

31 August 2010

*To: The Independent Board Committees
and the Independent Shareholders of
Tack Fat Group International Limited (Provisional Liquidators Appointed)*

Dear Sirs,

**RESTRUCTURING OF TACK FAT GROUP INTERNATIONAL LIMITED
(PROVISIONAL LIQUIDATORS APPOINTED) INVOLVING, INTER ALIA,
(1) PROPOSED OPEN OFFER ON THE BASIS OF 339 OFFER SHARES FOR
EVERY 5 NEW SHARES HELD ON THE RECORD DATE;
(2) PROPOSED ISSUE OF CONVERTIBLE BONDS;
(3) APPLICATION FOR WHITEWASH WAIVER;
AND
(4) SPECIAL DEAL**

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committees and the Independent Shareholders with regard to the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal, details of which are contained in the "Letter from the Provisional Liquidators/Board" of the circular to the Shareholders dated 31 August 2010 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

~~On 26 May 2010, the Company, the Provisional Liquidators, the Investor and the Escrow Agent entered into the Restructuring Agreement. The Restructuring Agreement involves, inter alia, the proposed terms for the Capital Reorganisation, the Open Offer, the Investor Subscription Agreement, debt restructuring (including the Schemes and the Creditors Subscription Agreement), and proposed application for the Whitewash Waiver. On 24 June 2010, the Company, the Provisional Liquidators and the Investor entered into the Investor Subscription Agreement. On 6 July 2010, New Profit, Key Winner, the Company and the Provisional Liquidators entered into the Creditors Subscription Agreement. On 27 July 2010, the Company and Asian Capital entered into the Underwriting Agreement for the Open Offer. On the same date, the Investor, as a sub-underwriter, entered into the Sub-underwriting Letter with Asian Capital, to fully sub-underwrite all the Offer Shares not taken by the Shareholders. The parties to the Restructuring Agreement entered into the Supplemental Restructuring Side Letter on 24 August 2010 pursuant to which, among other things, the Closing will also be conditional on the Special Deal being approved by the Shareholders in the EGM and the consent for the Special Deal being granted by the Executive.~~

Pursuant to the Restructuring Agreement, subject to the Capital Reorganisation becoming effective, the Company will implement the Open Offer of New Shares on the basis of 339 Offer Shares for every 5 New Shares held on the Record Date by the Qualifying Shareholders. As the Open Offer will increase the issued share capital of the Company upon completion of the Capital Reorganisation by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer is made conditional on approval by the Independent Shareholders at the EGM. Any controlling Shareholders and their associates are required to abstain from voting in favour of the relevant resolutions relating to the Open Offer. Mr. Kwok Wing is a controlling Shareholder holding approximately 34.46% as at the Latest Practicable Date and therefore Mr. Kwok Wing and his associates are required to abstain from voting in favour of the resolution in respect of the Open Offer.

As part of the Restructuring Agreement and the Investor Subscription Agreement, the Investor will subscribe for the Investor Convertible Bonds with the principal amount of HK\$100 million which are convertible into 10,000,000,000 New Shares at the option of the holders at a conversion price of HK\$0.01 per Conversion Share.

Upon completion of the Capital Reorganisation and assuming full conversion of the Investor Convertible Bonds only, the Investor and parties acting in concert with it will be interested in (i) approximately 39.6% of the then enlarged issued share capital of the Company assuming all the Shareholders taking up all the Offer Shares; and (ii) approximately 99.1% of the then enlarged issued share capital of the Company if none of the Shareholders takes up the Offer Shares. Accordingly, the Investor, its ultimate beneficial owners and parties acting in concert with any of them would be obliged to extend a mandatory general offer to all the Shareholders (other than those already owned or agreed to be acquired by the Investor, its ultimate beneficial owners or parties acting in concert with any one of them) under Rule 26 of the Takeovers Code, unless a Whitewash Waiver is obtained from the Executive. The Investor, its ultimate beneficial owner and parties acting in concert with any of them have made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted, will be subject to, the approval by the Independent Shareholders at the EGM, who are not interested or involved in the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal.

