11 October 2010

To the Independent Board Committee and the Independent Shareholders of
China Primary Resources Holdings Limited

Dear Sirs,

(I) DEED OF SETTLEMENT IN RELATION TO THE REDEMPTION OF CONVERTIBLE BONDS OF THE COMPANY;
(II) VERY SUBSTANTIAL DISPOSAL OF A SUBSIDIARY;
(III) CONNECTED TRANSACTION RELATING TO THE SUBSCRIPTION OF NEW SHARES;
(IV) OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE; AND
(V) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Deed of Settlement (including the Disposal), the Subscription, the Open Offer, the Underwriting Agreement and the Whitewash Waiver contemplated thereunder, details of which are set out in the section headed "Letter from the Board" in the circular issued by the Company to the Shareholders dated 11 October 2010 (the "**Circular**") of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 31 October 2007, the Company issued to Lehman Brothers the Convertible Bonds in the principal amount of approximately HK$246 million which is due on 31 October 2010. Since July 2009, the Company has been negotiating with the Liquidators on the terms of settlement in relation to the redemption of the Convertible Bonds. On 17 September 2010, the Company, the Bondholder and the Liquidators entered into the Deed of the Settlement to set out the terms for the redemption of the Convertible Bonds.

Pursuant to the Deed of Settlement, the Company shall pay to the Bondholder a sum of HK$85 million and transfer the Sale Interest to the Bondholder or any third party as directed by the Bondholder, unless the Bondholder exercises its right of refusal to accept the Sale Interest in accordance with the terms of the Deed of Settlement and the Deed of Undertaking. The Sale Interest represents 100% of the issued share capital of Zhong Ping (being the holder of the 70% equity interest in ARIA), or, at the sole and absolute discretion of the Bondholder, all of the assets held directly or indirectly by Zhong Ping. Further details of Zhong Ping is set out in the section headed "Information on the Zhong Ping Group" below.

The Deed of Settlement constitutes a variation of terms in respect of the redemption of the Convertible Bonds, and the Disposal constitutes a very substantial disposal for the Company under the GEM Listing Rules. In view of Mr. Yu's interest in the Underwriting Agreement and the Subscription Agreement, which is conditional on the approval by the Independent Shareholders of the Deed of Settlement and the transactions contemplated thereunder, Mr. Yu's interest in the Deed of Settlement is materially different from those of the Independent Shareholders. Accordingly, the Deed of Settlement and the Disposal are subject to the approval by the Independent Shareholders by way of poll at the EGM. As at the Latest Practicable Date, Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them are interested in an aggregate of 307,119,446 Shares, and they shall abstain from voting on the relevant resolution(s) for approving the Deed of Settlement (including the Disposal).

In addition to the above, the Company and Mr. Yu entered into the Subscription Agreement on 17 September 2010, pursuant to which the Company conditionally agreed to issue and Mr. Yu conditionally agreed to subscribe for a total of 570,000,000 Subscription Shares at the Issue Price. The Subscription Shares represent approximately 46.4% of the existing issued share capital of the Company as at the Latest Practicable Date; approximately 31.7% of the issued share capital as enlarged by the issue of the Subscription Shares and approximately 23.6% of the issued share capital as enlarged by the issue of the Subscription Shares and the Offer Shares. Upon completion of the Subscription, 570,000,000 Subscription Shares will be issued to Mr. Yu. The estimated net proceeds of the Subscription will be approximately HK$45.6 million. The Subscription and the Open Offer are inter-conditional upon each other.

By virtue of his directorship in subsidiaries of the Group, Mr. Yu is a connected person of the Company. The Subscription constitutes a connected transaction for the Company under the GEM Listing Rules and is therefore subject to the approval of the Independent Shareholders at the EGM. Moreover, the Subscription Shares will be issued under a specific mandate to be obtained at the EGM. As at the Latest Practicable Date, Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them are interested in an aggregate of 307,119,446 Shares, and they shall abstain from voting on the relevant resolutions for approving the Subscription.

The Company also proposes to raise approximately HK$49.2 million before expenses by way of the Open Offer of 614,801,640 Offer Shares at a price of HK$0.08 per Offer Share. Based on 614,801,640 Offer Shares available under the Open Offer, the estimated net proceeds of the Open Offer will be approximately HK$44.9 million.

The Open Offer does not entail any excess application for Offer Shares not taken up, and it is to be underwritten by Mr. Yu, a connected person of the Company. Pursuant to Rule 10.42(2) of the GEM Listing Rules, the absence of arrangement for excess application under the Open Offer and the Underwriting Agreement are subject to approval by the Independent Shareholders at the EGM. As at the Latest Practicable Date, Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them are interested in an aggregate of 307,119,446 Shares, and they shall abstain from voting on the relevant resolutions for approving the Open Offer.

Upon completion of the Subscription and the Open Offer and assuming full acceptance of the Offer Shares by the Qualifying Shareholders, Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them will hold approximately 42.69% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Offer Shares. In the event that there are any Offer Shares not taken up by the Qualifying Shareholders under the Open Offer, the Underwriter will be required to subscribe for those untaken Offer Shares, would result in Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them holding 30% or more of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Offer Shares. In the circumstances, an obligation on the part of Mr. Yu to make a general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them may arise as a result of the Subscription and the Open Offer. Mr. Yu has made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders by way of poll at the EGM. If the Whitewash Waiver is not granted by the Executive, the Subscription and the Open Offer will not proceed.

An Independent Board Committee comprising all the non-executive Directors who have no direct or indirect interest in the Deed of Settlement (including the Disposal), the Subscription, the Open Offer, the Underwriting Agreement and the Whitewash Waiver, namely Mr. Wan Tse Fan Terence, Mr. Liu Weichang and Mr. Chung Chin Keung, has been established by the Company for the purpose of advising and giving recommendation to the Independent Shareholders on the Deed of Settlement (including the Disposal), the Subscription, the Open Offer, the Underwriting Agreement and the Whitewash Waiver. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in all these respects. As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether the Deed of Settlement (including the Disposal), the Subscription, the Open Offer, the Underwriting Agreement and the Whitewash Waiver contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and whether the Independent Board Committees should recommend the Independent Shareholders to vote, and whether the Independent Shareholders should vote, in favour or against of the relevant resolutions to be proposed at the EGM to approve the Deed of Settlement (including the Disposal), the Subscription, the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Deed of Settlement (including the Disposal), the Subscription and the Open Offer, as referred to in Rule 17.92 of the GEM Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Deed of Settlement (including the Disposal), the Subscription, the Open Offer and the transactions contemplated thereunder and the Whitewash Waiver and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Deed of Settlement (including the Disposal), we have taken into consideration the following principal factors and reasons:

Background of and reasons for entering into the Deed of Settlement and the Disposal

The Deed of Settlement

On 31 October 2007, the Company issued to Lehman Brothers the Convertible Bonds in the principal amount of approximately HK$246 million which is due on 31 October 2010. Since July 2009, the Company has been negotiating with the Liquidators on the terms of settlement in relation to the redemption of the Convertible Bonds. On 17 September 2010, the Company, the Bondholder and the Liquidators entered into the Deed of the Settlement to set out the terms for the redemption of the Convertible Bonds pursuant to which the Company shall pay to the Bondholder a sum of HK$85 million and transfer the Sale Interest to the Bondholder or any third party as directed by the Bondholder. The Sale

Interest represents 100% of the issued share capital of Zhong Ping (being the holder of the 70% equity interest in ARIA), or, at the sole and absolute discretion of the Bondholder, all of the assets held directly or indirectly by Zhong Ping.

