcement). Trading in the Shares was again suspended from 28 September 2016 to 30 September 2016 (both days inclusive) pending the publication of the Joint Announcement. On the trading day immediately prior to the publication of the Joint Announcement, being the Last Trading Day, the closing price of the Shares was HK\$1.68. Immediately after the publication of the Joint Announcement, the closing price of the Shares surged to HK\$1.80 on 3 October 2016 (being the first trading day after the publication of the Joint Announcement), which was a relatively high price during the Review Period. We consider that such rise in the closing price of the Shares may be associated with the proposed Offers as the Share Offer Price represents a premium of approximately 8.04% over the closing price of HK\$1.68 as quoted on the Stock Exchange on the Last Trading Day. As at the Latest Practicable Date, the closing price of the Shares was HK\$1.79.

Independent Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing price after the Latest Practicable Date.

B. Historical trading volume of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

Table 2: Trading volume of the Shares during the Review Period

Month/period	Total trading volume (No. of Shares)	No. of trading days	Average daily trading volume (No. of Shares)	Percentage of the average daily trading volume to the total number of Shares in issue (Note 2)	Percentage of the average daily trading volume to the number of Shares held by public Shareholders (Note 3)
September 2015 (from 28 September 2015)	5,584,000	2	2,792,000	0.854%	2.595%
October 2015	74,504,000	20	3,725,200	1.139%	3.462%
November 2015	149,936,750	21	7,139,845	2.184%	6.636%
December 2015	126,646,000	22	5,756,636	1.761%	5.351%
January 2016	72,630,000	20	3,631,500	1.111%	3.375%
February 2016	70,250,000	18	3,902,778	1.194%	3.627%
March 2016	186,410,250	21	8,876,679	2.715%	8.251%
April 2016	154,348,200	20	7,717,410	2.361%	7.173%
May 2016 <i>(Note 1)</i>	167,860,000	19	8,834,737	2.702%	8.212%
June 2016 <i>(Note 1)</i>	24,784,000	20	1,239,200	0.379%	1.152%
July 2016	13,170,000	20	658,500	0.201%	0.612%
August 2016	12,422,000	22	564,636	0.173%	0.525%
September 2016 <i>(Note 1)</i>	20,268,500	17	1,192,265	0.365%	1.108%
October 2016 (up to the Latest Practicable Date)	34,011,000	13	2,616,231	0.800%	2.432%

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

Notes:

- Trading in the Shares was suspended from 30 May 2016 to 1 June 2016 (both days inclusive), 26 September 2016 and from 28 September 2016 to 30 September 2016 (both days inclusive), respectively.
- The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 326,923,607 Shares).
- The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by public Shareholders as at the Latest Practicable Date (i.e. 107,588,977 Shares). In the content of this section, the number of Shares held by public Shareholders means the total issued share capital of the Company less the Shares held by the Controlling Shareholders.

As illustrated in the table above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 564,636 Shares to approximately 8,876,679 Shares, representing approximately 0.173% to approximately 2.715% of the total number of the Shares in issue as at the Latest Practicable Date, or approximately 0.525% to approximately 8.251% of the total number of Shares held by public Shareholders as at the Latest Practicable Date.

The trading volume of the Shares was relatively higher from March 2016 to May 2016. We have enquired with the Management and were advised that save for the announcement in respect of the profit warning made on 8 March 2016 and the annual results announcement of the Company for the year ended 31 December 2015 dated 30 March 2016, the Company did not issue any other announcement which is of price-sensitive nature during the respective period and the Management is not aware of any particular reason for the relatively higher trading volume. Following the publication of the June Announcement, the average daily trading volume from 2 June 2016 (the first trading day immediately following the publication of the June Announcement) up to and including the Last Trading Day represents approximately 0.274% and 0.831% of the total number of Shares in issue and the total number of Shares held by public Shareholders, respectively.

Notwithstanding that the historical daily trading volume of the Shares is relatively thin, it is noted that the daily trading volume of the Shares surged since the publication of the Joint Announcement. On 3 October 2016, the trading volume of the Shares skyrocketed to approximately 19.6 million, which was likely to be driven by the investors who wished to lock-in a profit from the price difference between the market price and the Share Offer Price. The average daily trading volume for the period commencing from 3 October 2016 to the Latest Practicable Date (the “**Post-announcement Period**”) was 2,616,213 Shares. Although the trading volume of the Shares tended to be active during the Post-announcement Period, the sustainability of the recent growth of the trading volume of the Shares after the Post-announcement Period is uncertain.