~~Under the Schemes, the Restructuring Agreement and the Creditors Subscription Agreement, all the Claims against the Company will be compromised, discharged and settled. Scheme Creditors and New Profit Stakeholders will subscribe for Creditors Convertible Bonds with the principal amount of HK\$20 million which are convertible into 20,000,000,000 New Shares at the option of the holders at a conversion price of HK\$0.01 per Conversion Share.~~

To the best knowledge of the Provisional Liquidators, the Interested Shareholders who held 1,087,262 Shares as at the Latest Practicable Date, representing approximately 0.05% of the existing issue share capital of the Company, had an aggregate claims of approximately HK\$92 million against the Company as at 31 March 2010. As the terms of the settlement of the Claims to the Interested Shareholders under the Schemes are not extended to the other Shareholders, it constitutes a special deal for the Company under Rule 25 of the Takeovers Code, and requires the consent of the Executive, which will normally be granted provided that an independent financial advisor to the Whitewash Waiver Independent Board Committee and the Independent Shareholders (who are not interested or involved in the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal), publicly stating that in its opinion the respective terms of the settlement of the Claims to the Interested Shareholders are fair and reasonable; and the respective resolutions in respect of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are approved by the Independent Shareholders by way of poll at the EGM.

II. THE INDEPENDENT BOARD COMMITTEES

The Board currently consists of one non-executive Director, Mr. James D. McMullen and three independent non-executive Directors, Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok and Mr. Kooi Tock Chian.

The Open Offer Independent Board Committee, consisting of all independent non-executive Directors, namely Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok, and Mr. Kooi Tock Chian, was formed to advise the Independent Shareholders as to (i) whether the terms of the Open Offer is fair and reasonable so far as the Independent Shareholders are concerned and; (ii) whether the Open Offer is in the interests of the Company and the Shareholders as a whole.

The Whitewash Waiver Independent Board Committee, consisting of all non-executive Directors, namely Mr. James D. McMullen, Mr. Pau Chin Hung, Andy, Mr. Choong Khuat Leok and Mr. Kooi Tock Chian, was established to advise the Independent Shareholders as to (i) whether the terms of the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote on the resolutions in respect of the Whitewash Waiver and the Special Deal at the EGM.

We have been appointed, with the approval of the Independent Board Committees, to advise the Independent Board Committees and the Independent Shareholders in these respects.

III. BASIS AND ASSUMPTIONS

In formulating our opinion, we have relied solely upon the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Provisional Liquidators. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Provisional Liquidators 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 made or provided by the Provisional Liquidators contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Provisional Liquidators that no material facts have been omitted from the information provided and referred to in the Circular. We have not participated in the selection process of the restructuring proposals and we are therefore not in the position to comment on such process or the terms of any other proposals.

We consider that we have reviewed sufficient information 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 not, however, conducted an independent verification of the information provided, nor have we carried out an in-depth investigation into the affairs of the Group or the prospects of the markets in which the Group operates.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal, we have taken into account, inter alia, the following principal factors and reasons:

A. Background to and reasons for the Restructuring Agreement

1. Business of and financial information on the Company

The Company was incorporated in Cayman Islands with limited liability on 12 March 2001 and was listed on the Main Board of the Stock Exchange on 29 April 2002. Trading in the Shares has been suspended since 30 July 2008 and the Provisional Liquidators were appointed on 11 September 2008. The Group is principally engaged in the fashion design and management of a casual wear retail brand "XXEZZ" in the PRC. Currently the brand trade mark is owned by a company, which does not belong to the Group but is now controlled by the Provisional Liquidators. The Provisional Liquidators will take the necessary steps to transfer the XXEZZ trademark to the Group before Closing. Further details of XXEZZ are set out in the "Letter from the Provisional Liquidators/Board" in the Circular.

Tabularised below are the consolidated financial highlights of the Company as extracted from the annual reports of the Company for the year ended 31 March 2010 (“2010 Annual Report”):

	2009	2010
	31 March	31 March
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)
Total assets	66,187	52,424
Total liabilities	(1,317,001)	(1,349,070)
Net liabilities	(1,250,814)	(1,296,646)
Turnover	107,684	55,648
Profit/(Loss) from operations	(23,794)	6,168
Loss for the year	(87,130)	(58,921)