The Subscription Agreement and the Open Offer

In light of the Company's agreement of settling the outstanding Convertible Bonds pursuant to the Deed of Settlement, the Company also entered into the Subscription Agreement with Mr. Yu on 17 September 2010 pursuant to which the Company conditionally agreed to issue and Mr. Yu conditionally agreed to subscribe for a total of 570,000,000 Subscription Shares at the Issue Price. A summary of the Subscription will be set forth under the section headed "The Subscription" of this letter. In addition, the Company also proposes to raise approximately HK$49.2 million before expenses by way of Open Offer of 614,801,640 Offer Shares at a price of HK$0.08 per Offer Share. The estimated net proceeds of the Open Offer, which amount to approximately HK$44.9 million, are intended to be used in conjunction with the net proceeds from the Subscription for the payment under the Deed of Settlement and retain the balance as general working capital of the Group for future operation and development.

Information on the Group

The Group is principally engaged in (i) manufacture and sale of polyethylene pipes and fibre glass reinforced plastic pipes; and (ii) mining business through its interest in associate and subsidiaries that operates primarily in the markets of the PRC and the independent sovereign state of Mongolia.

The following is a summary of the financial results of the group for each of the three years ended 31 December:

	Year ended 31 December		
	2009	**2008**	**2007**
	(Audited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	38,712	72,770	31,826
Profit/(loss) before taxation	(868,389)	(1,362,233)	1,115,386
Profit/(loss) attributable to Shareholders	(864,145)	(1,243,920)	1,115,983
Earning/(Loss) per Share *(Note)*	HK$(0.865)	HK$(1.289)	HK$1.318
Cash and cash equivalents	76,071	99,361	294,063
Net assets attributable to Shareholders	374,926	1,144,763	2,080,878
Net assets attributable to Shareholders per Share *(Note)*	HK$0.375	HK$1.186	HK$2.458

Note: Calculated based on the adjusted weighted average number of ordinary Shares for the year ended of 31 December 2007, 2008 and 2009.

Audited consolidated results for the year ended 31 December 2007

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK$31.83 million, representing a drop of approximately 8.36% as compared to that of the preceding financial year ended 31 December 2006. The turnover of 2007 was contributable by the polyethylene pipes or fibre glass reinforced plastic pipes segment of approximately HK$31.83 million, while the mine resources development segment contributed no revenue to the Group. For the same financial year, the Group recorded a net profit attributable to Shareholders of approximately HK$1,115.98 million as compared to the net loss attributable to Shareholders of approximately HK$5.94 million for the year ended 31 December 2006.

According to the annual report of the Company for the year ended 31 December 2007, since the production of the polyethylene pipes and fibre glass reinforced plastic pipes were just initiated in the year of 2006, the results of the business was still not very impressive, but it was within the expectation of the management as their previous effort in 2007 was only focused on how to control and maintain the production and operation process of the polyethylene pipes and fibre glass reinforced plastic pipes so as to effectively control the production cost and the quality of the products. On the other hand, the significant increase in the profit for the year was mainly due to the recognition of the excess amount of approximately HK$1,156,892,000 of the Group's interests in the associated company–Xin Shougang Group over the purchase consideration. However, excluding the effect of the recognition of the excess amount of the Group's interests in the associated company, the Group was making a loss in its operation for the year.

Audited consolidated results for the year ended 31 December 2008

For the year ended 31 December 2008, the Group recorded a turnover of approximately HK$72.77 million, representing an increase of approximately 128.65% as compared to that of the preceding financial year ended 31 December 2007. The turnover of 2008 was contributable by the polyethylene pipes or fibre glass reinforced plastic pipes segment of approximately HK$72.77 million, while the mining operation segment contributed no revenue to the Group. For the same financial year, the Group recorded a net loss attributable to Shareholders of approximately HK$1,243.92 million as compared to the net profit attributable to Shareholders of approximately HK$1,115.98 million for the year ended 31 December 2007.

According to the annual report of the Company for the year ended 31 December 2008, for the mining sector, commodities' prices include iron and silver decreased substantially in the second half of 2008 when compared to 2007 and early 2008. As a result, the Group recorded significant provisions for impairment losses on the mining rights of approximately HK$230,814,000 for the year ended 31 December 2008.

Audited consolidated results for the year ended 31 December 2009

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$38.71 million, representing a drop of approximately 46.80% as compared to that of the preceding financial year ended 31 December 2008. The turnover of 2009 was contributable by the polyethylene pipes or fibre glass reinforced plastic pipes segment of approximately HK$38.71 million, while the mining operation segment contributed no revenue to the Group. For the same financial year, the Group recorded a net loss attributable to Shareholders of approximately HK$864.15 million as compared to the net loss attributable to Shareholders of approximately HK$1,243.92 million for the year ended 31 December 2008. As stated in the annual report of the Company for the year ended 31 December 2009, BDO Limited, the auditor of the Company, issued a disclaimer opinion due to (i) the material uncertainty with regard to whether or not a settlement can be reached with the Liquidators is so fundamental that it casts significant doubt about the ability of the Group to continue as a going concern and (ii) insufficient evidence for the auditors to satisfy themselves as to whether the valuation methodology and the assumption adopted by the directors of the Company in their valuation of the mining rights were appropriate since the valuation method assumes that the Group is a going concern such that the mining operations will continue and generate cash flows without any threats of closure or liquidation in the foreseeable future.

We concur with the auditor's view such that if the Group cannot reach a settlement with the Liquidators, the business continuity and operation of the Group will be in doubt if the Company is not able to find means of financing to satisfy the redemption of Convertible Bonds.

According to the annual report of the Company for the year ended 31 December 2009, turnover for the year was reduced significantly due to the unfavourable economic condition of the world. Moreover, the financial tsunami broke out in 2008 has already affected the progress for the Group to commence the mining business. During the year, the Group also incurred significant impairment loss of approximately HK$805,580,000, on the Group's available-for-sale investments, which was mainly due to (i) dilution of the Group's beneficial interest in Xin Shougang from 22.28% to 12.21% mainly due to the injection of additional capital into Xin Shougang by Shougang, the controlling shareholder of Xin Shougang for the purpose of providing working capital to Xin Shougang in light of the delay in operation of the mining business during the year of 2009 and (ii) decline in fair value of the beneficial interest owned by Xin Shougang due to the dilution of the Group's interest in Xin Shougang and revoked of mining right by the Yichang City Government for the mining sites with mineral resources other than iron as a result of delay in development of the certain mining sites by the Xin Shougang.

