



27 December 2007

To: *The Independent Board Committee and the Independent Shareholders of
Compass Pacific Holdings Limited*

Dear Sirs,

**PROPOSED RIGHTS ISSUE OF NOT LESS THAN 2,723,003,232 RIGHTS
SHARES AND NOT MORE THAN 2,982,565,232 RIGHTS SHARES OF
HK\$0.10 EACH AT HK\$0.10 PER RIGHTS SHARE PAYABLE IN FULL ON
ACCEPTANCE (IN THE PROPORTION OF ONE RIGHTS SHARE FOR
EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE)
AND
APPLICATION FOR WHITEWASH WAIVER**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to Rights Issue (including the terms of the Underwriting Agreement) and the Whitewash Waiver, details of which are set out in the "Letter from the Board" contained in the circular dated 27 December 2007 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter should have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

The Company proposes to raise not less than HK\$272.30 million before expenses by issuing not less than 2,723,003,232 Rights Shares and to raise not more than approximately HK\$298.26 million before expenses by issuing not more than 2,982,565,232 Rights Shares at the Subscription Price of HK\$0.10 per Rights Share on the basis of one Rights Share for every one existing Share in issue on the Record Date.

The aggregate number of Rights Shares to be issued pursuant to the terms of the Rights Issue represents 100% of the Company's existing issued share capital as at the date of the Announcement and 50% of the enlarged issued share capital of the Company immediately following the completion of the Rights Issue assuming that no Outstanding Options are exercised on or before the completion of the Rights Issue. Accordingly, the Rights Issue will increase the issued share capital of the Company by more than 50%. Pursuant to Rule 7.19(6) of the Listing Rules, the Rights Issue is subject to approval by the Independent Shareholders, by way of poll, at the Special General Meeting.



The Rights Issue (other than the Rights Shares which will be provisionally allotted to Sun East, the controlling shareholder of the Company, and parties acting in concert with it) will be fully underwritten by the Underwriter. As at the date of the Announcement and the Latest Practicable Date,

- (a) Sun East and parties acting in concert with Sun East are beneficially interested in a total of 946,018,060 Shares, representing approximately 34.74% of the existing issued share capital of the Company); and
- (b) parties acting in concert with Sun East are interested in the Outstanding Options attaching subscription right to subscribe for an aggregate of 46,570,000 Shares (representing approximately 1.71% of the Company's existing issued share capital).

Pursuant to the Underwriting Agreement, Sun East has undertaken, and has undertaken to procure parties acting in concert with it to undertake, that they will accept on or before the Latest Acceptance Time, and pay for, such number of Rights Shares to be provisionally allotted to them or their respective nominee's existing holding of Shares and the number of Shares to be issued to them if they exercise the Outstanding Options held by them on or before the Record Date.

In the event that no Qualifying Shareholder (other than the Underwriter and parties acting in concert with it) takes up any Rights Shares under the Rights Issue, the Underwriter has agreed to subscribe for and take up:

- (i) not less than 1,776,985,172 Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date); and
- (ii) not more than 1,989,977,172 Rights Shares (assuming all Outstanding Options are exercised in full on or before the Record Date)

that are not subscribed for under the Rights Issue pursuant to the Underwriting Agreement. Accordingly, the subscription for and underwriting of the Rights Shares under the Rights Issue by the Underwriter and parties acting in concert with it may result in their aggregate shareholdings in the Company being increased from approximately 34.74% (of the existing issued share capital of the Company of 2,723,003,232 Shares) to:

- (i) approximately 67.37% (of the enlarged issued share capital of the Company upon completion of the Rights Issue of 5,446,006,464 Shares) (assuming no Outstanding Options are exercised on or before the Record Date); or



- (ii) approximately 66.64% (of the enlarged issued share capital of the Company upon completion of the Rights Issue of 5,965,130,464 Shares) (assuming all Outstanding Options are exercise on or before the Record Date)

and will trigger an obligation for the Underwriter and parties acting in concert with it to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares and other convertible securities, warrants, options and derivatives in respect of shares issued by the Company not already held by the Underwriter and parties acting in concert with it. A formal 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 Executive has indicated that it will grant the Whitewash Waiver, which would be subject to, among other things, the approval by the Independent Shareholders at the Special General Meeting by way of poll. If the Whitewash Waiver is not granted by the Executive or if the condition imposed thereon is not fulfilled, the Rights Issue will not proceed.

As the maximum potential holding of voting rights resulting from the subscription and underwriting of the proposed Rights Issue will exceed 50% of the voting rights of the Company, the Underwriter (as the controlling Shareholder) may increase its holding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the Rights Issue (including the terms of the Underwriting Agreement) and the Whitewash Waiver are fair and reasonable and whether the Rights Issue and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole.

I. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of four (4) executive Directors, namely, Mr. Yeung Yung, Mr. Liu Quan, Mr. Wang Xiaolin, Mr. Hui Wing Sang, Wilson and three (3) independent non-executive Directors, namely, Mr. He Bangjie, Mr. Li Zheng, Jack and Mr. Ting Kwok Kit, Johnny.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. He Banjie, Mr. Li Zheng, Jack and Mr. Ting Kwok Kit, Johnny, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Whitewash Waiver are fair and reasonable and whether the Rights Issue and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote.