As depicted from the above table, the Group’s turnover for the year ended 31 March 2010 were approximately HK\$55.6 million representing a decrease of approximately 48.3% from that of last year (2009: approximately HK\$107.7 million). According to the 2010 Annual Report, the decline in turnover for the year ended 31 March 2010 was due to reduction in the Company’s sales points in the PRC and limited working capital. Profit from operations of approximately HK\$6.2 million was recorded for the year ended 31 March 2010 as compared to a loss from operations of approximately HK\$23.8 million in previous year. This was mainly attributed to the decrease in administrative and other operating expenses. However, due to the significant increase in finance costs to approximately HK\$63.1 million (2009: approximately HK\$13.5 million) which comprised mainly of interest on bank advances, other borrowings and convertible bonds, a loss for the year of approximately HK\$58.9 million was recorded (2009: loss of approximately HK\$87.1 million).

The Company had consolidated net liabilities of approximately HK\$1,297 million (2009: approximately HK\$1,251 million). The Company’s liabilities were mainly bank loan guarantees for subsidiaries.

2. Recent development of the Company’s business

As set out in the “Letter from the Provisional Liquidators/Board” in the Circular, due to insolvency and winding up of all the subsidiaries engaged in manufacturing, ever since suspension of trading in the Shares, the Group has only been able to rescue and maintain its apparel retail business under a casual wear brand name XXEZZ in the PRC. Currently, the Group has a sales network of over 60 retail shops and outlets for its apparel retail business of the XXEZZ brand name in the PRC. The Group engages a number of suppliers in the PRC for the production and delivery of its products.

On 11 August 2009, the Investor and the Provisional Liquidators entered into a revolving loan facility agreement, pursuant to which, the Investor consented to provide additional working capital loan for the Group's retail business operating entity in the PRC of an aggregate amount equal to HK\$15 million till 31 December 2009 or any date to be extended by written agreement between the Investor and the Provisional Liquidators. As at 31 March 2010, the total amount of working capital loan from the Investor was HK\$30 million of which HK\$20 million has been repaid in April 2010 and the remaining HK\$10 million will be set off by the proceeds from the subscription of the Investor Convertible Bonds by the Investor.

3. *Reasons for the Restructuring Agreement*

As set out above, the Group has been in financial difficulties and is in lack of working capital for its operations. Trading in the Shares on the Stock Exchange has been suspended since 30 July 2008. On 11 September 2008, the Company filed for a self-petition for winding up and the Provisional Liquidators were appointed on the same date.

As mentioned in the "Letter from the Provisional Liquidators/Board", it is anticipated that the financial position of the Group will be substantially improved upon (i) the successful implementation of the Restructuring Agreement; and (ii) the resumption of trading in the Shares on the Stock Exchange. The Investor and the Provisional Liquidators anticipate all existing liabilities owed to the Scheme Creditors and creditors of its subsidiaries holding guarantees given by the Company will be compromised and discharged through the Schemes.

It is the Investor's intention to maintain the Group's existing retail business, currently conducted through Shenzhen XXEZZ Clothing Company Limited, an indirect wholly-owned subsidiary of the Company. With the strong and continuous support provided by the Investor to the Group in terms of both business and financial aspects, the Provisional Liquidators/Board consider that the Group has been and will be able to sustain its retail business at a sufficient level in upcoming financial years and expand its retail business to a substantial level within a reasonable period of time after the resumption of trading in the Shares on the Stock Exchange.

The Resumption Proposal was submitted to the Stock Exchange on 20 July 2009. According to the Company's announcement dated 14 April 2010, the Stock Exchange allowed the Company to proceed with the Resumption Proposal, subject to prior compliance with the Resumption Conditions by 8 October 2010 as set out in the letter. The Company had applied and the Stock Exchange has agreed on 20 August 2010 that the time for the satisfaction of the Resumption Conditions is extended to 15 December 2010.

B. Restructuring Agreement

On 26 May 2010, the Company, the Provisional Liquidators, the Investor and the Escrow Agent entered into the Restructuring Agreement for the purpose of implementation of the Resumption Proposal and the transactions contemplated thereunder.

The Restructuring Agreement provides for, inter alia, the proposed terms for the Capital Reorganisation, the Open Offer, the Investor Subscription Agreement, debt restructuring (including the Schemes and the Creditors Subscription Agreement) and the proposed application of the Whitewash Waiver.

