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智略資本

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3 May 2011

To the Independent Board Committee and the Independent Shareholders of
Polyard Petroleum International Group Limited

PROPOSED RIGHTS ISSUE OF 1,216,800,000 RIGHTS SHARES ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ONE CONSOLIDATED SHARE HELD ON THE RECORD DATE; AND APPLICATION FOR THEWHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver, details of which are set out in the section headed "Letter from the Board" (the "**Board Letter**") in the Company's circular dated 3 May 2011 (the "**Circular**") to the Shareholders, of which this Board Letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 12 April 2011, the Company announced, among other things, that the Company proposes to raise up to approximately HK$115 million before expenses, by way of rights issue of 1,216,800,000 Rights Shares at the Subscription Price of HK$0.12 per Rights Share on the basis of one (1) Rights Share for every one (1) Consolidated Share held on the Record Date and payable in full on application. The Rights Issue will not be underwritten.

Silver Star has agreed to subscribe for 355,922,598 Rights Shares, representing approximately 29.25% of all the Rights Shares, which it is entitled under the Rights Issue at an aggregate subscription price of approximately HK$42.71 million which will be satisfied by way of set-off against a loan of approximately HK$31 million due from the Company to Silver Star and/or Mr. Lam on a dollar-to-dollar basis and by cash for the remaining balance of approximately HK$11.7 million.

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The Rights Issue, together with the Second Rights Issue in 2010, would increase the issued share capital of the Company by more than 50%. Therefore, under Chapter 10 of the GEM Listing Rules, the Rights Issue must be made conditional on approval by the Shareholders in the EGM in which any controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour. In addition, due to the set-off arrangement and the intended repayment of the Convertible Bonds A by applying the net proceeds from the Rights Issue, Silver Star and its associates are regarded to be interested in the Rights Issue and will abstain from voting at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Silver Star, no Shareholder or Director will be required to abstain from voting in favour of the resolution to approve the Rights Issue at the EGM.

As at the date of the Announcement and at the Latest Practicable Date, Silver Star is a substantial Shareholder holding 711,845,196 Shares, representing approximately 29.25% of the total number of Shares in issue. In the event that no Qualifying Shareholder (other than Silver Star and parties acting in concert with it) takes up any Rights Shares under the Rights Issue, the subscription for the Rights Shares under the Rights Issue by Silver Star and parties acting in concert with it may result in their aggregate shareholdings in the Company being increased from approximately 29.25% of the issued share capital of the Company as at the Latest Practicable Date to approximately 45.26% of the then enlarged issued share capital of the Company immediately upon completion of the Rights Issue, thereby triggering an obligation on Silver Star and parties acting in concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and securities issued by the Company not already held by Silver Star and parties acting in concert with it.

An application has been made by Silver Star to the Executive for the Whitewash Waiver in connection with the Rights Issue pursuant to note 1 on dispensation from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. If the Whitewash Waiver is not granted by the Executive, the Rights Issue will not proceed.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wang Yanhui, Mr. Pai Hsi-Ping and Mr. Wong Kon Man Jason, has been established to make recommendations to the Independent Shareholders as to whether the Rights Issue and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM.

Our role as the independent financial adviser is to (i) give our independent opinion to the Independent Board Committee and Independent Shareholders as to whether the Rights Issue and 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; and (ii) advise the Independent Shareholders on how to vote on the resolutions at EGM in relation to the Rights Issue and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date and should there be any material changes to our opinion after the despatch of the Circular, Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular (other than information relating to Silver Star) and have confirmed in the Circular, 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. The sole director of Silver Star accepts full responsibility for the accuracy of the information relating to Silver Star contained in the Circular and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Circular by the director of Silver Star 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 relating to Silver Star contained in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Rights Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Rights Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Rights Issue and, if in any doubt, should consult their own professional advisers.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Rights Issue 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 arriving at our recommendation in relation to the Rights Issue and the Whitewash Waiver, we have considered the following principal factors and reasons.