Based on the aforementioned poor liquidity and financial position of the Group and the approaching expiry date of the Convertible Bonds, it is apparent that the Group is unlikely to repay the outstanding amount of the Convertible Bonds solely on its internal resources without external capital injection. In view of the constant losses incurred by the Group, the Group has an imminent need to raise financial resources to redeem its outstanding Convertible Bonds. Having all these being the case, we are of the view that the Group would encounter difficulties in settling its Convertible Bonds if the Group fails to obtain immediate substantial funding.

Information on Zhong Ping Group

Zhong Ping is an investment holding company which beneficially holds 70% of the issued share capital of ARIA. ARIA is principally engaged in mining related business by holding the mining licence but has not commenced any mining operation and has not recorded any turnover since its incorporation. ARIA holds the majority interest of the mining right in respect of the Project located at Mungun-Undur, Khentii Province, Mongolia. The Project has prospects for silver, lead, zinc, and tin mineralization. As discussed with the Directors, Zhong Ping Group has not yet commenced its operation is mainly due to (i) some technical problems are yet to be solved and, (ii) water resources and manpower for mining are not yet ready or available. Zhong Ping Group became the subsidiaries of the Group pursuant to the acquisition which was completed on 23 April 2008. After completion of the Disposal, Zhong Ping Group will cease to be subsidiaries of the Group.

Set out is a summary of the combined financial information of Zhong Ping Group prepared by using the Hong Kong Financial Reporting Standards for the two years ended 31 December 2008 and 2009:

	For the year ended 31 December	
	2009	**2008**
	(unaudited)	(unaudited)
	HK$ million	*HK$ million*
Loss before taxation	8.29	243.49
Loss after taxation	6.26	182.36

	As at 31 December	
	2009	**2008**
	(unaudited)	(unaudited)
	HK$ million	*HK$ million*
Net assets	175.47	180.81
Total assets	207.04	214.34

Although the mining business has not yet commence its operation, the change in loss before taxation and loss after taxation from 2008 to 2009 of Zhong Ping Group was mainly due to impairment loss of HK$230,814,000 on mining rights for the year ended 31 December 2008 due to commodities' price include iron and silver decreased substantially in the second half of 2008 when compared to 2007 and early 2008.

As stated in the annual report of the Company for the year ended 31 December 2009, the recoverable amount of the mining rights is determined by reference to the value-in-use calculations which are primarily based on the commodity prices relevant to the Group's operations. In the event the commodity prices declined due to slow down of global economy, the carrying values of the mining rights and intangible assets of the Xin Shougang should be reassessed to reflect the possible falls in commodity prices. Consequently, an impairment loss will be recorded by the Group. Therefore, volatility in the commodity prices may lead to further adjustments on the carrying value of the mining rights which may eventually create significant impact on the performance of the Group. As confirmed by the Directors, there has not been much development in the mining rights of Zhong Ping Group as certain technological issues are remained to be solved, we are of the view that the Disposal would help the Group to eliminate any possible impacts on the Group's performance due to volatility of the commodities pricing.

Reasons for the Disposal, the Subscription and the Open Offer

As discussed with the Directors, the main purpose of the Disposal, the Subscription and the Open Offer is to raise funds to fulfill the requirement of the Deed of Settlement and to settle the outstanding amount of Convertible Bonds. Following the credit crisis in late 2008, the Directors have taken a prudent approach in evaluating the financial position of the Group. To remove the uncertainties over is financial commitments, they have been exploring various means to redeem the outstanding Convertible Bonds from the Bondholder, which forms the Group's largest liabilities. In the event if the Group is not able to repay the Bondholder when the Convertible Bonds falls due by October of 2010, it may be required to dispose other principal assets of the Group to meet its liabilities, and it is uncertain that the Group will be able to do so at a reasonable price and within a reasonable timeframe due to the liquidity of the assets.

As stated in the unaudited interim report (the "Interim Report") of the Company for the six months ended 30 June 2010, the current assets of the Company amounted to approximately HK$277 million and the current liabilities of the Company amounted to approximately HK$343 million. Furthermore, the management of the Company stated in the Interim Report that the current major challenge faced by the Group is to find a solution to settle the Convertible Bonds. The Group is now in a net current liability position.

On 17 September 2010, the Company, the Bondholder and the Liquidators finally signed the Deed of the Settlement for the redemption of the Convertible Bonds. Pursuant to the Deed of the Settlement, the Company agreed to pay a total of HK$85 million and transfer its interest in the Sale Interest to the Bondholder or such third party as the Bondholder may direct as full and final settlement for the Convertible Bonds. In order to satisfy the cash payment of HK$85 million required under the Deed of Settlement, the Company proposes fund raising exercises by way of the Subscription and the Open Offer. The estimated net proceeds from the Subscription will be approximately HK$45.6 million and the estimated net proceeds from the Open Offer will be approximately HK$44.9 million. As such, the Disposal, the Subscription and the Open Offer are consequential to the Deed of Settlement.

As discussed in the section "Information on the Group" of this letter, the Group was at the net loss position for the two years ended 31 December 2009. As a result, it will be difficult for the Group to secure further borrowings. Due to the above, we believe that the Group's ability to obtain further loans is restricted. We also believe that additional bank financing, if available, will further increase the Group's gearing ratio and the interest payments on further borrowings will adversely affect the cash flow of the Group.

In addition to the redemption of convertible bonds and upon the full payment of HK$85 million by the Group, the Bondholder will give the Consent to the Company in relation to the disposal of 12.21% equity interest in the registered paid up capital of Xin Shougang to Shougang. The transaction has not been completed as one of the conditions precedent relating to the obtaining of the Consent has not been fulfilled. As stated in the Circular dated 8 June 2010, the Directors consider the disposal of 12.21% equity interest in the registered paid up capital of Xin Shougang to Shougang is in interest of the Company and Shareholders since the Group's financial position may continue to be undermined by the impairment on the 12.21% equity interest in the registered paid up capital of Xin Shougang primarily due to the dilution of the Group's interest in Xin Shougang and the lost of its mining rights over the mining sites with mineral resources other than iron and the Group's financial position will be enhanced upon the completion of the Disposal.

Having considered that (i) the Group's inability to obtain further loan financing; (ii) the insufficiency of internal cash resources and expected cash flow from business operations to meet repayment obligations to the Bondholders when they fall due in October 2010; (iii) the disposal of Zhong Ping Group will not have material impact on the Company's revenue as it has not commenced any mining operation and has not recorded any turnover since its incorporation; (iv) the Company will be able to relieve the financial burden on the redemption of convertible bonds by Bondholder without incurring any interest burden; and (v) the execution and settlement of Deed of Settlement enable the Company to obtain the Consent from the Bondholder to dispose the 12.21% equity interest in the registered paid up capital of Xin Shougang, we are of the view that the Deed of Settlement (together with the Disposal) entered between the Company and the Liquidators is in the interest of the Company and the Independent Shareholders as a whole.