I. Open Offer

a. Terms of the Open Offer

Pursuant to the Restructuring Agreement, subject to the Capital Reorganisation becoming effective, the Company will implement the Open Offer of the New Shares on the basis of 339 Offer Shares for every 5 New Shares held on the Record Date by the Qualifying Shareholders. The Company intends to issue 15,001,474,104 Offer Shares at HK\$0.01 each to raise approximately HK\$150 million. The New Shares to be issued from the Open Offer will represent approximately 55.1% of the enlarged issued share capital of the Company assuming full conversion of the Investor Convertible Bonds and Creditor Convertible Bonds upon the Capital Reorganisation being effective.

b. The Subscription Price

The Subscription Price of HK\$0.01 per Offer Share represents:

- (i) a discount of approximately 99.75% to the theoretical closing price of HK\$4.00 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.40 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 99.78% to the average theoretical closing price of HK\$4.46 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.446 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date;
- (iii) a discount of approximately 99.79% to the average theoretical closing price of HK\$4.79 per Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.479 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date;

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- (iv) a premium of approximately HK\$5.87 over the audited consolidated net liabilities per New Share of approximately HK\$5.86 as at 31 March 2010 (based on the Company's audited consolidated net liabilities of approximately HK\$1,297 million at 31 March 2010 and 221,260,680 New Shares in issue upon the Capital Reorganisation becoming effective); and
 - (iv) premium of approximately HK\$0.0043 over the unaudited pro forma net assets value per New Share of approximately HK\$0.0057 as at 31 March 2010 based on the unaudited pro forma net assets value of HK\$86.70 million as at 31 March 2010 and 15,222,734,784 New Shares to be in issue upon the Capital Reorganisation becoming effective and the issue of the Offer Shares and before conversion of the Convertible Bonds.

According to the Company, the Subscription Price was determined on arm's length negotiations between the Company and the Investor taking into consideration, among other things, (i) the length of Suspension and (ii) the audited consolidated net current liabilities of approximately HK\$5.86 per Share as at 31 March 2010 based on the Company's audited consolidated net liabilities of approximately HK\$1,297 million and 2,212,606,800 Shares in issue as set out in the Company's published audited financial statements for the year ended 31 March 2010.

As the terms of different restructuring proposals are subject to various factors such as nature of business and the specific state of affairs of each of the companies concerned as well as the seriousness of the financial and operational problems, we do not consider that it is meaningful to assess the fairness and reasonableness of the terms of the Open Offer by making reference to those of other companies with restructuring proposals.

Given the fact that the Shares were suspended from trading for more than two years, we consider that the closing price of the Shares prior to the suspension of trading is not reflective of the current financial condition and value of the Company and will not provide a fair basis for the evaluation of the Subscription Price. In view of (i) the Company's current net liabilities position; (ii) the Company cannot issue New Shares below the par value of HK\$0.01 each; and (iii) completion of the Open Offer is one of the conditions precedent of the Restructuring Agreement, we concur with the Directors that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

c. Underwriting arrangement

The Company and the Underwriter have entered into the Underwriting Agreement on 27 July 2010 pursuant to which the Underwriter will fully underwrite the Untaken Shares. The conditions and termination clauses of the Underwriting Agreement and obligations of the Underwriter are set out in the section headed "Underwriting Arrangement and the Sub-underwriting Letter" in the "Letter from the Provisional Liquidators/Board". The Underwriter, save for being the financial advisor to the Company, is an independent third party of the Company or with any of the Directors, chief executive, substantial Shareholders or any of their respective associates. The maximum number of Untaken Shares underwritten by the Underwriter is 15,001,474,104 Offer Shares. The Company will pay, pursuant to the Underwriting Agreement, 2.75% of the aggregate Subscription Price for the Offer Shares to the Underwriter as underwriting commission.

d. Sub-underwriting arrangement

On 27 July 2010, the Underwriter offered in writing to the Investor and the Investor accepted by the Sub-underwriting Letter to act as the sub-underwriter to subscribe for up to 15,001,474,104 Offer Shares, i.e. the maximum number of Untaken Shares.

