

10 October 2007

To: The independent non-executive Director

Dear Sir,

**UNCONDITIONAL MANDATORY CASH OFFERS BY
CIMB-GK SECURITIES (HK) LIMITED
ON BEHALF OF
KAN CHE KIN, BILLY ALBERT
TO ACQUIRE ALL ISSUED SHARES IN
ARTEL SOLUTIONS GROUP HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY
KAN CHE KIN, BILLY ALBERT
AND PARTIES ACTING IN CONCERT WITH HIM)
AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS**

We refer to our engagement as the independent financial adviser to advise the independent non-executive Director in connection with the Offers. Details of the Offers are contained in the Composite Document issued jointly by the Offeror and the Company to the Shareholders and the Optionholders dated 10 October 2007, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document.

On 25 July 2007, the Offeror entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Offeror agreed to acquire from the Vendor the Sale Shares for an aggregate cash consideration of HK\$16,000,000. Upon completion of the Sale and Purchase Agreement which took place on 25 July 2007, the Offeror and parties acting in concert with him became interested in 1,200,000,000 Shares, representing 75% of the issued share capital of the Company. As at the Latest Practicable Date, the Company had outstanding Share Options entitling the Optionholders to subscribe for 69,095,000 Shares at an exercise price of HK\$0.3810 per Share and 45,000,000 Shares at an exercise price HK\$0.2166 per Share. Under Rule 26.1 and Rule 13 of the Takeovers Code, the Offeror is obliged to make the Offers, being the Share Offer to acquire all issued Shares (other than those already owned by the Offeror or parties acting in concert with him) and the Option Offer to cancel all outstanding Share Options.

The Offers will be made solely in cash.

The Board currently comprises one executive Director and one independent non-executive Director. The independent non-executive Director, Mr. Lee Kong Leong, who has no direct or indirect interest in the Offers, has been appointed to advise the Independent Shareholders on the Offers. Optima Capital has been appointed to advise the independent non-executive Director in connection with the Offers and in particular as to whether the terms of the Offers are fair and reasonable and to give an opinion and recommendation as regards the acceptance of the Offers.

We are not associated with the Offeror or the Company or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them, and accordingly is considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Offeror or the Company or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and that the information which we have received is sufficient to enable us to reach our opinion and give the advice set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Composite Document were true at the date of the Composite Document and will continue to be true during the period the Offers remain open for acceptance. However, we have not conducted any independent investigation into the businesses and affairs of the Group.

We have not considered the tax implications on the Independent Shareholders and the Optionholders of acceptance of the Offers since these depend on their individual circumstances. In particular, the Independent Shareholders and the Optionholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFERS

The terms of the Offers set out below are summarised from the letter from CIMB-GK contained in the Composite Document. Independent Shareholders and Optionholders are encouraged to read the relevant section in the Composite Document in full.

1. The Share Offer

The Share Offer is being made for all the Shares are not already owned or agreed to be acquired by the Offeror and parties acting in concert with him on the following basis:

For each Share HK\$0.0386 in cash

The Shares will be acquired free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and other distributions declared, made or paid, if any, on or after the date of despatch of the Composite Document.

2. The Option Offer

The Option Offer is being made to the Optionholders for the outstanding Options they surrender for cancellation on the following basis:

For cancellation of outstanding Share Option
(with a right to subscribe for one Share) HK\$0.0001 in cash

As at the Latest Practicable Date, there were a total of 114,095,000 Share Options outstanding, of which 45,000,000 Share Options are exercisable at HK\$0.2166 per Share and 69,095,000 Share Options are exercisable at HK\$0.3810 per Share respectively. The exercise prices of the Share Options are substantially higher than the Share Offer Price of HK\$0.0386 per Share. Accordingly, the Share Options are "out-of-money" and the cancellation price for the Option Offer is equivalent to a nominal value of HK\$0.0001 per Share Option.

By accepting the Option Offer, the Optionholders agree to the cancellation of their Share Options and all rights attached thereto with effect from the date of despatch of the Composite Document.

Pursuant to the terms of the share option scheme adopted by the Company on 29 August 2001 (as amended on 30 May 2003) (the "Share Option Scheme"), in the event of a general offer being made to all the Shareholders and if such offer becomes or is declared unconditional, the Optionholders are entitled to exercise the Share Options in full at any time up to the close of such offer. Under the Offers, Optionholders shall be entitled to exercise the Share Options at any time after the despatch of the Composite Document and up to the close of the Offers. Any outstanding Share Options shall lapse automatically upon the close of the Offers, which is on 31 October 2007. In the event that any part of the Share Option is exercised before the close of the Option Offer in accordance with the provisions of the Share Option Scheme, any Shares issued as a result thereof will be subject to the Share Offer.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion with regard to the Offers, we have taken into consideration the following principal factors and reasons:

1. Past results of the Group

The Group is principally engaged in the distribution of computer components and information technology products, and the provision of integrated e-enabling solutions. The following table summarises the audited consolidated results of the

Group for each of the three years ended 31 December 2005 and the six months ended 30 June 2006, details of which are set out in Appendix II to the Composite Document. Independent Shareholders should note that the Company has not released any further financial results after the interim period ended 30 June 2006.