1. Background information of the Company

The Group is principally engaged in (i) the exploration, exploitation and production of oil, natural gas and coal; and (ii) the trading of petroleum-related products.

As set out in the annual report 2009 for the year ended 31 December 2009 (the "**AR 2009**"), the Group recorded turnover from continuing operations of approximately HK$3.92 million for the year ended 31 December 2009, representing a decrease of approximately 81.89% as compared with the turnover from continuing operations for the year ended 31 December 2008 of approximately HK$21.64 million. As advised by the Company, the decrease in turnover was mainly due to the slowdown of economy from 2008 and oil price fluctuation during the year 2009 which continued to limit the trading volume of the petroleum-related products in 2009. The Group recorded loss attributable to Shareholders of approximately HK$95.16 million for the year ended 31 December 2009, representing a decrease of approximately 69.96% as compared with the loss attributable to Shareholders of approximately HK$316.76 million for the year ended 31 December 2008. As advised by the Company, the decrease in loss was mainly due to the decrease in impairment loss on interests in jointly controlled entities.

As set out in the annual report 2010 of the Company for the year ended 31 December 2010 ("**AR 2010**"), the Group recorded turnover of approximately HK$0.83 million, representing a decrease of approximately 78.83% from that for the year ended 31 December 2009 of approximately HK$3.92 million. As advised by the Company, the drop in turnover was mainly due to the sluggish sales of petroleum-related products. The Group reported loss attributable to Shareholders of approximately HK$66.11 million for the year ended 31 December 2010, representing a decrease in loss of approximately 30.53% from that for the year ended 31 December 2009 of approximately HK$95.16 million. As advised by the Company, the decrease in loss was mainly due to the reversal of impairment loss in interests in associates.

2. Reasons for the Rights Issue and the use of proceeds

As set out in the Board Letter, the Group has an oil project in Brunei (the "**Oil Project**") and a coal project in the Philippines (the "**Coal Project**") which are underway and progressing and it is expected that more capital will be required for the continuing development of the two projects in 2011 which is approximately HK$25 million for the Oil Project and HK$5 million for the Coal Project.

Out of the HK$25 million to be injected into the Oil Project, (i) approximately HK$0.75 million is expected to be used for geological and geophysical work, including seismic survey, interpretation and data reprocessing; (ii) approximately HK$19.50 million is expected to be used for well drilling and site construction; and (iii) approximately HK$4.75 million will be used for general and administrative expenses.

In respect of the HK$5 million to be injected into the Coal Project, (i) approximately HK$2 million is expected to be used for land acquisition and construction of pier facilities; (ii) approximately HK$2 million will be used for purchase of equipment; and (iii) approximately HK$1 million will be used for general and administrative expenses.

The Board, therefore, considers raising further funds for these two projects. Besides, the Group also requires to raise further funds for general working capital of approximately HK$40 million, and the remaining balance of the net proceeds, if any, for use in other new investment projects or for settling part of the Convertible Bonds A issued to Mr. Lam being viable.

Having taken into account the terms of the Rights Issue, the Board considers that the Rights Issue is in the interests of the Company and the Shareholders as a whole. Furthermore, it also offers all the Qualifying Shareholders a fair and equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate equity interests in the Company to participate in the future development of the Company should they wish to do so.

As noted from the Board Letter, the Company has raised net proceeds amounted to approximately HK$66.6 million from the First Rights Issue in 2010 and the net proceeds was utilized as to approximately HK$48.5 million for the project in Brunei and as to approximately HK$18.1 million for other projects and general working capital of the Group. The Company has also raised net proceeds of approximately HK$55 million from the Second Rights Issue in 2010. As advised by the Company, as at the Latest Practicable Date, the net proceeds of approximately HK$10.5 million has already been injected into the gas project in the Philippines, approximately HK$2.8 million has already been injected into the coal project in the Philippines and approximately HK$17.7 million has been used as the Group's general working capital, and the remaining proceeds of approximately HK$24 million is intended to be injected into the gas project in the Philippines within the next 12 months.