The Sub-underwriting Letter may be terminated if the Underwriting Agreement is terminated by either the Underwriter or the Company pursuant to the conditions and termination clause in the Underwriting Agreement as set out in the section headed "Underwriting Arrangement and the Sub-underwriting Letter" in the "Letter from the Provisional Liquidators/Board".

e. Reasons for the Open Offer and use of proceeds

The Company is of the view that it is prudent to finance the Group in form of equity to fund its working capital needs and long term organic growth. The gross proceeds from the Open Offer is approximately HK\$150 million and the net proceeds from the Open Offer after deducting for expenses is estimated to be approximately HK\$146 million which will be used for the working capital of the Company.

f. Our views

Upon completion of the Open Offer, the capital base of the Company will be strengthened and the proceeds from the Open Offer will provide working capital for the Company. Having considered that (i) the Subscription Price was determined at an arm's length basis; (ii) all Qualifying Shareholders will be entitled to subscribe for the Offer Shares at the same price in proportion to their existing shareholdings in the Company; and (iii) the Company will benefit from the stronger capital base in particular if it requires further funding by means of equities, we consider that the terms of the Open Offer is fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interest of the Company and the Shareholders as a whole.

2. *Investor Subscription Agreement*

a. Terms of the Investor Subscription Agreement

Pursuant to the Restructuring Agreement and the Investor Subscription Agreement, the Investor will subscribe for and the Company will on the Closing Date issue to the Investor (or as the Investor may direct) the Investor Convertible Bonds, in the aggregate principal amount of HK\$100 million on and subject to conditions precedent of the Investor Subscription Agreement.

Pursuant to the Investor Subscription Agreement, the Investor Convertible Bonds shall be convertible into New Shares at a conversion price of HK\$0.01 for each New Share. According to the "Letter from the Provisional Liquidators/Board", the Conversion Price was determined on arm's length negotiations between the Company and the Investor in view of the prolonged suspension of trading of the Shares and the net liabilities position of the Company as at 31 March 2010.

The conversion price of the Investors Convertible Bonds represents a discount of approximately 99.75% to the theoretical closing price of HK\$4.00 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK\$0.4 per Shares on the Last Trading Date. It is also equal to the par value of the New Share and the conversion price of the Creditors Convertible Bonds. Given that the Shares had been suspended for more than two years, we consider that the closing price of the Shares prior to the suspension of trading is not reflective of the current financial condition and value of the Company. Furthermore, in view of the net liabilities of the Company, we are of the view that the closing price of the Shares prior to the suspension of trading will not provide a fair basis for the evaluation of the Conversion Price.

b. Reasons for the Investor Convertible Bonds and use of proceeds

The Company will receive gross proceeds from the subscription of the Investor Convertible Bonds of HK\$74 million from the Investor, after setting off the working capital loan of HK\$10 million provided by the Investor to the Company under the Exclusivity and Escrow Agreement and fees and costs of HK\$16 million incurred by the Company in negotiation, documentation and implementation of the restructuring of the Group. According to the Provisional Liquidators, a sum of HK\$50 million out of the subscription money of the Investor Convertible Bonds will be made available to the Scheme Administrators for the benefit of the Scheme Creditors and New Profit for the benefit of the New Profit Stakeholders respectively in the proportion of 5:2. The remaining HK\$24 million of the proceeds will be applied towards the working capital requirements of the Group.

c. Our views

Given (i) the issue of the Investor Convertible Bonds is one of the conditions precedent of the Restructuring Agreement; (ii) the proceeds of which will provide working capital of the Company; and (iii) our analysis of the possible dilution effects on the shareholdings of public Shareholders as set out in the paragraph headed "Possible dilution effect of the Open Offer, the Investors Convertible Bonds, the Creditors Convertible Bonds on the shareholdings of existing public Shareholders" below, we consider that the terms of the Investor Convertible Bonds are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

3. Creditors Convertible Bonds

a. Terms of Creditors Subscription Agreement

Pursuant to the Restructuring Agreement and the Creditors Subscription Agreement, Key Winner and New Profit will subscribe for and the Company will on the Closing Date issue to Key Winner and New Profit the Creditors Convertible Bonds, in the aggregate principal amount of HK\$20 million on and subject to terms of the Creditors Subscription Agreement. The Creditors Convertible Bonds carry a coupon rate of 2% per annum payable on the maturity date. Key Winner will be entitled to five sevenths and New Profit to two sevenths of the Creditors Convertible Bonds which will then be distributed to the Scheme Creditors and New Profit Stakeholders respectively.