Principal terms of the Deed of Settlement

The Liquidators agreed to accept the Sales Interest of the Disposal together with a sum of HK$85 million to settle the redemption of convertible bonds.

Basis of the consideration of the Disposal

According to our discussion with the Directors, during the negotiation process with the Liquidators, the Company has taken into consideration the available assets that can be converted into cash for redemption of convertible bonds. The available assets for sales are mainly from the core part of the business, which is manufacture and sale of polyethylene pipes and fibre glass reinforced plastic pipes, and the mining right of the Project.

As stated in the Annual Report 2009 of the Company, the business segment of the polyethylene pipes and fibre glass reinforced plastic pipes was performing well in 2009 and was the main business of the Group in 2009, which accounted for approximately 76.9% of the total revenue for the financial year ended 31 December 2009 and the business segment has been the core business of the Group for many years. Given the rapid and continuous development of the PRC market, the Directors believe that the demands for the Company's products are both sustainable and look set to increase due to the increasing demand of polyethylene pipes and fibre glass reinforced plastic pipes from the construction and infrastructure sector in the PRC. Moreover, the Company has applied proceeds of approximately HK$60 million from the rights issue offer which is completed on 7 August 2009 to facilitate the future development and expansion of the foregoing polyethylene pipes and fibre glass reinforced plastic pipes.

The Directors consider that it is in the interest of the Company and its shareholders to retain the core business of the group. Since the Project has not yet commenced its operation nor generated operating income, the disposal of the Project will not incur significant effects on ordinary course of the business and financial position of the Company.

In regard to the valuation of the mining right, we have reviewed the unaudited accounts of Zhong Ping Group for the year ended 31 December 2009 and for the six months ended 30 June 2010. Also, we have discussed with the Directors regarding the latest development of the Zhong Ping Group.

As stated in the Letter from the Board, the carrying value of the financial liability component of the Convertible Bonds is at approximately HK$245,676,000 as at 30 June 2010. The net assets value of the Zhong Ping Group is approximately HK$174,612,000 as at that date. The Group therefore will record a net gain of approximately HK$25,204,000 in the redemption of the Convertible Bonds and the Disposal which is calculated as (i) the above carrying value of the liability component of the Convertible Bonds of approximately HK$245,676,000, less the total of the cash consideration and the above carrying value of the Zhong Ping Group of approximately HK$259,612,000 (HK$85,000,000+HK$174,612,000); plus (ii) the release of the gains to profit or loss of the Group's exchange reserve and minority interest relating to the Zhong Ping Group at the amounts of approximately HK$6,143,000 and approximately HK$32,997,000 as at 30 June 2010 respectively. The actual gain or loss for the redemption of the Convertible Bonds will be reassessed based on the values of the above components at the actual date of redemption of the Convertible Bonds and Disposal.

Further to our review on the unaudited accounts of Zhong Ping Group for the year ended 31 December 2009 and for the six months ended 30 June 2010, we noted that Zhong Ping Group has generated operating losses of approximately HK$6.26 million and HK$3.09 million respectively. The net assets of Zhong Ping Group for the year ended 31 December 2009 and for the six months ended 30 June 2010 is approximately HK$175.47 million and HK$174.61 million respectively. Moreover, with reference to the Annual Report 2008, the Group recorded significant provisions of approximately HK$230.8 million for impairment losses on the mining rights for the year ended 31 December 2008 due to commodities' prices include iron and silver decreased substantially in the second half of 2008 when compared to 2007 and early 2008.

Having considered that (i) the valuation of the mining rights are subject to the commodities prices which have become volatile due to the world fragile economic recovery which may still post doubts on the demand of the global metal market and macro-economic control implemented by the Chinese government in relation to adjuting the preferential duties of resources companies, uplifting the taxation levied on the exporting metals and raising of the industry entry level which may further suppress the price of the metal commodities in PRC; (ii) the Group will record a net gain of approximately HK$25,204,000 in the redemption of the Convertible Bonds and the Disposal, (iii) the mining right may incur further impairment loss to the Group and deteriorate the financial position of the Group due to volatility in the commodity markets and (iv) the Disposal will not affect the day to day operation to the Group, we are of the view that the consideration of the Disposal is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Payment terms of the Deed of Settlement

Pursuant to the Deed of Settlement, the redemption of Convertible Bonds of shall be satisfied by the Company as follows:

(a) the payment of HK$9.5 million in full to the Bondholder by the Company upon execution of the Deed of Settlement, which has been duly settled by the Company;

(b) the payment of HK$75.5 million in full to the Bondholder by the Company by no later than 4:00 pm on 17 November 2010, or such later date as may be mutually agreed by the Bondholder and the Company; and

(c) the transfer of the Sale Interest to the Bondholder or any third party as directed by the bondholder.

1. The Subscription

On 17 September 2010, the Company and Mr. Yu entered into the Subscription Agreement pursuant to which Mr. Yu conditionally agreed to subscribe and the Company conditionally agreed to issue a total of 570,000,000 Subscription Shares at the Issue Price.

The Subscription Shares represent approximately 46.4% of the existing issued share capital of the Company as at the Latest Practicable Date; approximately 31.7% of the issued share capital as enlarged by the issue of the Subscription Shares and approximately 23.6% of the issued share capital as enlarged by the issue of the Subscription Shares and the Offer Shares. The Subscription Shares will be issued under a specific mandate to be obtained at the EGM.

The Issue Price

The Issue Price has been determined based on arm's length negotiations between the Company and Mr. Yu with reference to the prevailing market price of the Shares and the Subscription Price. The Issue Price is the same as the Subscription Price.

The Issue Price represents:

(i) a discount of approximately 36.5% to the closing price of HK$0.126 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 31.6% to the average of the closing prices of Shares for five consecutive trading days ended on the Last Trading Day of approximately HK$0.117;

(iii) a discount of approximately 33.9% to the average of the closing prices of Shares for ten consecutive trading days ended on the Last Trading Day of approximately HK$0.1211;

(iv) a discount of approximately 27.7% to the theoretical ex-right price of approximately HK$0.1107 per Share based on the aforesaid closing price per Share; and

(v) a discount of approximately 72.7% to the unaudited consolidated net assets value of approximately HK$0.293 per Share attributable to equity holders of the Company as at 30 June 2010.