As noted from AR 2010, the Group recorded cash and bank balances of approximately HK$16.65 million (the "**Cash Position**") as at 31 December 2010 and has been loss making for the two years ended 31 December 2010. We were also advised by the Company that save for the loan due from the Company to Silver Star and/or Mr. Lam of approximately HK$31 million (the "**Loan**"), Convertible Bonds A with outstanding principal amount of approximately HK$276.35 million and Convertible Bonds B with outstanding principal amount of approximately HK$120.00 million, the Company has no other borrowings as at the Latest Practicable Date. The Convertible Bonds A carry coupon rate of 3% per annum accrued on a day to day basis with maturity in October 2011 and the Convertible Bonds B which was issued under two tranches is non interest bearing with maturity in December 2013 for the first tranche and in February 2014 for the second tranche.

In view of (i) the Cash Position of the Group as at 31 December 2010 and the expected required funding for the continuing development of the Oil Project and the Coal Project in 2011; (ii) the remaining proceeds from the Second Rights Issue is intended to be reserved for the development of the gas project in the Philippines within the next 12 months; and (iii) the use of the proceeds from the Rights Issue is to finance the existing business projects, we are of the view and concur with the view of the Directors that the Rights Issue, including the use of proceeds for the Oil Project and the Coal Project, is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

In addition, as mentioned above, the Group also intend to utilize the remaining balance of the net proceeds, if any, for use in other new investment projects or for settling part of the Convertible Bonds A issued to Mr. Lam being viable. Having considered (i) the Cash Position of the Group as at 31 December 2010 and the loss-making track records of the Company; and (ii) the Convertible Bonds A which will be matured in October 2011 with its outstanding principal amount representing approximately 16.60 times of the Cash Position of the Company as at 31 December 2010 is out of money as at the Latest Practicable Date and hence, it is unlikely the holder thereof would convert the Convertible Bonds A into Shares, we are of the view and concur with the view of the Directors that the Rights Issue, including the use of proceeds, is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

Discussion of the alternatives of the Rights Issue is set out under the section headed "4. Alternative to the Rights Issue" below.

3. Principal terms of the Rights Issue

Basis of the Rights Issue

Qualifying Shareholders will be offered one Rights Share for every one Consolidated Share held on the Record Date. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

The Rights Shares (when allotted, fully-paid and issued) will rank pari passu in all respects with the Consolidated Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of allotment and issue of the Rights Shares.

Subscription Price

The Subscription Price is HK$0.12 per Rights Share, payable in full on application. The Subscription Price represents:

(i) a discount of approximately 23.08% (the "**LTD Discount**") to the adjusted closing price of HK$0.156 per Consolidated Share as quoted on the Stock Exchange on the Last Trading Day;