The Conversion Price for the Creditors Convertible Bonds is the same as that for the Investor Convertible Bonds, i.e. HK\$0.01 for each New Share. Based on our opinion on the conversion price of the Investor Convertible Bonds as above, we are of the view that the closing price of the Shares prior to the suspension of trading will not provide a fair basis for the evaluation of the Conversion Price.

b. Reasons for the Creditors Convertible Bonds

As part of the Schemes and the debt restructuring, the Company will issue and the Scheme Creditors and New Profit (for the benefit of the New Profit Stakeholders) will receive the Creditors Convertible Bonds as settlement of part of the debts owed by the Company. The Company will not receive cash from issuance of the Creditors Convertible Bonds. The Company considers that the Schemes and the debt restructuring is the only viable way to compromise, discharge and settlement of all claims against the Company and is of the view that the terms of the Creditors Subscription Agreement are fair and reasonable and in the interest of the Company, the Shareholders and the Creditors as a whole.

c. Our views

By issuing the Creditors Convertible Bonds for the settlement of part of the debts owed to the Scheme Creditors, other than the interest at 2% per annum i.e. HK\$400,000 to be payable at maturity, if none of the Creditors Convertible Bonds are converted, the cash position of the Company will not be adversely affected. Given this and the issue of the Creditors Convertible Bonds is part of the debt restructuring, we consider that the terms of the Creditors Convertible Bonds are fair and reasonable and the Creditors Subscription Agreement is in the interest of the Company and the Shareholders as a whole.

4. *Possible dilution effect of the Open Offer, the Investors Convertible Bonds, the Creditors Convertible Bonds on the shareholdings of existing public Shareholders*

As set out in the paragraph headed “Shareholding structures of the Company” in the “Letter from the Provisional Liquidators/Board”, if none of the Shareholders takes up the Offer Shares, upon completion of the Open Offer and full conversion of the Investor Convertible Bonds and the Creditor Convertible Bonds, the shareholdings of existing public Shareholders will be diluted from approximately 65.5% as at the Latest Practicable Date to approximately 17.4% if the Company’s minimum public float is maintained.

In light of the facts that (i) the issue of the Investor Convertible Bonds and the Creditors Convertible Bonds and the completion of the Open Offer are part of the conditions precedent of the Restructuring Agreement; (ii) the issue of the Investor Convertible Bonds and the Creditors Convertible Bonds are parts of the debt restructuring under the Schemes; (iii) while the issue of Investor Convertible Bonds will provide working capital for the Company, there will not be any immediate dilution effects on the shareholdings of public Shareholders; (iv) the Investor Convertible Bonds will not be entitled to interest and thus will not increase the interest burden of the Company; (v) the Open offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so and provides an equal opportunity among the Qualifying Shareholders to participate in the future growth and development

of the Company, although the shareholding interests of those Qualifying Shareholders who do not take up their entitlements under the Open Offer will be diluted, we consider that the possible dilution effect of the Investor Convertible Bonds, Creditors Convertible Bonds and Open Offer is acceptable.

5. *Possible financial effects of the Open Offer, subscription of the Investor Convertible Bonds and Creditors Convertible Bonds*

Based on the unaudited pro forma statement of financial information of the Group as set out in Appendix V to the Circular, upon Closing and as compared to the audited consolidated balance sheet of the Group as at 31 March 2010, the Group's total liabilities will be reduced by approximately HK\$1,201 million to approximately HK\$148.4 million.

With the proceeds from the subscription of the Investor Convertible Bonds, Open Offer and after setting off the restructuring cost and claims of the Creditors and New Profit Stakeholders, the Group's bank balances and cash will be increased to approximately HK\$185.7 million. Total assets of the Group will be increased by approximately HK\$182.6 million to approximately HK\$235.1 million. The Group's net liabilities position as at 31 March 2010 of approximately HK\$1,297 million will be improved to a net asset position of approximately HK\$86.7 million. The debt ratio of the Group (being the ratio of total liabilities to total assets) will be improved to approximately 0.63 times as compared to approximately 25.7 times as at 31 March 2010.