2. Open Offer on the basis of one Offer Share for every two Shares held on the Record Date

Principal terms of the Open Offer

Basis of the Open Offer	:	One Offer Share for every two Shares held on the Record Date
Number of Shares in issue	:	1,229,603,280 Shares as at the date of the Underwriting Agreement
Number of Offer Shares	:	614,801,640 Offer Shares
Subscription price	:	HK$0.08 per Offer Share
Enlarged issued share capital upon completion of the Subscription and the Open Offer	:	2,414,404,920 Shares

The Subscription Price

The Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriter with reference to the current economic environment and the prevailing market price of the Shares.

The Subscription Price represents:

(i) a discount of approximately 36.5% to the closing price of HK$0.126 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 31.6% to the average of the closing prices of Shares for five consecutive trading days ended on the Last Trading Day of approximately HK$0.117;

(iii) a discount of approximately 33.9% to the average of the closing prices of Shares for ten consecutive trading days ended on the Last Trading Day of approximately HK$0.1211;

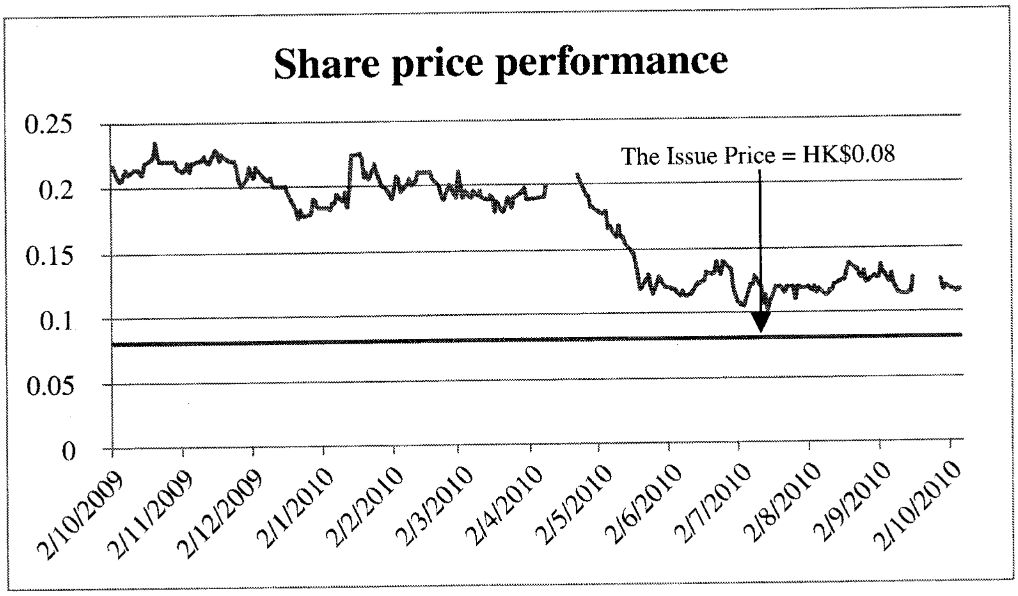
(iv) a discount of approximately 27.7% to the theoretical ex-right price of approximately HK$0.1107 per Share based on the aforesaid closing price per Share; and

(v) a discount of approximately 72.7% to the unaudited consolidated net assets value of approximately HK$0.293 per Share attributable to equity holders of the Company as at 30 June 2010.

In assessing the fairness and reasonableness of the level of the Issue Price and Subscription Price, we have analysed the historical market price and trading liquidity of the Shares traded on the Stock Exchange.

Share price performance

In view that the 12-month benchmarking period is a commonly used tenure for analysis purpose, we consider that it is relevant to review the closing price level of the Shares traded on the Stock Exchange during the 12 months period from 2 October 2009 to 16 September 2010 (being the Last Trading Day) and further up to the Latest Practicable Date (the "Review Period") as follows:



Source: The Stock Exchange

Notes:

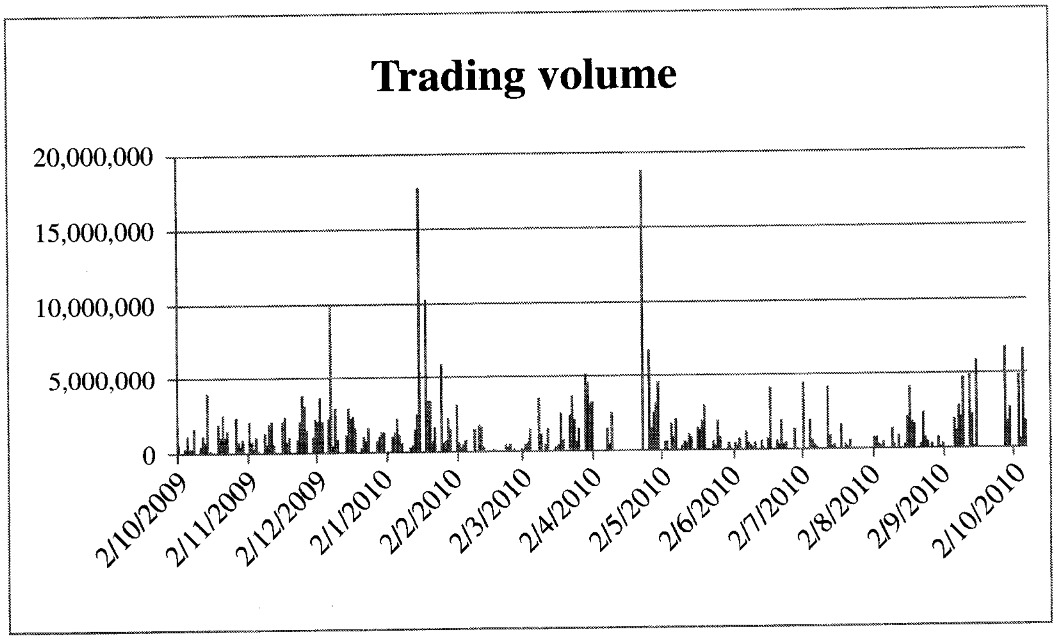
1. Trading in the Shares of the Company was suspended from 12 April 2010 to 22 April 2010 (both days inclusive) pending the release of an announcement in relation to a very substantial disposal of the Company involving repurchase of preferred shares of the Company pursuant to the Code on Share Repurchases.

2. Trading in the Shares of the Company was suspended from 17 September 2010 to 27 September 2010 (both days inclusive) pending the release of an announcement in relation to this transaction.

As indicated from the chart above, the highest closing price was HK$0.235 per Share recorded on 21 October 2010 and the lowest closing price was HK$0.102 per Share recorded on 15 July 2010 respectively. The average closing price of the Shares for the Review Period was approximately HK$0.170 per Share. As per our discussion with the Directors, the share price fluctuation may be due to the situation that the investors were expecting the Company is able to reach an agreement with the Liquidators for settlement of Convertible Bonds when the maturity of the Convertible Bonds is getting closer. Also, there may be positive expectations from the investors for the Company's annual result for the year ended 31 December 2009. At the start of the Review Period, the closing price of the Shares fluctuated within a range from HK$0.150 to HK$0.250 and increased to a high of HK$0.235 per Share on 21 October 2010. After resumption of trading in the Shares from 12 April 2010 to 22 April 2010, the closing price started to fall drastically from a high of HK$0.208 on 23 April 2010 to the low of HK$0.102 per Share on 15 July 2010 and fluctuated at a low level till the end of the Review Period. The closing prices of the Share during the Review Period have all the time been trading at a premium to the Issue Price. As discussed with the Directors, the Directors have noted the decrease in the trading prices of the Shares was mainly attributable to the unknown outcome of the negotiation of the settlement of the convertible bonds with the Bondholder which will affect the prospect of the Company.