Although the trading volume of the Shares has been more active after the release of the Joint Announcement, it is still uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. Accordingly, the market price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market. Therefore, we are of the view that the Share Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Share Offer Price if they so wish to.

C. Comparable analysis

In order to further evaluate the fairness and reasonableness of the Share Offer Price, we have attempted to adopt price-to-earning ratio (the “**PE Ratio**”) and price-to-book ratio (the “**PB Ratio**”) approaches in our analysis, being two of the most commonly adopted valuation ratios. Given that the Company recorded losses for the year ended 31 December 2015, details of which are presented in the sub-paragraph headed “*B. Financial performance of the Group*” under the paragraph headed “*1. Business, financial performance and prospects of the Group*”, no earning figure is available for the calculation of the PE Ratio of the Company and therefore, it is impracticable to use the PE Ratio to value the Share Offer Price with other companies engaged in similar industry. Taking into account the loss-making position and business nature of the Group, we considered that the PB Ratio would be the most appropriate and relevant approach to evaluate companies with substantial asset base. Thus, we have conducted an analysis with reference to the PB Ratio. Initially, we have attempted to identify comparable companies which (i) are listed on the Stock Exchange; (ii) are engaged in both the manufacture and sale of toys products and the manufacture and sale of novelties and decoration products; and (iii) were of market capitalization less than HK\$2 billion as at the Latest Practicable Date. However, we cannot identify any comparable company which can meet the above criteria.

In this regard, we have extended the selection criteria of the comparable companies to those which (i) derived over 80% of their revenue from manufacture and sale of toys products for their respective latest financial year according to their respective latest published annual report; and (ii) were of market capitalization less than HK\$5 billion as at the Latest Practicable Date and we have identified an exhaustive list of 10 companies (the “**Comparable Companies**”). The reasons for the selection are (i) as disclosed in the 2015 Annual Report, approximately 74.7% and approximately 81.7% of the Group’s revenue were generated from manufacturing and sale of toys products in FY2014 and FY2015, respectively; and (ii) based on our review of information of companies listed on the Stock Exchange, market capitalization of companies of less than HK\$2 billion would be too limited in forming a fair list to assess the Share Offer Price and thus extending the selection criteria on market capitalization to enlarge the sample size provides a relatively more meaningful comparison of the Share Offer Price.

We consider that the selection of the Comparable Companies can reflect the general business performance and value similar to those of the Company although the analysis of which is for reference only due to the different size, financial performance, financial position and market capitalisation of the Comparable Companies when assessing the fairness and reasonableness of the Share Offer Price. The relevant details of the Comparable Companies are set forth in the following table:

Table 3: Details of the Comparable Companies

Company name	Stock code	Principal activities	Market Capitalisation as at the Latest Practicable Date (Approximately HK\$ million)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (Approximately HK\$ million)	PB Ratio (times)
Kader Holdings Company Limited	180	Manufacture and sale of plastic, electronic and stuffed toys and model trains, property investment and investment holding	655.9	1,709.0	0.38
Winshine Science Company Limited	209	Manufacturing and trading of hard and stuffed toys and securities investments	464.7	263.9	1.76
Haier Healthwise Holdings Limited	348	Development, engineering, manufacturing and sale of toys, commercial kitchen and consumer electronic products	1,597.8	581.3	2.75
Kiu Hung International Holdings Limited	381	Manufacturing and trading of toys and gifts, exploration of natural resources and investment in business related to fruit plantation	517.8	307.3	1.68
South China Holdings Company Limited	413	Trading and manufacturing of toys, shoes, electronic toys and leather products, property investment and development, and agriculture and forestry	4,162.8	5,319.2	0.78
Playmates Holdings Limited	635	Design, development, marketing and distribution of toys and family entertainment activity products, property investments, property management, restaurant operation and investment holding	1,991.5	6,155.4	0.32