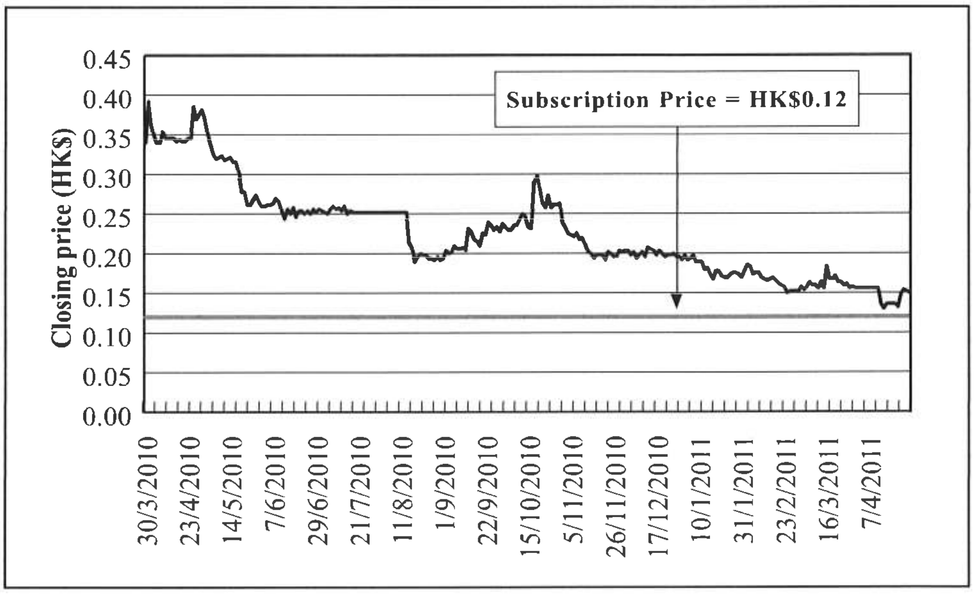
(ii) a discount of approximately 13.04% (the "**TEP Discount**") to the theoretical ex-entitlement price of approximately HK$0.138 per Share based on the adjusted closing price of HK$0.156 per Consolidated Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 24.05% to the average of the adjusted closing price of HK$0.158 per Consolidated Share for the last five (5) consecutive trading days including and up to the Last Trading Day; and

(iv) a discount of approximately 20.00% to the adjusted closing price of HK$0.150 per Consolidated Share as quoted on Stock Exchange on the Latest Practicable Date.

As set out in the Board Letter, the Subscription Price was arrived at with reference to the prevailing market price of the Shares. As noted from the circular in respect of the Second Rights Issue dated 24 September 2010, the subscription price of the First Rights Issue had a discount to net book value per Share of approximately 56% and the subscription price of the Second Rights Issue had a discount to net book value per Share of approximately 72%. The Subscription Price of the Rights Issue, which is HK$0.12, has a discount to net book value per Consolidated Share of approximately 77% which is higher than those in the First Rights Issue and the Second Rights Issue in 2010. The Directors consider that the Subscription Price is low and thereby more attractive to the Qualifying Shareholders. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the trading price of the Shares for the period from 30 March 2010, being the 12-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the "**Review Period**"). The chart below illustrates the daily closing prices of the Shares (adjusted with the Share Consolidation) versus the Subscription Price during the Review Period:



Source: the website of the Stock Exchange

During the Review Period, the highest adjusted closing price and the lowest adjusted closing price of the Shares were HK$0.392 on 31 March 2010 and HK$0.13 on 14 April 2011 respectively. The Subscription Price represents discounts of approximately 69.39% and approximately 7.69% respectively to such highest and lowest adjusted closing prices of the Shares during the Review Period.

We have also reviewed the discounts represented by the subscription prices of the First Rights Issue and the Second Rights Issue. Details of such discounts have been set out as follows:

	Discount to closing price of the Shares/ Consolidated Shares on the last trading day	**Discount to theoretical ex-entitlement price based on the closing price of the Shares/ Consolidated Shares on the last trading day (%)**	**Discount to net book value per Share/ Consolidated Share (%)** *(Note)*
First Rights Issue	50.00	40.30	56
Second Rights Issue	28.10	20.60	72
Rights Issue	23.08	13.04	77

Note: The discounts to the net book value per Share/Consolidated Share for the First Rights Issue, the Second Rights Issue and the Rights Issue are based on the net book value as set out in the annual report of the Company for the year ended 31 December 2009, the net book value as set out in the interim report of the Company for the six months ended 30 June 2010 and the net book value as set out in the annual report of the Company for the year ended 31 December 2010 respectively.