Liquidity

For the purpose of assessing the trading liquidity of the Shares, the following chart shows the daily trading volume of the Shares during the Review Period:



Source: The Stock Exchange

Month	Highest daily turnover (in number of Shares)	Lowest daily turnover (in number of Shares)	Average daily turnover (in number of Shares)	Number of trading days with turnover lower than 20 million (in days)	Percentage of average daily turnover over total number of Shares in issue *(note 1)* (%)	Percentage of average daily turnover over total number of Shares held by the Independent Shareholders *(note 2)* (%)
2010						
October	4,008,979	209,000	1,158,325	20	0.09%	0.15%
November	3,854,500	10,000	1,382,438	21	0.11%	0.17%
December	10,025,000	315,000	2,039,042	22	0.17%	0.26%
2009						
January	17,794,672	245,000	2,955,785	20	0.24%	0.37%
Februray	3,157,500	22,000	669,137	18	0.05%	0.08%
March	5,200,000	5,200,000	5,200,000	23	0.42%	0.66%
April	18,891,098	0	2,351,505	19	0.19%	0.30%
May	2,909,500	30,000	1,037,531	20	0.08%	0.13%
June	4,140,000	0	709,119	21	0.06%	0.09%
July	4,440,000	0	733,310	21	0.06%	0.09%
August	4,125,124	0	899,729	22	0.07%	0.11%
September	6,783,000	0	1,732,224	20	0.14%	0.22%
October	6,684,407	622,500	3,287,388	5	0.27%	0.45%

Source: The Stock Exchange

Notes:

1. Based on the total number of issued Shares of 1,229,603,280 Shares as at the Latest Practicable Date

2. Based on the total number of issued Shares of 793,046,956 Shares as at the Latest Practicable Date

During the Review Period, a trading volume of lower than 20 million was recorded on 252 trading days on the Stock Exchange. As illustrated in the table above, the trading volume of the Shares during the Review Period has been thin. During the Review Period, the highest daily average trading volume was roughly 5.20 million Shares, representing approximately 0.42% of the total number of issued Shares and approximately 0.66% of the total number of Shares held by the Independent Shareholders. While within the Review Period, the average daily trading volume was approximately 1.72 million Shares, representing merely 0.14% of the total number of issued Shares and approximately 0.22% of the total number of Shares held by the Independent Shareholders. We therefore consider the liquidity of the Shares was thin during the Review Period.

Taking into account the share price performance and the liquidity of the Shares during the Review Period, and we note that the closing prices of the Shares represent a range of premium from approximately 27.50% to 193.75% to the Issue Price and the Subscription Price for all period of time during the Review Period and we are of the view that the liquidity of the Shares was generally thin during most of the time in the Review Period.

As stated in the Letter from the Board, the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares, the recent market conditions and the financial requirements of the Group. The Directors consider that the Subscription Price would encourage Qualifying Shareholders to participate in the Open Offer and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group. As discussed with the Directors, the client profile and technology of the polyethylene pipes and fibre glass reinforced plastic pipes business have been enhanced and matured since the Group started to develop this business a few years ago. The Group has constantly upgraded its production lines and the advancement of its production technology and the Group's numbers of client and business volume have also been increasing. Also, the turnover of the pipe business increased from approximately HK$19.77 million in 2008 to approximately HK$29.78 in 2009, representing an increase of 50.6%. Therefore, the Directors are confident on the future prospects of polyethylene pipes and fibre glass reinforced plastic pipes in the PRC market and they expect that the Group will continue to focus on its pipe business in the short to medium term. We concur with the Directors' viewpoints that there are big potential demands on the Group's products since developing infrastructure is the major policy of the Chinese government and it is in line with the revenue trend of the Group. In view of the current financial position of the Group, the prevailing market conditions of the capital market in Hong Kong and the purpose and benefits of the Open Offer, the Directors consider that the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We noted that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the Shareholders to participate in an open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. Having consider that (i) the share price performance and the thin liquidity in the trading of the Shares under the Review Period; (ii) the Issue Price was determined at after arm's length negotiations between the Company and Mr. Yu with reference to the market price of the Shares under the prevailing market condition; (iii) it is the general market practice to set the subscription price lower than the prevailing market prices of the relevant shares; (iv) the Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriter with reference to the current economic environment and the prevailing market price of the Shares; and (v) the Group need to meet repayment obligations to the Bondholders when the Convertible Bonds fall due in October 2010, we consider that the Issue Price and the Subscription Price are fair and reasonable so far as the Independent Shareholders are concerned.

No Excess Application

There is no arrangement for the Qualifying Shareholders to apply for any Offer Shares which are in excess of his/her/its entitlement, however we note that the Company has set the Subscription Price at a considerable discount to the prevailing market price of the Shares so as to encourage the Qualifying Shareholders, who are positive to the future development of the Company, to exercise its rights to subscribe for the Subscription Shares.

We consider that the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements. However, we consider that the aforesaid should be balanced against the fact that the terms of the Open Offer are structured with an intention to encourage all the Qualifying Shareholders to take up their respective assured allotment of the Offer Shares as the Subscription Price is set at a considerable discount to the prevailing market price of the Shares which provides reasonable incentives to all the Qualifying Shareholders to participate in the Open Offer. As such, it is reasonable to expect that the majority of the Qualifying Shareholders who are positive about the prospects of the Company will apply for the Offer Shares and the Offer Shares available for excess application will be minimal. The absence of excess application arrangement therefore may not be considered material to the Qualifying Shareholders.

In view of the above, although it is beneficial to have excess application for the Qualifying Shareholders who wish to take up additional Offer Shares, we consider that the Open Offer has already enable the Qualifying Shareholders to maintain their proportionate interests in the Company should they so wish by applying the Offer Shares according to their shareholding in the Company, which we consider to be fair and reasonable. Therefore, the absence of the excess application arrangement is acceptable.

Other fund raising alternatives

As stated in the Board Letter, the Group had not carried out any equity fund raising activity during the past 12 months immediately prior to the date of the Announcement.