Company name	Stock code	Principal activities	Market Capitalisation as at the Latest Practicable Date (Approximately HK\$ million)	Net assets attributable to equity holders based on the latest published financial statements prior to the Latest Practicable Date (Approximately HK\$ million)	PB Ratio (times)
Playmates Toys Limited	869	Design, development, marketing and distribution of toys and family entertainment activity products	1,507.0	1,172.3	1.29
Matrix Holdings Limited	1005	Manufacturing and trading of toys and lighting products	2,230.8	941.2	2.37
Dream International Limited	1126	Design, development, manufacture and sale of plush stuffed toys, ride-on toys and plastic figures and investment holding	1,563.6	1,113.1	1.40
Quali-Smart Holdings Limited	1348	Manufacturing and sales of toys; digital publishing, mobile and web application solutions; and securities brokerage, securities margin financing, investment advisory, corporate finance advisory and asset management services	987.3	481.8	2.05
				Maximum:	2.75
				Minimum:	0.32
				Average:	1.48
				Median:	1.54
The Company			585.2		3.11 (Note)

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

Note: PB Ratio implied by the Share Offer Price is calculated by dividing the multiple of the Share Offer Price and the total issued share capital of the Company as at the Latest Practicable Date by the equity attributable to owners of the Company as at 30 June 2016 (i.e. $(1.815 \times 326,923,607) / 190,617,000$).

As illustrated in Table 3 above, the PB Ratios of the Comparable Companies ranged from approximately 0.32 times to approximately 2.75 times, with an average of approximately 1.48 times and a median of approximately 1.54 times. The PB Ratio implied by the Share Offer Price of approximately 3.11 times is higher than all PB Ratios of the Comparable Companies. Therefore, we are of the view that the Share Offer Price is fair and reasonable to the Independent Shareholders.

D. Conclusion

Having considered the facts that:

- (i) the Shares were traded below the Share Offer Price of HK\$1.815 per Offer Share throughout the Review Period, except for the period from 11 November 2015 to 24 November 2015, 10 December 2015 and 17 December 2015;
- (ii) the Share Offer Price of HK\$1.815 per Offer Share represents a premium of approximately 2.88 times over the unaudited consolidated net asset value per Share as at 30 June 2016 of approximately HK\$0.63 (which was calculated by dividing the sum of the unaudited consolidated net asset value of the Group as at 30 June 2016 of approximately HK\$206.76 million by 326,923,607 Shares in issue as at the Latest Practicable Date);
- (iii) it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price; and
- (iv) the PB Ratio implied by the Share Offer Price is higher than all PB Ratios of the Comparable Companies,

we are of the view that the Share Offer Price is fair and reasonable.

3. Principal terms of the Option Offer

The Offerors are making the Option Offer to the Independent Optionholders in accordance with Rule 13 of the Takeovers Code. The Option Offer is conditional upon the Share Offer becoming or being declared unconditional in all respects.

As at the Latest Practicable Date, there were 16,452,000 outstanding Options granted under the Share Option Scheme, carrying rights to subscribe for 16,452,000 new Shares. 16,366,000 of the outstanding Options have an exercise price of HK\$1.46, and the remaining 86,000 outstanding Options have an exercise price of HK\$0.77.

The Option Offer to cancel each Option is calculated on a “see-through” basis, pursuant to which each Independent Optionholder will be entitled to receive a price for his/her Options being the amount by which the Share Offer Price exceeds the exercise price of his/her Options. We note that the adoption of a “see-through” basis is normally adopted in Hong Kong for general offers of a similar nature. Therefore, we consider such basis of determining the offer price of the Option Offer is acceptable and in line with market practice.

4. Irrevocable Undertakings

On 27 September 2016 (after trading hours), each of the Controlling Shareholders has executed the Poons Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Poon, Ms. Lau and Mime has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

On 30 September 2016, each of Mr. Leung and his Affiliates has executed the Leungs Irrevocable Undertakings in favour of the Offerors, pursuant to which each of Mr. Leung and his Affiliates has irrevocably undertaken to the Offerors that they will accept the Share Offer in respect of the Shares held by each of them.