II. BASIS AND THE ASSUMPTION OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the senior management staff of the Group contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Group and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Group or any of its subsidiaries.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background to the Group

1.1 Principal activities of the Group

The Group is principally engaged in dealership of motor vehicles and spare parts, operating auto malls, property development, operation of indoor game centres and manufacture and sale of automobile axles in the PRC.



1.2 Historical financial performance

Year ended 31 December 2006 compared with year ended 31 December 2005

The turnover of the Group for the year ended 31 December 2006 and 2005 is extracted as follows:

Turnover	31 December	31 December
	2006	2005
	<i>HK\$' million</i>	<i>HK\$' million</i>
Dealership of motor vehicles and provision of repair services	856.71	288.88
Property development	6.24	26.16
Game center	1.09	1.05
Investment holding and others	0.12	—
	<u>864.16</u>	<u>316.09</u>

For the year ended 31 December 2006, the Group's turnover amounted to approximately HK\$864.16 million (2005: HK\$316.09 million) representing an increase of approximately 2.73 times as compared to that in 2005. The substantial increase in turnover was due to the figures in 2006 reflected the full year results of the business in dealership of motor vehicles and spare parts and car repair services whereas only the post-acquisition turnover, from 1 August 2005 to 31 December 2005, of this line of business was reflected in 2005. The Group also undertakes property development in Ningbo. The development project comprises of a residential project in Ningbo, the PRC with a site area of approximately 10,300 square meters and saleable floor area of approximately 17,000 square meters. The project was completed at the end of 2005. During the year, the Group sold a total of approximately 3,000 square meters (2005: 9,300 square meters) floor area. At that time, it was expected by the Directors that the price of properties will rise in the future. Therefore, the sale was suspended in the second half of the year and thus the turnover was decreased from HK\$26.16 million to HK\$6.24 million.



The segment results of the Group for the year ended 31 December 2006 and 2005 are extracted as follows:

Segment results	31 December 2006	31 December 2005
	<i>HK\$' million</i>	<i>HK\$' million</i>
Dealership of motor vehicles and provision of repair services	(31.88)	(61.95)
Property Development	(36.41)	(16.17)
Game Centres	(0.49)	(0.34)
Automobile axles	(14.66)	(1.05)
Investment holding and others	(28.38)	(36.20)
Impairment of goodwill	<u>–</u>	<u>(103.60)</u>
Operating loss	(111.82)	(219.31)
Finance costs	(4.02)	(2.48)
Share of results of associate	<u>–</u>	<u>(6.23)</u>
Loss before income tax	(115.84)	(228.02)
Income tax expense	<u>(0.36)</u>	<u>3.52</u>
Loss for the year	(116.20)	(224.50)
Minority interests	<u>28.04</u>	<u>6.28</u>
Loss attributable to shareholders	<u><u>(88.16)</u></u>	<u><u>(218.22)</u></u>

The Group recorded a substantial loss attributable to shareholders of HK\$88.16 million (2005: HK\$218.22 million) for the year ended 31 December 2006. During the year, there is no impairment loss recognised for the goodwill (2005: HK\$103.60 million) in relation to the Group's investment. As a result, the loss in 2006 was significant decreased.



Six months ended 30 June 2007 compared with six months ended 30 June 2006

The revenues of the Group for the six months ended 30 June 2007 and 30 June 2006 are extracted as follows:

	30 June 2007	30 June 2006
	<i>HK\$' million</i>	<i>HK\$' million</i>
Sale of motor vehicle & provision of repair services	449.74	413.32
Sale of properties	0.07	5.50
Revenues from games, rides and other amusement facilities	<u>0.33</u>	<u>0.63</u>
Turnover	450.14	419.45
Other revenues:		
Interest income	0.74	0.46
Gain on disposal of a subsidiary	6.27	1.48
Gain on disposal of land use right	5.10	–
Miscellaneous	<u>2.95</u>	<u>2.76</u>
Total revenues	<u><u>465.20</u></u>	<u><u>424.15</u></u>



The results of the Group for the six months ended 30 June 2007 and 30 June 2006 are extracted as follows:

	30 June 2007	30 June 2006
	<i>HK\$' million</i>	<i>HK\$' million</i>
Sale of motor vehicles and provision of repair services	(14.83)	(20.68)
Sale of property	1.55	(2.83)
Game centers	(0.54)	(0.16)
Automobile axles	(0.05)	(0.45)
Investment holding and others	<u>(2.89)</u>	<u>(10.34)</u>
Loss before tax	(16.76)	(34.46)
Income tax expenses	<u>(2.11)</u>	<u>(1.05)</u>
Loss for the period	(18.87)	(35.51)
Minority interests	<u>(0.38)</u>	<u>0.21</u>
Loss attributable to Shareholders	<u><u>(19.25)</u></u>	<u><u>(35.30)</u></u>

The Group's turnover and loss attributable to Shareholders for the first six months of 2007 amounted to approximately HK\$450.14 million (2006: HK\$419.45 million) and HK\$19.25 million (2006: HK\$35.3 million) respectively. As compared to the corresponding period in 2006, the turnover increased by 7.32% while the loss decreased by 45.48%. The increase in turnover was mainly due to the sales and repairs of motor vehicles amounting to approximately HK\$449.74 million (2006: HK\$413.32 million). The decrease in loss was mainly due to improved performance in the sales and repairs of motor vehicles, the gain on disposal of land use right in the PRC amounting to approximately HK\$5.10 million and gain on disposal of a loss making subsidiary amounting to approximately HK\$6.27 million.