In view of the imminent endowment need of the Group as concluded in the paragraph headed "Reasons for the Disposal, the Subscription and the Open Offer" in this letter, we have enquired into and were informed by the Directors that the Group has considered various methods such as bank financing and debt financing so as to meet its financing requirements in relation to the Deed of Settlement, however, given that the Company does not have any assets that can be pledged in Hong Kong and has incurred after tax loss of approximately HK$20.8 million and HK$866.2 million for the six months ended 30 June 2010 and for the year ended 31 December 2009 respectively, the Company may not be in a proper position for debt financing. Also, bank financing and debt financing will usually incur interest burden on the Group and may be subject to, including but not limited to, lengthy due diligence and negotiations with the banks.

The Company has faced difficulties in securing interests for a Share placing exercise with independent investors as result of the poor business and financial position in recent year as detailed in the paragraph headed "Information on the Group" in this letter. Although rights issue was similar to an open offer except that it enabled the Shareholders to trade in nil-paid rights, trading arrangement needed to be set up with the share registrar at the expense of the Company and extra time and administrative work from the Company would be involved. According to the Deed of Settlement, the payment of HK75.5 million must be paid by the Company to Bondholder by no later than 17 November 2010. The payment will be satisfied by the net proceeds from the Subscription and the Open Offer. Having considered that (i) the Company must raise extra funding within a limited period of time and (ii) the Subscription and the Open Offer will not incur any interest burden to the Company compared to debt financing, we concur with the Directors that equity financing is of the interest of the Company and Shareholders as a whole.

Underwriting Agreement

Principal terms of the Underwriting Agreement

Issuer:	The Company
Underwriter:	Mr. Yu
Number of Underwritten Shares:	614,801,640 Offer Shares
Commission:	1.5% of the aggregate Subscription price in respect of 614,801,640 Underwritten Shares, which was determined after arm's length negotiations between the Company and the Underwriter

Pursuant to the Underwriting Agreement, the Underwriter has agreed to subscribe for the Offer Shares which have not been taken up. Accordingly, the Open Offer is fully underwritten. Regarding the underwriting commission of 1.5% (the "Underwriting Commission") of the aggregate Subscription Price in respect of 614,801,640 Underwritten Shares, the Directors confirmed that the Underwriting Commission was arrived at after arm's length negotiation among the Company and the Underwriter and were entered on normal and commercial terms with reference to the market practice. Meanwhile, we have reviewed all the announcements published by the companies, which listed on the Stock Exchange which have participated open offer activities during the Review Period, which are exhaustive from the result of our research on all companies listed in Hong Kong, and noted that the underwriting commission of such open offers were within the range from nil to 3.5%. Also, we noted that the terms of the Underwriting Agreement were determined at after arm's length negotiation between the Company and the Underwriter with reference to the recent open offers in the market. Therefore, we consider that the Underwriting Commission of 1.5% is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

Effects on the shareholding structure of the Company upon execution of the Deed of Settlement, the Subscription and the Open Offer

Upon completion of the Subscription and the Open Offer, 570,000,000 Subscription Shares and 614,801,640 Offer Shares will be issued, representing (i) approximately 46.36% and 50.00% of the existing issued share capital of the Company and (ii) approximately 31.67% of the issued share capital of the Company as enlarged by completion of the Subscription and approximately 25.46% of the issued share capital of the Company as enlarged by completion of the Subscription and Open Offer.

All Qualifying Shareholders are entitled to subscribe for the Offer Shares. For those Qualifying Shareholders who take up their entitlements in full under the Open Offer, their shareholding interests in the Company will be diluted up to a maximum of approximately 15.23%, which is slighter than those who does not take up their entitlements after the Open Offer.

For those who do not take up their entitlements to subscribe for the Offer Shares in full, depending on the extent that they accept their entitlements, their shareholding interests will be diluted up to maximum of approximately 31.65%. However, it should be noted that such Shareholders will not have the opportunity to apply for any excess entitlements of subscription of Offer Shares. The shareholding structure before and after the Subscription and the Open Offer is illustrated as below:

	As at the Latest Practicable Date		**Upon completion of the Subscription and the Open Offer**			
			100% acceptance by Shareholders under the Open Offer		**Nil acceptance by the Shareholders under the Open Offer**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Mr. Yu Hongzhi *(Note 1)*	11,400,000	0.93%	587,100,000	24.32%	1,196,201,640	49.54%
Future Advance *(Note 2)*	287,619,446	23.39%	431,429,169	17.87%	287,619,446	11.91%
Ms. Ma Zheng *(Note 3)*	8,100,000	0.66%	12,150,000	0.50%	8,100,000	0.34%
Subtotal for Mr. Yu and parties acting in concert with him	**307,119,446**	**24.98%**	**1,030,679,169**	**42.69%**	**1,491,921,086**	**61.79%**
Super Grand Investments Limited *(Note 4)*	129,436,878	10.52%	194,155,317	8.04%	129,436,878	5.36%
Other public Shareholders	793,046,956	64.50%	1,189,570,434	49.27%	793,046,956	32.85%
Total	**1,229,603,280**	**100.00%**	**2,414,404,920**	**100.00%**	**2,414,404,920**	**100.00%**

Notes:

1. Mr. Yu, the director of wholly owned subsidiaries of the Company, is interested in 11,400,000 Shares as at the Latest Practicable Date. Pursuant to the Subscription Agreement, Mr. Yu will be interested in 570,000,000 Subscription Shares upon completion of the Subscription. Mr. Yu as the Underwriter, may subscribe up to 614,801,640 Offer Share.

2. Future Advance is a limited liability company incorporated in the BVI. Future Advance is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu), as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, as to 27% by Zhong Nan Mining Group Limited (which in turn is 100% beneficially owned by Mr. Zhang Lei), as to 13% by Mr. Wu Yong Jin and as to the remaining 10% by Ms. Ma Yi.

3. Ms. Ma Zheng, the sole director of Future Advance and an executive Director, is interested in 8,100,000 Shares and has also been granted 2,512,000 Options under the Share Option Scheme which carry rights to subscribe for 2,512,000 new Shares at the current exercise price of HK$1.752 per new Share. Ms. Ma Zheng has given an irrevocable undertaking in favour of the Company and the Underwriter not to exercise the aforesaid 2,512,000 Options granted to her on or before completion of the Open Offer.

4. Super Grand Investments Limited is the wholly-owned subsidiary of APAC Resources Limited, the issued shares of which are listed on the main board of the Stock Exchange.

The Independent Shareholders who are Qualifying Shareholders should consider whether they decide to subscribe for their full entitlements of the Offer Shares. We would like to draw the Independent Shareholders' attention to the fact that, for those Qualifying Shareholders who do not wish to take up all or part of their entitlements to the Offer Shares, their entitlement will be lapsed and will not be compensated and their shareholding interest in the Company will be reduced from approximately 64.50% to approximately 32.85%. In case all the Qualifying Shareholders decide to take up the entitlements, the percentage of shareholding of the other public Shareholders will be reduced from approximately 64.50% to approximately 49.27%.

We are of the view that the dilution effect is not prejudicial to the Independent Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Offer Shares under the Open Offer.