We are of the view that, given the loss making performance of the Group and the Rights Issue is not under fully-underwritten basis, it is inevitable to have the Subscription Price to set at a discount to the prevailing market price of the Shares (adjusted with the Share Consolidation) in order to enhance the attractiveness of the Rights Issue and to encourage the existing Shareholders to participate in the Rights Issue. In view of that (i) the LTD Discount is less than the those of the First Rights Issue and the Second Rights Issue; (ii) the TEP Discount is less than the those of the First Rights Issue and the Second Rights Issue; and (iii) all Qualifying Shareholders are offered the same opportunities to enjoy the benefit of subscribing the Rights Shares at the Subscription Price which is at a discount to the market price and the net book value per Consolidated Share, we consider the discounts on the Subscription Price is acceptable notwithstanding the discount to net book value under the Rights Issue is higher than the First Rights Issue and the Second Rights Issue.

Having considered the above-mentioned and taking into account that (i) the required funding for the Oil Project and the Coal Project and the Company is unable to procure underwriters for the Rights Issue as stated under below subsection headed "Settlement Arrangement"; and (ii) a lower subscription price which represents discounts to the adjusted closing price on the Last Trading Day, to the theoretical ex-entitlement price and to the net book value per Consolidated Share may likely to attract the Qualifying Shareholders to participate in the Rights Issue and accordingly maintain their respective shareholding interests in the Company, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Settlement Arrangement

As stated in the Board Letter, Silver Star has agreed to subscribe for 355,922,598 Rights Shares, representing approximately 29.25% of all the Rights Shares, which it is entitled under the Rights Issue at an aggregate subscription price of approximately HK$42.71 million which it will be satisfied by way of set-off against the Loan of approximately HK$31 million on a dollar-to-dollar basis and by cash for the remaining balance of approximately HK$11.7 million (the "**Settlement Arrangement**"). As advised by the Company, the Loan is interest-free and repayable on demand. The Company has discussed with four (4) securities firms in relation to the possible appointment of the firms as underwriter(s) for the Rights Issue. Unfortunately, the securities firms were not interested to act as underwriter for the Rights Issue due to (i) the financial conditions of the Company; and (ii) the trading of the Shares is not active.

We have been advised by the Company that in the event that, save for Silver Star, there is no Shareholders take up their respective entitlements under the Rights Issue, the net proceeds will be amounted to approximately HK$10.2 million. In such case, the Company will seek for other funding methods such as placing or shareholders' loan for further funding required under the projects. We have also been advised by the Company, the Settlement Arrangement was requested by Silver Star for the subscription of its entitlements under the Rights Issue.

By considering (i) the Rights Issue is not under fully-underwritten basis and it was the intention of the Company to ensure the minimum amount of fund can be raised by way of the Rights Issue for the development of the Oil Project and the Coal Project; (ii) the Settlement Arrangement is based on dollar-to-dollar basis; (iii) the Settlement Arrangement would reduce the financial burden of the Group by reducing/ settling such loans without cash outflow from the Company; and (iv) the Settlement

Arrangement would reduce the uncertainty on the repayment date which is subject to the demand of Silver Star and/or Mr. Lam, we are of the view and concur with the view of the Directors that the Settlement Arrangement as opposed to cash settlement is fair and reasonable.

Application for excess Rights Shares

As set out in the Board Letter, considering that each Qualifying Shareholder will be given an equal and fair opportunity to participate in the Company's future development by subscribing for his/her/its proportionate entitlement under the Rights Issue and there will be dealing of nil-paid Rights Shares on the Stock Exchange, if application for excess Rights Shares is arranged, the Company will be required to put in additional effort and costs to administer the excess application procedures.

After taking into account the administrative costs to be incurred by excess application arrangement, the Board has opined that the Qualifying Shareholders would not be entitled to apply for any Rights Shares which are in excess of their assured entitlements.