1.4 Prospects

The Board considers to adopt strategies to exit the business which is loss-making and with unpromising prospect. The Board actively explores other investment opportunities in the natural resources or health care areas.

1.5 Liquidity Position of the Group

As at 30 June 2007, net current liabilities of the Group were approximately HK\$196.30 million (At 31 December 2006: HK\$181.30 million). The pledged bank deposits, bank balances and cash were approximately HK\$147.62 million (at 31 December 2006: HK\$122.32 million). The Group has outstanding borrowings of approximately HK\$291.86 million comprising bills payable and bank loans of approximately HK\$239.63 million and amounts due to related parties of approximately HK\$52.23 million. The bank borrowings are basically on floating interest rates basis. The Group's gearing ratio as at 30 June 2007 was 133.02%, calculated based on the Group's total liabilities of HK\$543,010,000 over total assets of HK\$408,206,000.

2. The Rights Issue

2.1 Reasons for the Rights Issue and Use of Proceeds

The Company is an investment holding company. The principal business of the Group include indoor family entertainment game centers, manufacturing and selling automobile axles and dealership of motor vehicles and spare parts, operating auto malls, car repairs services and properties development in the PRC.

As disclosed in the announcement of the Company dated 19 November 2007, the Board considers it desirable to explore and capture a wider source and broader range of investment and/or business opportunities of high growth and yield with a view to diversifying the businesses of, and optimizing the returns to, the Group. The Directors are in the course of considering a number of potential projects. The potential projects being considered are, however, still at a preliminary stage and no definitive plans have been formalized or agreements entered into in respect of any of them. Further announcements will be made by the Company in accordance with or as required under the Listing Rules if any investment and/or opportunity materializes.



The Directors are of the view that the Rights Issue will enable the Company to raise funds and provide the Company with the financial flexibility necessary for the Group's future development and investment purposes as and when suitable opportunities arise. In addition, the Rights Issue would allow the Company to strengthen its capital base and provide an opportunity to all Qualifying Shareholders to participate in the growth of the Company in proportion to their shareholdings. Accordingly, the Directors consider that the proposed Rights Issue is in the interests of the Company and the Shareholders as a whole.

The Company intends to use the net proceeds from the Rights Issue, being approximately HK\$266 million if no Outstanding Options are exercised on or before the Record Date or approximately HK\$292 million if all Outstanding Options are exercised on or before the Record Date, as to approximately:

- (i) 10% for debt reduction;
- (ii) 20% for general working capital of the Group;
- (iii) 70% for future possible investment or acquisition projects if any of them could be materialized or if none of such projects could be materialized, for general working capital of the Group.

As we have mentioned above in the sub-section "Historical Financial Performance", the Group had encountered net liabilities position for two years under analysis. We would consider that (i) bank borrowing would incur interest expenses to the Group and further exert pressure to the Group's financial and cash flow position; (ii) other equity fund raising such as share placement would impose immediate dilution on the existing Shareholders. Furthermore, the Rights Issue will increase the asset base of the Group and provide additional working capital without having to incur significant costs; and (iii) the Qualifying Shareholders are given the opportunity to maintain their respective pro-rata shareholding interests in the Company by participating in the Rights Issue or to sell their rights and not participating in the Rights Issue. Therefore, we consider the Rights Issue to be an appropriate source of funding which enables the Qualifying Shareholders to maintain their proportionate interests in the Company and to continue to participate in the future development of the Group, and to be the preferred source of funding to raise additional working capital from the market as compared to other financing alternatives discussed above. Accordingly, we are of the view that the implementation of the Rights Issue as the fund raising method by the Company is in the interests of the Independent Shareholders and the Company as a whole.



2.2 *Principal terms of the Rights Issue*

The Company proposes to raise not less than HK\$272.30 million before expenses by issuing not less than 2,723,003,232 Rights Shares and to raise not more than approximately HK\$298.26 million before expenses by issuing not more than 2,982,565,232 Rights Shares at the Subscription Price of HK\$0.10 per Rights Share on the basis of one Rights Share for every one existing Share in issue on the Record Date.

The Rights Issue (other than the Rights Shares which will be provisionally allotted to Sun East, the controlling shareholder of the Company, and parties acting in concert with it) will be fully underwritten by the Underwriter.

Pursuant to the Underwriting Agreement, Sun East has undertaken, and has undertaken to procure parties acting in concert with it to undertake, that they will accept on or before the Latest Acceptance Time, and pay for, such number of Rights Shares to be provisionally allotted to them or their respective nominee's existing holding of Shares and the number of Shares to be issued to them if they exercise the Outstanding Options held by them on or before the Record Date.