Possible financial effects of the Transactions

(i) Gain/Loss on the Transactions

As stated in the Letter from the Board, the carrying value of the financial liability component of the Convertible Bonds is at approximately HK$245,676,000 as at 30 June 2010. The net assets value of the Zhong Ping Group is approximately HK$174,612,000 as at that date. The Group therefore will record a net gain of approximately HK$25,204,000 in the redemption of the Convertible Bonds and the Disposal which is calculated as (i) the above carrying value of the liability component of the Convertible Bonds of approximately HK$245,676,000, less the total of the cash consideration and the above carrying value of the Zhong Ping Group of approximately HK$259,612,000 (HK$85,000,000+HK$174,612,000); plus (ii) the release of the gains to profit or loss of the Group's exchange reserve and minority interest relating to the Zhong Ping Group at the amounts of approximately HK$6,143,000 and approximately HK$32,997,000 as at 30 June 2010 respectively. The actual gain or loss for the redemption of the Convertible Bonds will be reassessed based on the values of the above components at the actual date of redemption of the Convertible Bonds and Disposal.

(ii) Net assets value

As extracted from the Interim Report of the Company, the unaudited consolidated net assets value of the Group was approximately HK$393,243,000 as at 30 June 2010. Based on the unaudited pro forma financial information on the Remaining Group as set out in Appendix III, the unaudited consolidated net tangible assets of the Group will be approximately HK$469,902,000 upon the execution of Deed of Settlement (including the Disposal), the Subscription and the Open Offer.

(iii) Working capital

According to the Interim Report, the Group recorded net current liabilities amounted to approximately HK$65,703,000 as at 30 June 2010.

Assuming that the execution of Deed of Settlement (including the Disposal), the Subscription and the Open Offer had been taken place as at the relevant balance sheet dates, it is expected that the Group's working capital would be increased by approximately HK$5.5 million (being the difference between cash received from the Subscription and the Open Offer and cash paid to the Bondholder) and approximately HK$245.68 million due to reduction in convertible bonds owed to the Bondholder.

(iv) Cash flow

According to the Interim Report, the Group recorded cash and cash equivalents amounted to approximately HK$97,518,000 as at 30 June 2010. The net cash proceeds from the Subscription and the Open Offer deducted from the cash to be paid to the Bondholder will be approximately HK$5.5 million. Accordingly, the Company intends to retain the balance as general working capital of the Group for future operation and development.

(v) Gearing ratio

As stated in the Interim Report, other than the convertible bonds issue, the Group had a net cash position and its gearing ratio was approximately 14.8%. Upon the execution of Deed of Settlement (including the Disposal), the Subscription and the Open Offer, the share capital will be enlarged by approximately 96.36% due to increase in issued shares in relation to the Subscription and Open Offer. Therefore, with reference to the unaudited pro forma financial information on the Remaining Group as set out in Appendix III, the gearing ratio will be improved to 11.36%.

In view of the above, we consider that the Transactions, will have positive financial effects to the Group, such as (i) relieving the Group from net current liability position; (ii) bringing favourable effects to the general working capital and generate positive cash flow to the Group, and (iii) improving the gearing ratio of the Group and expand its equity base without incurring interest burden, we thus concur with the Directors that the Deed of Settlement (including the Disposal), the Subscription and Open Offer are in the interest of the Company and the Independent Shareholders as a whole.

WHITEWASH WAIVER

As at the Latest Practicable Date, Mr. Yu and Future Advance is interested in 11,400,000 Shares and 287,619,446 Shares respectively. Ms. Ma, being the sole director of Future Advance, is interested in 8,100,000 Shares. As at the Latest Practicable Date, Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them are interested in an aggregate of (i) 307,119,446 Shares, representing approximately 24.98% of the existing issued share capital of the Company; (ii) 2,512,000 Options; and (iii) 2,802,235,294 Preferred Shares.

Upon completion of the Subscription, 570,000,000 Subscription Shares will be issued to Mr. Yu. The Subscription is inter-conditional with the Open Offer. Upon completion of the Subscription and the Open Offer and assuming full acceptance of the Offer Shares by the Qualifying Shareholders, Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them will hold approximately 42.69% of the issued share capital of the Company as enlarged by the Subscription Shares and the Offer Shares. In the event that there are any Offer Shares not taken up by the Qualifying Shareholders under the Open Offer, the Underwriter will be required to subscribe for those untaken Offer Shares, which together with the Subscription Shares would result in Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them holding 30% or more of the issued share capital of the Company as enlarged by the Subscription Shares and the Offer Shares. In the circumstances, an obligation on the part of Mr. Yu to make a general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by Mr. Yu, Future Advance, Ms. Ma, GORE, Mr. Zhang Zheng and parties acting in concert with any of them may arise as a result of the Subscription and the Open Offer. An application has been made by Mr. Yu to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders by way of poll at the EGM. If the Whitewash Waiver is not granted by the Executive, the Subscription and the Open Offer will not proceed. The Executive has indicated, subject to, among other matters, the approval by the Independent Shareholders on a vote taken by way of a poll, to waive any obligations of the Subscriber and parties acting in concert with it to make a general offer which might result from the Subscription and the Open Offer.

Based on our analysis of the terms of the Subscription Agreement and the Open Offer, the basis for the Issue Price and the Subscription Price and the financial effects of the Subscription and the Open Offer as set out above, we consider that the Subscription and the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders, the Subscription and the Open Offer will be terminated in accordance with its terms and the Company will lose its only possible sources of financing for executing the Deed of Settlement. Accordingly, we are of the view that for the purposes of the Subscription and the Open Offer as discussed above, the grant of the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned.

CONCLUSION

Having taken the consideration of the principal factors and reasons, in particular,

(i) the urgency of settling the Convertible Bonds and the loss making financial position of the Group;

(ii) the principal terms of the Deed of Settlement and the Disposal;

(iii) the financial effects of executing the Deed of Settlement and the Disposal are favourable to the Company and the Independent Shareholders as a whole;

(iv) the historical thin liquidity in the trading of the Shares;

(v) the proposed Subscription and Open Offer are preferred source of financing over debt financing and rights issue;

(vi) the terms of the Underwriting Agreement are determined after arm's length negotiation before the Company and the Underwriter and is on normal commercial terms;

(vii) the dilution effect is not prejudicial to the Independent Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Offer Shares under the Open Offer;

(viii) all of the financial effects of the Subscription and the Open Offer are favourable to the Company and Independent Shareholders as a whole; and

(ix) the approval and grant of the Whitewash Waiver are conditions precedent to the Subscription and the Open Offer.

we are of the view that (i) the terms of the Deed of Settlement (including the Disposal) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the terms of Subscription are in the ordinary and usual course of business of the Company, on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the Open Offer is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer are in the interests of the Independent Shareholders as a whole; and (iv) the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM approving the Deed of Settlement (including the Disposal), the Subscription, the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited

Alister Chung
Managing Director