Although 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 Rights Shares in excess of their assured entitlements, in light of that (i) the nil excess application should be balanced against the fact that the Subscription Price has been set at discounts to the prevailing market prices of the Shares which provides reasonable incentive for the Qualifying Shareholders to take up their respective assured entitlement of the Rights Shares and participate in the Rights Issue; (ii) those Qualifying Shareholders who choose to accept their respective entitlements under the Rights Issue in full can maintain their respective existing shareholdings in the Company after the Rights Issue; (iii) the Rights Issue allows the Qualifying Shareholders who are optimistic about the future development of the Company to exercise their rights to subscribe for the Rights Shares with a fair chance; (iv) the nil excess application would lower the administrative costs of the Rights Issue to the Company; and (v) given there is no underwriter to the Rights Issue, no party will take up any excess Rights Shares not taken up by the Qualifying Shareholders under the Rights Issue and hence, no Shareholders will be better off from the absence of the excess application arrangement, we are of the view that the absence of excess application arrangement, on balance, is acceptable.

Risk associated with the Rights Issue

Shareholders and potential investors should note that the Rights Issue is conditional, inter alia, upon the fulfilment of the conditions set out in the section headed "Conditions of the Rights Issue" in the Board Letter. In particular, the Rights Issue is conditional upon the Whitewash Waiver having been granted by the Executive and the approval of the Share Consolidation, the Rights Issue and the Whitewash Waiver by the Independent Shareholders at the EGM by way of poll. Accordingly, the Rights Issue may or may not proceed.

Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

4. Alternatives to the Rights Issue

The Directors advised that they have considered alternative means for the Group to raise funds other than the Rights Issue, including but not limited to, debt financing and placing of new shares.

The Company has also considered the possibility of fund raising by way of share placements as an alternative to the Rights Issue. However, unlike the Rights Issue which provides all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and at the same time allow them to maintain their proportionate interests in the Company, a share placement would involve an issue of new shares and result in a dilution of existing shareholders' interest. In addition, as stated in the Board Letter, the Group is unable to find securities firm in relation to acting as the placing agent of placement of Shares. Accordingly, the Directors do not consider a share placement to be desirable alternative to the Rights Issue.

Having considered (i) debt financing may incur interest burden to the Company; and (ii) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and to take up their entitlement in full at the same price to maintain their respective shareholdings in the Company, we consider that the Rights Issue is an equitable means to raise capital for the Company under the existing circumstances.

5. **Potential dilution**

As the Rights Issue is offered to all Qualifying Shareholders on the same basis, Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Rights Issue in full. As set out under the section headed "EFFECTS ON SHAREHOLDING STRUCTURE" in the Board Letter, assuming no Qualifying Shareholders take up his/her/its entitlements under the Rights Issue other than Silver Star, the shareholdings of the existing Independent Shareholders will be decreased from approximately 70.75% as at the Latest Practicable Date to approximately 54.74% upon completion of the Rights Issue.

Having considered:

(i) the Cash Position of the Group as at 31 December 2010 and the expected required funding for the continuing development of the Oil Project and the Coal Project in 2011;

(ii) the remaining proceeds from the Second Rights Issue is intended to be reserved for the development of the gas project in the Philippines within the next 12 months;

(iii) the use of the proceeds from the Rights Issue is to finance the existing business projects;

(iv) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and to take up their entitlement in full at the same price to maintain their respective shareholdings in the Company should they so wish, and should the Shareholders decide not to take up their entitlements under the Rights Issue, they can sell the nil-paid Rights Shares in the market for economic benefit;

(v) given there is no underwriter to the Rights Issue, no party will take up any excess Rights Shares not taken up by the Qualifying Shareholders under the Rights Issue; and

(vi) the inherent dilutive nature of Rights Issue in general,

we consider the potential dilution effect on the shareholding which may only happen to the Qualifying Shareholders who decide not to accept the Rights Issue is acceptable.