The aggregate number of Rights Shares to be issued pursuant to the terms of the Rights Issue represents 100% of the Company's existing issued share capital as at the date of this announcement and 50% of the enlarged issued share capital of the Company immediately following the completion of the Rights Issue assuming that no Outstanding Options are exercised on or before the completion of the Rights Issue. Accordingly, the Rights Issue will increase the issued share capital of the Company by more than 50%. Pursuant to Rule 7.19(6) of the Listing Rules, the Rights Issue is subject to approval by the Independent Shareholders, by way of poll, at the Special General Meeting.

The Rights Issue is conditional upon the following conditions being fulfilled:

- (1) the Company despatching the circular to the Shareholders containing, among other matters, details of the Rights Issue and the Whitewash Waiver together with the proxy form and the notice of the Special General Meeting;
- (2) the passing by the Independent Shareholders at the Special General Meeting by way of poll of ordinary resolutions to approve the Rights Issue and the Whitewash Waiver by no later than the date on which the Prospectus is despatched;



- (3) the Executive granting the Whitewash Waiver to the Underwriter and parties acting in concert with it and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;
- (4) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the date on which the Prospectus is despatched;
- (5) the filing and registration of all documents relating to the Rights Issue, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
- (6) the posting of the Rights Issue Documents to Qualifying Shareholders; and
- (7) compliance with and performance of all the undertakings and obligations of the Company and the Underwriter under the terms of the Underwriting Agreement.

Analysis of the Subscription Price

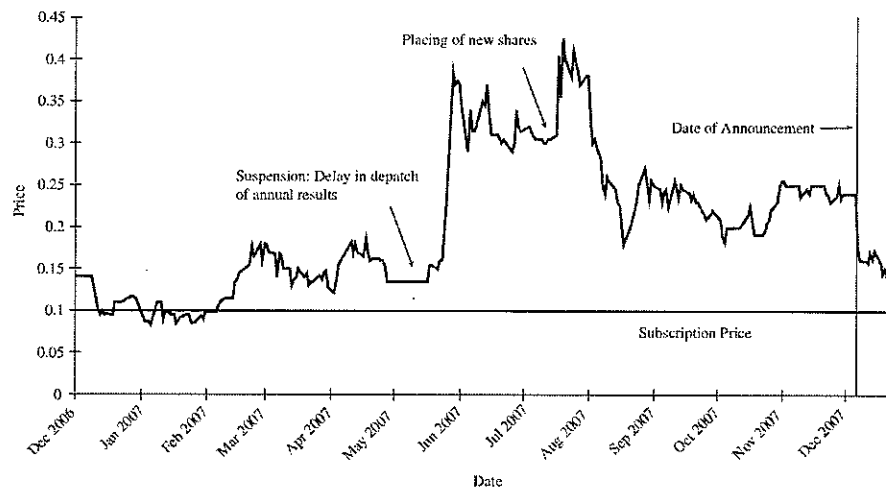
The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the recent financial conditions of the Group. The Directors consider that in order to enhance the attractiveness of the Rights Issue and to encourage the Shareholders to participate in the Rights Issue without exerting excessive financial burden on the part of the Shareholders, the discount on the Subscription Price to the current market price of the Shares as proposed is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date.



(1) Historical price performance and trading volume of the Shares

A chart of historical closing price of the Shares for the period of twelve full calendar months prior to 3 December 2007, being the date of the Announcement, and from that date to the Latest Practicable Date (the "Review Period") as compared to the subscription price are set out below:

Chart 1: Share Price Movement



As illustrated above, the closing prices of the Shares were higher than the subscription price during the most of the Review Period. During the period from 1 December 2006 to the date of the Announcement, the closing price of the Shares ranged between HK\$0.083 to HK\$0.425. The subscription price of HK\$0.1 represents a premium of approximately 20.5% and a discount of approximately 76.5% to such lowest and highest closing prices respectively. The highest closing price was recorded on 19 July 2007. We note that the Board announced on 19 July 2006 which stated that the Company was in preliminary discussion with certain parties on the proposal regarding the acquisition of or investment in the bio-pharmaceutical business. On 20 July 2007, the Board further announced that a non-legally binding letter of intent had been entered with an independent third party in respect of the investment.

The closing price of the Shares decreased by 27.5% from HK\$0.24 on the Last Trading Date to HK\$0.174 on 6 December 2007, being the trading day immediately after the date of the Announcement. We note that on 6 December 2007, the Board announced that other than those disclosed in the Announcement, they were not aware of any reason for the decrease in prices. Thereafter, the Shares traded within a range of HK\$0.142 to HK\$0.172.



We note that the following announcements were made with respect to the fluctuations in the Share price:

- on 14 February 2007, 15 February 2007, 4 April 2007, 10 April 2007, 25 May 2007, 28 May 2007, 5 June 2007, 17 July 2007 and 17 August 2007, the Board made announcements to confirm that they were not aware of any reasons for the increases in Share prices and/or volume of trading of Shares;
- on 14 June 2007, the Board made an announcement regarding a former disclosed notifiable and connected transactions in respect of the acquisition of Shares in the Company was aborted; and
- on 6 July 2007, the Board made an announcement in respect of a placing of 241,860,000 new Shares.