As at the Latest Practicable Date, the Controlling Shareholders, namely, Mr. Poon, Ms. Lau and Mime are beneficial owners of 22,764,000 Shares, 16,404,000 Shares and 101,139,430 Shares, representing approximately 6.96%, 5.02% and 30.94% of the total issued Shares, respectively; Mr. Leung and his Affiliates are interested in 61,365,200 Shares, representing approximately 18.77% of the total issued Shares. Thus, pursuant to the Irrevocable Undertakings, 201,672,630 Ordinary Shares, representing approximately 61.69% of the total issued Share, will be accepted under the Share Offer.

Prior to the closing, lapse or withdrawal of the Share Offer, each of Mr. Poon, Ms. Lau, Mime and Mr. Leung and his Affiliates has undertaken not to sell or transfer (or cause the same to be done) or otherwise dispose of (or permit any such action to occur in respect of) any interest in any Shares beneficially owned by them and not to withdraw or procure the withdrawal of acceptance of the undertaking Shares.

The Poons Irrevocable Undertakings will remain effective unless the Offers lapse or are withdrawn. The Leungs Irrevocable Undertakings will remain effective unless the Offers lapse and will otherwise remain valid and effective for a period of 100 days from the date of the execution of each undertaking. Save for disclosed above, there are no other circumstances under which the Irrevocable Undertakings may cease to be binding.

5. Information on the Offerors and the intention of the Offerors in relation to the Group

A. Information on the Offerors

As stated in the “*Letter from Yu Ming*” contained in the Composite Document, the Offerors consist of Star Fly and Fresh Choice, both of which are companies incorporated in the British Virgin Islands with limited liability.

Star Fly is an investment holding company wholly-owned by Mr. Zhai, its sole director. Mr. Zhai, aged 47, has over 20 years of experience in the financial and securities industry and has worked at leading financial institutions and a leading accounting firm, specialising in direct investment and corporate finance. Mr. Zhai graduated from Murdoch University in Australia with a bachelor's degree in commerce, and is a member of the Shanxi Provincial People's Political Consultative Conference. Save for entering into the Exclusivity Agreement and engaging advisers for the purposes of the Offers, Star Fly has not conducted any business since its incorporation.

Fresh Choice is an investment holding company owned as to 90% by Mr. Gao and 10% by Mr. Wu. Mr. Gao, aged 36, is the sole director of Fresh Choice. He has over 10 years of experience in the investment and accounting fields. Mr. Gao graduated from Communication University of China with a bachelor's degree in accounting. Mr. Wu, aged 52, has over 25 years of experience in international sales and marketing. He graduated from Beijing Jiaotong University with a bachelor's degree in civil engineering. Save for entering into the Exclusivity Agreement and engaging advisers for the purposes of the Offers, Fresh Choice has not conducted any business since its incorporation.

Other than (i) in relation to the making of the Offers, (ii) and the relationship between Mr. Gao and Mr. Wu as shareholders of, and lenders to, Fresh Choice as disclosed in this Composite Document, there is no prior or present relationship (whether business, financial or otherwise) between each of Mr. Zhai, Mr. Gao and Mr. Wu. As at the date hereof, none of Mr. Zhai, Mr. Gao nor Mr. Wu intends or contemplates entering into any relationship with each other in the future (whether business, financial or otherwise).

As at the Latest Practicable Date, Mr. Zhai has advanced a shareholder's loan representing 50% of the total consideration for the Offers to Star Fly; and each of Mr. Gao and Mr. Wu has advanced a shareholder's loan representing 45% and 5% respectively of the total consideration for the Offers to Fresh Choice. Subject to the Share Offer becoming unconditional in all respects, it is intended that each of Star Fly and Fresh Choice will finance the Offers on an equal basis, and that their respective shareholding interests in the Company will be proportionate to their respective financial contributions to the Offers.

B. Intention of the Offerors regarding the Group

As stated in the paragraph headed "*Intentions of the Offerors regarding the Group*" in the "*Letter from Yu Ming*" contained in the Composite Document, the Offerors intend to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offerors had no plan to inject any assets or businesses into the Group or to procure the Group to acquire or dispose of any assets.

Immediately after the close of the Offers, the Offerors will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the Latest Practicable Date, the Offerors had not identified such investment or business opportunities.