V. SPECIAL DEAL

a. The Schemes

As at 31 March 2010, the Company had total Claims of approximately HK\$1,141 million, of which HK\$0.5 million was due to the Preferential Creditors. Pursuant to the Schemes, the repayment to the Preferential Creditors and payment of the administrative costs being incurred in relation to the Schemes rank before the repayment of the other Creditors (including the Interested Shareholders). Also, under the Schemes, (a) all Claims against the Company will be compromised, discharged and/or settled; (b) the Scheme Creditors will receive a pro rata distribution of five sevenths of the Creditors Convertible Bonds; and (c) the Company will transfer or procure the transfer to the Scheme Administrators for distribution to the Scheme Creditors of the follows:

- (i) five sevenths of the Cash Consideration;
- (ii) any cash held by or for the account of the Company at Closing; and
- (iii) all rights, title and interest in the Companies transferred to Key Winner by Ever Century on or about 29 May 2009, and any other assets in the Group other than the XEZZ Assets.

Principal terms of the Schemes are set out in the section headed “Debt Restructuring” in the “Letter from the Provisional Liquidators/Board” in the Circular.

Pursuant to the Restructuring Agreement, out of the proceeds from the subscription of the Investor Convertible Bonds, HK\$50 million will be the Cash Consideration to repay to the Scheme Creditors and the New Profit Stakeholders in a proportion of 5:2. The total principal amount of HK\$20 million of Creditors Convertible Bonds will also be allocated to the Scheme Creditors and the New Profit Shareholders in a proportion of 5:2. Accordingly, a total equivalent principal amount of HK\$50 million (the “Repayment”), comprised of five sevenths of the Cash Consideration and Creditors Convertible Bonds, will be made available to the Scheme Creditors to settle their Claims against the Company.

According to the Provisional Liquidators, they have received in principle support from Creditors representing more than 75% of the total indebtedness of the Company for the Schemes. The Repayment was agreed between the Company, the Provisional Liquidators and the Investor after arm’s length negotiation.

To the best knowledge of the Provisional Liquidators, the Interested Shareholders holding 1,087,262 Shares, representing approximately 0.05% of the existing issue share capital of the Company, have aggregate Claims of approximately HK\$92 million against the Company representing approximately 8.06% of total Claims against the Company. As the terms of the settlement of the Claims to the Interested Shareholders under the Schemes are not extended to the other Shareholders, it constitutes a special deal for the Company under Rule 25 of the Takeovers Code and requires the consent of the Executive. The amount of the Claims and shareholding interest in the Company of each of the Interested Shareholders are set out in the section headed “Special Deal” in the “Letter from the Provisional Liquidator/Board” in the Circular.

b. Our view

As the Company is in a net liabilities position, there are insufficient assets available for distribution to the Creditors. If the Schemes which is part of the Restructuring Proposal, fail to proceed, upon winding up of the Company, the return to Shareholders, if any, will be minimal.

Given that (i) the implementation of the Schemes is part of the Restructuring Proposal; (ii) all Claims against the Company will be compromised, discharged and settled under the Schemes; and (iii) the amount owed to the Interested Shareholders, which accounted for approximately 8.06% of the total Claims, if admitted as the Scheme Creditors, will be settled on same basis as other Scheme Creditors (other than the Preferential Creditors) under the Schemes, we are of the opinion that the settlement of Claims by the Interested Shareholders under the Schemes which constitutes a special deal for the Company under Rule 25 of the Takeovers Code are in the interests of the Company and the Shareholders as a whole and the terms of the settlement to the Interested Shareholders are fair and reasonable so far as the Independent Shareholders are concerned.

VI. WHITEWASH WAIVER

Pursuant to the Underwriting Agreement, the Underwriter conditionally agreed to fully subscribe or procure subscription for the Offer Shares which have not been taken up by the Shareholders and any fractional entitlement to the Offer Shares.

The Underwriter undertakes to the Company that in the event that the Underwriter exercises its right to procure subscribers other than the Investor, it will procure third parties independent of the Company and the Investor, its ultimate beneficial owner and parties acting in concert with any of them to be the subscribers and the subscription of the aggregate Untaken Shares by any subscribers procured by the Underwriter will not result in any general offer obligation upon allotment and issue of the Offer Shares to them.