The Subscription Price represents:

- a discount of approximately 58.3% to the closing price of HK\$0.24 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a discount of approximately 58.5% to the average closing price of HK\$0.241 per Share for the five consecutive trading days up to and including the Last Trading Date;
- a discount of approximately 58.4% to the average closing price of HK\$0.2401 per Share for the 10 consecutive trading days up to and including the Last Trading Date;
- a discount of approximately 41.2% to the theoretical ex-rights price of HK\$0.17 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Date; and
- a discount of approximately 32.9% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange on the Latest Practicable Date.



The following table shows the historical trading volume of the Shares

Month	Total no. of Shares trading	No. of Trading Days	Average daily trading volume	No. of outstanding Shares (Note 1)	Percentage over outstanding shares	
					Total no. of shares trading	Average daily trading volume
Dec-06	2,566,000	19	135,053	2,444,243,232	0.10%	0.01%
Jan-07	5,157,921	22	234,451	2,444,243,232	0.21%	0.01%
Feb-07	31,488,000	18	1,749,333	2,448,743,232	1.29%	0.07%
Mar-07	33,920,000	22	1,541,818	2,449,443,232	1.38%	0.06%
Apr-07	138,258,000	17 ²	8,132,824	2,449,443,232	5.64%	0.33%
May-07	319,969,717	10 ²	31,996,972	2,454,443,232	13.04%	1.30%
Jun-07	219,570,000	20	10,978,500	2,465,443,232	8.91%	0.45%
Jul-07	379,147,000	21	18,054,619	2,720,803,232	13.94%	0.66%
Aug-07	126,762,000	23	5,511,391	2,723,003,232	4.66%	0.20%
Sep-07	45,879,000	19	2,414,684	2,723,003,232	1.68%	0.09%
Oct-07	65,127,922	21	3,101,330	2,723,003,232	2.39%	0.11%
Nov-07	37,644,000	22	1,711,091	2,723,003,232	1.38%	0.06%
Dec-07 (up to Latest Practicable Date)	154,494,949	14 ²	12,874,579	2,723,003,232	5.67%	0.47%

Note:

- As at 31 December 2006, the total number of outstanding Shares of the Company was 2,444,243,232. In February 2007, March 2007, May 2007, June 2007 and July 2007, 4,500,000, 700,000, 5,000,000, 11,000,000 and 13,500,000 Shares had been issued upon exercise of the share options respectively. As at 25 July 2007, 241,860,000 Shares were issued through placing. In August 2007, 2,200,000 Shares had been issued upon exercise of the share options. As at the Latest Practicable Date, the Company has outstanding Shares of 2,723,003,232 Shares.
- In April 2007, May 2007 and December 2007 (up to Latest Practicable Date), the total number of trading days were 18, 21 and 14 respectively and the Company's Shares were suspended for trading for 1, 11 and 2 trading days respectively.



We note that during the Review Period, the average number of Shares trading constituted only a small portion of the outstanding Shares subsisted in the market. In light of the lack of liquidity of the Shares (with an average daily trading volume ranging between approximately 135,000 Shares to 32 million Shares, representing approximately 0.01% to 1.3% of the Shares in issue during the Review Period) and the fact that the Company is under financial deficiencies (i.e. net liabilities) for the past year, we consider that a significant discount to various market prices measurement is unavoidable to induce Shareholders to participate in the Rights Issue. We understand that the Directors determined the discount by reference to, inter alia, the recent right issues as carried out by other companies listed in the Main Board of the Stock Exchange. The current discount adopted by the Company is lower than the average as adopted by the market. The Directors consider that this is reasonable based on the slim trading of the Shares and the persistent financial deficiencies of the Group. We concur the view of the Directors and consider the current discount to various market prices measurement adopted by the Company is fair and reasonable to the Independent Shareholders as a whole.

(2) Comparison with net assets per Share

Net asset value of the Group as recorded in its unaudited consolidated accounts as at 30 June 2007 was in the negative figure of approximately HK\$134,804,000 which represented a net liability per share of approximately HK\$0.0547. Based on the Subscription Price of HK\$0.1 and assuming the Rights Issue had been completed on 30 June 2007, the financial position of the Group would be improved significantly to a net tangible position. Details of the financial impacts of the Rights Issue are set out under the heading "3. Financial impact of the Rights Issue on the Group" in this letter.

In view of the foregoing and having considered (i) the continued deterioration in the Group's financial position as evidenced by the Group's history of operating losses for last two financial years; (ii) the Subscription Price for the Rights Issue was determined after arm's length negotiations between the Company and the Underwriter; (iii) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and to take up their entitlements in full at the same discount and; (iv) the low liquidity of the Shares, we are of the view that the discounts represented by the Subscription Price is reasonable for the Qualifying Shareholders to subscribe for the Rights Shares and the Subscription Price is fair and reasonable and in the interests of insofar as the Company and the Independent Shareholders are concerned.