The Offerors have no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change of the Board composition as detailed in the section headed “*Proposed Change of Composition of the Board*” in the “Letter from Yu Ming” contained in the Composite Document) or to dispose of or re-allocate the Group’s assets which are not in the ordinary and usual course of business of the Group.

C. *Proposed Change of Composition of the Board*

As stated in the “*Letter from Yu Ming*” contained in the Composite Document, upon close of the Offers, save for Mr. Poon Wai Yip, Albert, all other existing Directors will resign with effect from the earliest time as permitted under the Takeovers Code which is the day immediately after the first Closing Date of the Offers or is declared unconditional or such later date. The Offerors intend to nominate new Directors to the Board upon the Offers becoming unconditional in all respect or such later date. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made as and when appropriate.

Since the Offerors intend to continue the existing business of the Group and do not re-deploy the employees and Mr. Poon Wai Yip, Albert will remain as a Director, the Directors expect the business of the Group will not be materially affected in the immediate future with the formation of the new Board. However, we are of the view that the future business performance and development of the Group will depend on the contribution from and the decision of the new Board on the overall strategic planning of the Group. In particular for the existing business of the Group, despite the fact that the ultimate beneficial owners of the Offerors have extensive management experience in various industries, they do not have direct experience in the business of the manufacture and sale of novelties, decorations and toys products, in which the Group is engaged. Therefore we are of the view that there remains uncertainty on the future performance of the Group under the new controlling Shareholders (i.e. the Offerors).

D. Maintaining the listing status of the Company

As stated in the “*Letter from Yu Ming*” contained in the Composite Document, the Offerors have no intention to privatise the Group and intend to maintain the listing of the Shares on the Stock Exchange. The remaining Director and directors of the Offerors have jointly and severally undertaken to the Stock Exchange that in the event that after the close of the Offers, the public float of the Company falls below 25%, they would take appropriate steps to restore the minimum public float as required under the Listing Rules as soon as possible, to ensure that sufficient public float exists for the Shares. The directors of the Offerors will also procure the new directors to be appointed to the Board to undertake the same upon their appointments.

The Stock Exchange has stated that if, upon completion of the Offers, 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 Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares.

OPINION AND RECOMMENDATION

In view of the above, we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. On such basis, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer. We also consider that the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned and accordingly advise the Independent Board Committee to recommend the Independent Optionholders to accept the Option Offer. However, Independent Shareholders and Independent Optionholders are reminded that the Offers are subject to the conditions becoming unconditional.

In view of the volatility of market conditions, those Independent Shareholders and Independent Optionholders who intend to accept the Share Offer and/or Option Offer are strongly reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market, instead of accepting the Offers, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offers after having regard to the market price and the liquidity of the Shares. However, the Independent Optionholders are reminded that there will be a time lag between the exercise of the Options and the receipt of the conversion Shares due to the time required for the administrative procedures for exercising the Options. Accordingly, the Independent Optionholders who wish to exercise their Options should be mindful of the possible price fluctuations of the Shares during the aforesaid time lag.

For those Independent Shareholders and Independent Optionholders who are attracted by and confident in the future prospects of the Group, given the background of the Offerors as detailed in the "Letter from Yu Ming" contained in the Composite Document and notwithstanding that no detailed business plan has been laid down by the Offerors, they may consider to retain their Shares in full or in part. We would like to remind the Independent Shareholders and the Independent Optionholders that if they consider retaining their Shares or tendering less than all their Shares under the Offers or exercising their Options, they should carefully consider the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offers in view of the historical low liquidity of the Shares and there is no guarantee that the prevailing level of the Share price will sustain during and after the Offer Period.

Independent Optionholders should note that the Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

The Independent Shareholders and the Independent Optionholders are strongly advised that the decision to realise or to continue to hold their investments in the Shares is subject to individual circumstances and investment objectives. The Independent Shareholders and the Independent Optionholders are also reminded to read carefully the procedures for accepting the Offers, details of which are set out in Appendix I to the Composite Document and the accompanying Form(s) of Acceptance, if they wish to accept the Offers.

Yours faithfully,
For and on behalf of
Astrum Capital Management Limited



Hidulf Kwan
Managing Director



Rebecca Mak
Director

Note: Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in and completed various independent financial advisory transactions.

Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2012 and has participated in and completed various independent financial advisory transactions.