Pursuant to the Sub-underwriting Letter, the obligation of the Underwriter in respect of the Untaken Shares is fully sub-underwritten by the Investor. In the case of default by the Underwriter, the Investor will substitute the Underwriter to take up the Untaken Shares in the event that the Underwriter does not exercise its right to procure other subscribers. In the event that the Investor defaults in complying with its obligations in the Sub-underwriting Letter, the Underwriter shall reserve the right to procure other subscribers to subscribe for the Untaken Shares or treat the Sub-underwriting Letter as an application by the Investor for the number of the Untaken Shares. In this regard, the Underwriter will not in any event take up any of the Offer Shares despite the Underwriting Agreement. As such, the Underwriter will not trigger a general offer obligation under the Takeovers Code.

As the Investor, also being the sub-underwriter, will fully sub-underwrite the Open Offer, no other party will incur general offer obligation as a result of the arrangements pursuant to the Underwriting Agreement.

As set out in the paragraph headed "Shareholding structure of the Company" in the "Letter from the Provisional Liquidators/Board", upon completion of the Capital Reorganisation and if all the Offer Shares are taken up by the Shareholders, the Investor will hold (i) approximately 39.6% of the issued share capital of the Company upon full conversion of the Investor Convertible Bonds; and (ii) approximately 36.7% of the issued share capital of the Company upon full conversion of both the Investor Convertible Bonds and Creditors Convertible Bonds.

As the Investor will also act as the sub-underwriter, upon completion of the Capital Reorganisation and the Open Offer, if none of the Shareholders takes up the Offer Shares, the Investor will hold (i) approximately 98.5% of the issued share capital of the Company if none of the Investor Convertible Bonds are converted; (ii) approximately 99.1% of the issued share capital of the Company if all the Investor Convertible Bonds are converted; and (iii) approximately 91.8% of the issued share capital of the Company if all the Investor Convertible Bonds and Creditors Convertible Bonds are converted.

Accordingly, whether the Shareholders take up any the Offer Shares or not, the Investor will be obliged to make an unconditional mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Investor, its ultimate beneficial owner and parties acting in concert with any of them under Rule 26 of the Code as a result of the obligation of the Investor under the Sub-underwriting Letter and/or the conversion of the Investor Convertible Bonds. The Investor, its ultimate beneficial owner and parties acting in concert with any of them have applied to the Executive for a Whitewash Waiver. One of the conditions of the Restructuring Agreement is the granting of the Whitewash Waiver by the Executive and fulfillment of the conditions attached to the Whitewash Waiver, including approval by Independent Shareholders at the EGM by way of poll.

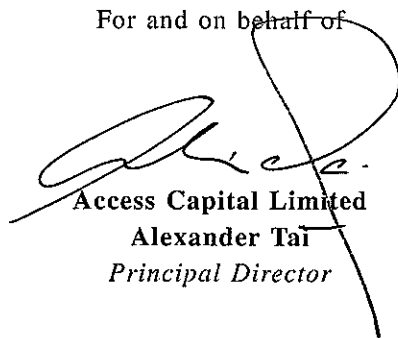
In the event that this condition is not fulfilled, the Restructuring Agreement will not be completed and the Company will be wound up. Given the net liabilities position of the Group as at 31 March 2010, there will be insufficient assets available for distribution to its Shareholders. In this regard, we are in the opinion that the grant of the Whitewash Waiver, which is one of the conditions precedent of the Restructuring Agreement is in the interests in the Company and its Shareholders as a whole.

VII. RECOMMENDATION

Given the Company's net liabilities position, there will unlikely be any return to the Shareholders if the Company is put into liquidation should the Restructuring Agreement lapses. If the Restructuring Agreement is successfully implemented, which the Open Offer, the issue of the Investor Convertible Bonds and the Creditors Convertible Bonds and the Schemes form part of, the Shares may resume trading. This will provide an opportunity for an open market to the Shareholders to realize, should they wish so, part or all of their investments in the Company.

Having considered the above-mentioned principal factors and reasons, we consider that terms of the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Open Offer, the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal are in the interests of the Company and the Independent Shareholders as a whole. Therefore, we advise the Open Offer Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolutions in relation to the Open Offer and the Whitewash Waiver Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolutions in relation to the transactions contemplated in the Restructuring Agreement (including the Investor Subscription Agreement and the Creditors Subscription Agreement), the Whitewash Waiver and the Special Deal to be proposed at the EGM.

Yours faithfully
For and on behalf of



Access Capital Limited
Alexander Tai
Principal Director