Application for excess Right Shares

As stated in the “Letter of the Board”, Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted. Applications can be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis and will give preference to topping-up odd lots to whole board lots.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholders according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the application for excess rights Shares will not be extended to the ultimate beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

We are of the view that such arrangement is in line with the normal practice.



Effect of the Rights Issue on shareholding of the Independent Shareholders

Set out below is the shareholding structure of the Company as at the date of the Announcement and the Latest Practicable Date and immediately after completion of the Rights Issue assuming that there is no change in the shareholding structure of the Company from the date of this announcement to immediately before completion of the Rights Issue save pursuant to the exercise of Outstanding Options and the transactions contemplated under the Underwriting Agreement:

Name of Shareholder/ Beneficial owner	As at the date of the Announcement and the Latest Practicable Date		Immediately after completion of the Rights Issue (assuming no Outstanding Options are exercised on or before completion of the Rights Issue and assuming no Shareholders (other than Sun East) have taken up rights entitlements)		Immediately after completion of the Rights Issue (assuming all Outstanding Options are exercised on or before the Record Date and assuming no Shareholders (other than Sun East) have taken up rights entitlements)	
	No. of Shares held	Approximate percentage shareholdings	No. of Shares held	Approximate percentage shareholdings	No. of Shares held	Approximate percentage shareholdings
The Underwriter (Note 1)	945,456,600	34.72%	3,667,898,372 (Note 3)	67.35%	3,880,890,372 (Note 4)	65.06%
Parties acting in concert with the Underwriter (Note 2)	561,460 (Note 2(a))	0.02%	1,122,920	0.02%	94,262,920 (Note 5)	1.58%
Sub-total:	946,018,060	34.74%	3,669,021,292	67.37%	3,975,153,292	66.64%
Directors	120,880,000 (Note 6)	4.44%	120,880,000	2.22%	121,880,000 (Note 7)	2.04%
Public	1,656,105,172	60.82%	1,656,105,172	30.41%	1,868,097,172 (Note 8)	31.32%
Total	<u>2,723,003,232</u>	<u>100.00%</u>	<u>5,446,006,464</u>	<u>100.00%</u>	<u>5,965,130,464</u>	<u>100.00%</u>



Notes:

1. Sun East LLC is the Underwriter of the Underwritten Rights Shares pursuant to the Underwriting Agreement.
2.
 - (a) The 561,460 Shares are held by the spouse of Mr Ma Manwai (alias Ma Manwai, Philip). Mr Ma Manwai (alias Ma Manwai, Philip) is the party acting in concert with the Underwriter by virtue of his holding as co-trustee with Mr Jimmy Wang (alias Wang Jian), of 65% of the equity interest in the Underwriter upon certain trusts established for the benefit of the children of Mr Yeung Yung on 30 December 2002.
 - (b) Mr Yeung Yung, the Chairman of the Company and an executive Director, is the party acting in concert with the Underwriter by virtue of his holding of 35% of the equity interest (shared commonly with his spouse under the law of California, the US) in the Underwriter. As at the date of the Announcement and the Latest Practicable Date, Mr Yeung Yung only holds Outstanding Share Options entitling him to subscribe for 41,570,000 Shares.
 - (c) Mr Jimmy Wang (alias Wang Jian), is the party acting in concert with the Underwriter by virtue of his holding as co-trustee with Mr Ma Manwai (alias Ma Manwai, Philip) of 65% of the equity interest in the Underwriter upon certain trusts established for the benefit of the children of Mr Yeung Yung on 30 December 2002. As at the date of the Announcement and the Latest Practicable Date, Mr Jimmy Wang (alias Wang Jian) only holds Outstanding Share Options entitling him to subscribe for 5,000,000 Shares.
3. The 3,667,898,372 Shares represent the sum of (a) the 945,456,600 Shares currently held by Sun East; (b) the 945,456,600 Rights Shares to be provisionally allotted to Sun East that Sun East has undertaken to take up under the Rights Issue and (c) the 1,776,985,172 Rights Shares that Sun East as the Underwriter has undertaken to take up under the Underwriting Agreement (assuming that no Qualifying Shareholder takes up his/her/its entitlement under the Rights Issue and no Outstanding Options are exercised on or before completion of the Rights Issue).
4. The 3,880,890,372 Shares represent the sum of (a) the 945,456,600 Shares currently held by Sun East; (b) the 945,456,600 Rights Shares to be provisionally allotted to Sun East that Sun East has undertaken to take up under the Rights Issue, (c) the 1,989,977,172 Rights Shares that Sun East as the Underwriting has undertaken to take up under the Underwriting Agreement (assuming that no Qualifying Shareholder takes up his/her/its entitlement under the Rights Issue and all Outstanding Options are exercised on or before the Record Date).
5. The 94,262,920 Shares represent the sum of (a) the 41,570,000 Shares held by Mr Yeung Yung (an executive Director and the party acting in concert with Sun East) assuming his exercise of the Outstanding Options held by him on or before the Record Date), the 41,570,000 Rights Shares to be provisionally allotted to Mr Yeung Yung under the Rights Issue (b) the 561,460 Shares held by the spouse of Mr Ma Manwai (alias Ma Manwai, Philip) (the party acting in concert with Sun East) and 561,460 Rights Shares to be provisionally allotted to the spouse of Mr Ma Manwai (alias Ma Manwai, Philip) and (c) the 5,000,000 Shares held by Mr Jimmy Wang (alias Wang Jian) (the party acting in concert with Sun East) assuming his exercise of the Outstanding Options held by him on or before the Record Date) and 5,000,000 Rights Shares to be provisionally allotted to Mr Jimmy Wang (alias Wang Jian).