6. Financial effects of the Rights Issue

(a) Net tangible assets

According to the statement of unaudited pro forma financial information as set out in Appendix II to the Circular, the audited consolidated net tangible assets attributable to Shareholders was approximately HK$622.25 million as at 31 December 2010 and the unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders is expected to increase to (i) approximately HK$766.77 million as a result of the inflow of the estimated net proceeds of approximately HK$144.52 million (including the net proceeds for setting off the Loan) from the Rights Issue (based on maximum 1,216,800,000 Rights Shares to be issued); and (ii) approximately HK$663.46 million as a result of the inflow of the estimated net proceeds of approximately HK$41.21 million (including the net proceeds for setting off the Loan) from the Rights Issue (based on minimum 355,922,598 Rights Shares to be issued).

Upon completion of the Rights Issue, the consolidated net tangible assets per Consolidated Share after completion of the Share Consolidation and the Rights Issue would decrease to (i) approximately HK$0.315 (based on 2,433,600,000 Consolidated Shares) from the consolidated net tangible assets per Consolidated Share after completion of the Share Consolidation but prior to the Rights Issue of approximately HK$0.511 (based on 1,216,800,000 Consolidated Shares) as at 31 December 2010; and (ii) approximately HK$0.422 (based on 1,572,722,598 Consolidated Shares) from the consolidated net tangible assets per Consolidated Share after completion of the Share Consolidation but prior to the Rights Issue of approximately HK$0.511 (based on 1,216,800,000 Consolidated Shares) as at 31 December 2010.

The decrease in the consolidated net tangible assets per Consolidated Share upon completion of the Rights Issue is inevitable because the Right Shares will be issued at a discount to the net tangible asset per Consolidated Share. Having considered all Qualifying Shareholders are offered the same opportunities to enjoy the benefit of subscribing the Rights Shares at the Subscription Price which is at a discount to the adjusted market price of the Consolidated Shares, we consider such decrease in the unaudited consolidated net tangible assets per Consolidated Share is acceptable.

(b) ***Working capital***

Upon the completion of the Rights Issue, the cash and bank balance of the Group will be increased as a result of the net proceeds from the Rights Issue. Accordingly, the working capital of the Group will be improved as a result of the Rights Issue.

7. Whitewash Waiver

As at the date of the Announcement and the Latest Practicable Date, Silver Star is a substantial Shareholder holding 711,845,196 Shares, representing approximately 29.25% of the total number of Shares in issue. In the event that no Qualifying Shareholder (other than Silver Star and parties acting in concert with it) takes up any Rights Shares under the Rights Issue, the subscription for the Rights Shares under the Rights Issue by Silver Star and parties acting in concert with it may result in their aggregate shareholdings in the Company being increased from approximately 29.25% of the issued share capital of the Company as at the Latest Practicable Date to approximately 45.26% of the then enlarged issued share capital of the Company immediately upon completion of the Rights Issue, thereby triggering an obligation on Silver Star and parties acting in concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and securities issued by the Company not already held by Silver Star and parties acting in concert with it.

An application has been made by Silver Star to the Executive for the Whitewash Waiver in connection with the Rights Issue pursuant to note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. If the Whitewash Waiver is not granted by the Executive, the Rights Issue will not proceed.

Based on our analysis of the terms of the Rights Issue, we consider that the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Rights Issue will not proceed and the Company will lose all the benefits that are expected to be brought by the completion of the Rights Issue. Accordingly, we are of the view that for the purposes of implementing the Rights Issue, we consider the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Taking into account the factors and reasons as mentioned above, which include (i) reasons for the Rights Issue and the use of proceeds; (ii) principal terms of the Rights Issue; (iii) alternatives to the Rights Issue; (iv) potential dilution effect on the shareholding interests; and (v) financial effects of the Rights Issue, we consider that, the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Rights Issue to be proposed at the EGM.

The Rights Issue is conditional upon the approval of the Whitewash Waiver. If the Whitewash Waiver is not approved, the Rights Issue will not proceed. Having taken into account our recommendation on the Rights Issue above, we consider the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Shareholders and the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong
Chairman

Julisa Fong
Managing Director