6. These 120,880,000 Shares are held by Fortune Venture Holdings Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Ms Li Xiaoqin (the spouse of Mr Liu Quan, an executive Director). Mr Liu Quan is deemed to be interested in these 120,880,000 Shares held by his spouse by virtue of Part XV of the SFO.
7. These 121,880,000 Shares represent the sum of (a) the 1,000,000 Shares held by Mr Hui Wing Sang, Wilson, an executive Director (assuming his exercise of the Outstanding Options currently held by him on or before the Record Date) and (b) the 120,880,000 Shares which are deemed, under Part XV of the SFO, to be held by Mr Liu Quan, an executive Director, by virtue of his spouse's beneficial interest in these Shares held through Fortune Venture Holdings Limited as disclosed in Note 6 above.
8. The 1,868,097,172 Shares represent the sum of (a) the 1,656,105,172 Shares currently held by the Shareholders (other than Sun East and the parties acting in concert with it) (b) the 211,992,000 Shares held by the Shareholders assuming the exercise of all Outstanding Options held by the Shareholders (other than the Outstanding Options held by (i) Mr Yeung Yung (an executive Director and the party acting in concert with Sun East) attaching subscription rights to subscribe for 41,570,000 Shares, (ii) Mr Jimmy Wang (alias Wang Jian) (the party acting in concert with Sun East) attaching subscription rights to subscribe for 5,000,000 Shares and (iii) Mr Hui Wing Sang, Wilson (an executive Director) attaching subscription rights to subscribe for 1,000,000 Shares).

For those Qualifying Shareholders who subscribe for their full entitlements under the Rights Issue and do not apply for excess Rights Shares, their shareholding will remain unchanged after the Rights Issue.

For those Qualifying Shareholders who do not subscribe for their full entitlements under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding in the Company upon completion of the Rights Issue could be diluted up to 50%.

We are of the view that the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company at a price below the market price of the Shares and Independent Shareholders' interests in the Company will not be diluted if they elect to subscribe for their full entitlements under the Rights Issue.

As the nil-paid rights are expected to be traded on the Stock Exchange, Qualifying Shareholders who do not wish to take up their entitlements under the Rights Issue may realize their nil-paid rights in the market, if a premium can be obtained over the costs of sale. However, in the event that there is small or even no demand for the nil-paid rights in the market, such Qualifying Shareholders may not be able to realize their entitlements to the nil-paid rights and their shareholdings will be diluted without compensation.



Underwriting arrangement

The Rights Issue (other than the Rights Shares which will be provisionally allotted to Sun East, the controlling shareholder of the Company, and parties acting in concert with it) will be fully underwritten by the Underwriter. As at the date of the Announcement and the Latest Practicable Date,

- (a) Sun East and parties acting in concert with Sun East are beneficially interested in a total of 946,018,060 Shares. representing approximately 34.74% of the existing issued share capital of the Company); and
- (b) parties acting in concert with Sun East are interested in the Outstanding Options attaching subscription right to subscribe for an aggregate of 46,570,000 Shares (representing approximately 1.71% of the Company's existing issued share capital)

Pursuant to the Underwriting Agreement, Sun East has undertaken, and has undertaken to procure parties acting in concert with it to undertake, that they will accept on or before the Latest Acceptance Time, and pay for, such number of Rights Shares to be provisionally allotted to them or their respective nominee's existing holding of Shares and the number of Shares to be issued to them if they exercise the Outstanding Options held by them on or before the Record Date.

In the event that no Qualifying Shareholder (other than the Underwriter and parties acting in concert with it) takes up any Rights Shares under the Rights Issue, the Underwriter has agreed to subscribe for and take up:

- (i) not less than 1,776,985,172 Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date); and
- (ii) not more than 1,989,977,172 Rights Shares (assuming all Outstanding Options are exercised in full on or before the Record Date)

that are not subscribed for under the Rights Issue pursuant to the Underwriting Agreement. Pursuant to the Underwriting Agreement, the Company will pay the Underwriter an underwriting commission of 2% of the aggregate subscription price of the Underwriter Shares. We have reviewed the underwriting commission of the right issues as carried out by other companies listed on the Main Board of the Stock Exchange from 1 June 2007 to date of Announcement and note that the underwriting commission ranged from 0% to



2.5% with an average of approximately 1.94%. On this basis, we are of the opinion that the underwriting commission charged by the Underwriter is in line with market practice and is therefore fair and reasonable and in the interests of insofar as the Company and the Independent Shareholders are concerned.

3. Financial impact of the Rights Issue on the Group

3.1 Cash position

Based on the unaudited condensed consolidated balance sheet of the Company as set out in Appendix I to the Circular, the Group had cash and bank balances (excluding pledged bank deposits of approximately HK\$114.04 million of approximately HK\$33.57 million as at 30 June 2006. The net proceeds of the Rights Issue of approximately HK\$270 million are expected to improve the overall cash position and current ratio of the Group.

3.2 Net assets

As noted in the section headed "A. Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group" set out in Appendix II to the Circular, the unaudited consolidated net liabilities of the Group as at 30 June 2007 was approximately HK\$134.8 million or HK\$0.0495 per Share. Assuming that the Rights Issue had been completed on 30 June 2007 and 2,723,003,232 Rights Shares have been issued, the Group would have an unaudited pro forma adjusted consolidated net tangible assets attributable to the Shareholders of the Company of approximately HK\$134.5 million, or HK\$0.0247 per Share. Assuming that the Rights Issue had been completed on 30 June 2007 and 2,982,565,232 Rights Shares have been issued, the Group would have an unaudited pro forma adjusted net tangible assets attributable to the Shareholders of the Company of approximately HK\$160.5 million or HK\$0.0281 per Share.

The unaudited pro forma adjusted consolidated liabilities per Share before the completion of Right Issue amounted to HK\$0.0495 would change to a net tangible asset position after the completion of the Right Issue amounted to approximately 0.0247 or 0.0281 per Share. We consider that the increase in the unaudited consolidated net tangible assets per Share after the Rights Issue is in the interests of the Qualifying Shareholders. In addition, the financial position of the Group would have been strengthened after completion of the Rights Issue.



IV. THE WHITEWASH WAIVER

Pursuant to the Underwriting Agreement, Sun East has undertaken, and has undertaken to procure parties acting in concert with it to undertake, that they will accept on or before the Latest Acceptance Time, and pay for, such number of Rights Shares to be provisionally allotted to them or their respective nominee's existing holding of Shares and the number of Shares to be issued to them if they exercise the Outstanding Options held by them on or before the Record Date.

In the event that no Qualifying Shareholder (other than the Underwriter and parties acting in concert with it) takes up any Rights Shares under the Rights Issue, the Underwriter has agreed to subscribe for and take up:

- (i) not less than 1,776,985,172 Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date); and
- (ii) not more than 1,989,977,172 Rights Shares (assuming all Outstanding Options are exercised in full on or before the Record Date)

that are not subscribed for under the Rights Issue pursuant to the Underwriting Agreement. Accordingly, the subscription for and underwriting of the Rights Shares under the Rights Issue by the Underwriter and parties acting in concert with it may result in their aggregate shareholdings in the Company being increased from approximately 34.74% (of the existing issued share capital of the Company of 2,723,003,232 Shares) to:

- (i) approximately 67.37% (of the enlarged issued share capital of the Company upon completion of the Rights Issue of 5,446,006,464 Shares) (assuming no Outstanding Options are exercised on or before the Record Date); or
- (ii) approximately 66.64% (of the enlarged issued share capital of the Company upon completion of the Rights Issue of 5,965,130,464 Shares) (assuming all Outstanding Options are exercise on or before the Record Date)

and will trigger an obligation for the Underwriter and parties acting in concert with it to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares and other convertible securities, warrants, options and derivatives in respect of shares issued by the Company not already been held by the Underwriter and parties acting in concert with it.



On the basis that the terms of the Rights Issue are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and that the Whitewash Waiver is a condition precedent to the Rights Issue, we believe that it would be consistent for the Independent Shareholders who accept our advice and support the Rights Issue to vote in favour of the Whitewash Waiver.

V. RECOMMENDATIONS

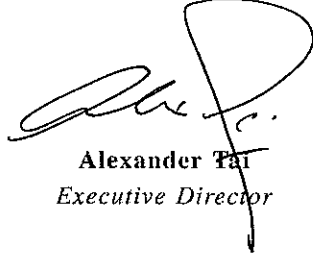
In considering the Rights Issues (including the terms of the Underwriting Agreement) and the Whitewash Waiver, we have taken into account the following factors:

- The continued deterioration of the Group's financial position as evidenced by the consecutive trading losses of the Group for 2 years;
- The net capital deficiency of the Company of approximately HK\$134.8 million as at 30 June 2007;
- The net current liability of the Group of HK\$196.30 million as at 30 June 2007;
- the historical slim trading turnover of the Company; and
- the improvement to the liquidity position and the enhancement of the net tangible assets per Share upon completion of the Rights Issue.

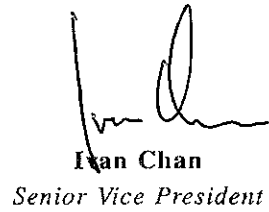
After having considered the above principal factors and based on the information provided and the representations made to us, we consider that the terms of the Rights Issue are entered into on normal commercial terms, in the ordinary course of business and are fair and reasonable and in the interests of so far as the Company and the Independent Shareholders are concerned; and the terms of the Rights Issue and the Whitewash Waiver are in the interests of the Company and Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions which will be proposed at the Special General Meeting to approve the Rights Issue and Whitewash Waiver application.



Yours faithfully
For and on behalf of
Access Capital Limited



Alexander Tai
Executive Director



Ivan Chan
Senior Vice President