	For the year ended			For the
	31 December			6 months
	2003	2004	2005	ended
	(audited)	(audited)	(audited)	30 June
	HK\$'000	HK\$'000	HK\$'000	2006
				(unaudited)
				HK\$'000
Turnover	2,202,933	1,658,830	1,198,229	32,319
Cost of sales	(2,110,412)	(1,573,337)	(1,170,757)	(23,263)
Gross profit	92,521	85,493	27,472	9,056
Other operating income	13,137	6,518	5,536	160
Distribution costs	(8,690)	(8,926)	(6,192)	(94)
Administrative expenses	(29,199)	(29,860)	(29,143)	(11,081)
Allowance for doubtful debts	-	(1,512)	(401,972)	-
Allowance for rebates receivables	-	-	(92,705)	-
Write-down of inventories	-	(2,491)	(66,283)	-
Finance costs	(14,940)	(15,421)	(18,568)	(13,586)
Share of results of associates	-	6	(93)	-
Impairment loss recognised in respect of goodwill of associates	-	-	(13,768)	-
Profit/(Loss) before taxation	52,829	33,807	(595,716)	(15,545)
Taxation	(2,549)	(585)	(734)	(2)
Profit/(Loss) for the year/period attributable to equity holders of the Company	50,280	33,222	(596,450)	(15,547)
Dividend	-	7,200	-	-
Earnings/(Loss) per Share				
- Basic (HK cents)	3.1	2.1	(37.3)	(0.97)
- Diluted (HK cents)	3.1	2.1	(37.3)	NA

(i) *Financial year 2003*

Turnover for the financial year ended 31 March 2003 was approximately HK\$2,202.9 million, representing a slight increase of 3.8% over the previous financial year. The distribution business contributed 95.4% of the turnover. In the past few years, the Group had been relying on distributing Intel products which contributed more than 95% of its total turnover. Nevertheless, the Group faced fierce competition among distributors, resulting in a decrease of selling prices and drop in gross profit margin from 5.7% to 4.2% during the year. The Group was also adversely affected by the occurrence of the SARS epidemic during the year and net profit decreased by 23.8%, from HK\$66.0 million in 2002 to HK\$50.3 million in 2003.

(ii) *Financial year 2004*

Turnover for the financial year ended 31 March 2004 was approximately HK\$1,658.8 million, representing a decrease of 24.7% as compared to the previous financial year. The drop in turnover was mainly attributable to continual competition in the business of distribution of computer components and information technology products. During the year, the Group expanded its market scope from a hardware distributor to a high-technology solution provider. Due to the Group's diversification effort, more income was generated from integrated e-enabling solutions and thin film transistor liquid crystal display ("LCD") products, leading to an increase in gross profit margin of the Group from 4.2% to 5.2%. During the year, the Group incurred more bank borrowings to finance the purchase of plant and equipment of approximately HK\$10.8 million and the acquisition of interests in certain entities which were engaged in the business of logistics and warehouse management services. Due to the increase in bank-borrowings, finance costs increased from HK\$14.9 million in 2003 to HK\$15.4 million in 2004. Net profit decreased from HK\$50.3 million to HK\$33.2 million, representing a drop of 33.9% as compared to the previous financial year.

(iii) *Financial year 2005*

The business of the Group continued to be adversely affected by intensified competition in the computer components and information technology products market. Turnover for the financial year ended 31 December 2005 was recorded at HK\$1,198.2 million, representing a decrease of 27.7% as compared to that of the previous financial year. Gross profit margin was squeezed from 5.2% in 2004 to 2.3% in 2005, which was mainly resulted from the trend of decreasing selling price of the products due to keen market competition. Apart from the deterioration in turnover and gross profit margin, the Group also recorded substantial write-offs and provisions during the year. Due to the unsatisfactory settlement record of certain customers, the Group has substantially suspended trading with these customers since October 2005 and made an allowance for doubtful debts of HK\$402.0 million for those trade

receivables which had exceeded the Group's credit period and had no subsequent settlement since year end. The Group also made an allowance of HK\$92.7 million for rebates receivables from the Group's major supplier. Because of the liquidity problem of the Group caused by the recoverability problem of the trade receivables, the amounts owed to the major supplier had not been settled for a considerable period of time and the Directors considered that it was unlikely that the rebates receivables could be utilised in the future. Besides, a write-down of inventories of HK\$66.3 million was made due to the change in market demand which led to obsolescence of the inventories. The Group also recognised an impairment loss in respect of goodwill of associates of HK\$13.8 million. As a result of the above, the Group incurred a net loss of HK\$596.5 million for the year.

We also note that the auditors of the Company expressed a disclaimer of opinion on the financial statements of the Group for the year ended 31 December 2005 due to the fundamental uncertainty relating to the going concern of the Group and the disagreement about the accounting treatment for the trade receivables balances.

(iv) Interim period ended 30 June 2006

Turnover of the Group for the six months ended 30 June 2006 was HK\$32.3 million, representing a substantial drop of 96.2% as compared to the same period in 2005. According to the 2006 interim report of the Group, the substantial shrinkage in turnover was mainly due to the lack of working capital to finance the trading operation since February 2006. Besides, the Group continued to incur finance costs which amounted to HK\$13.6 million, resulting in a net loss of HK\$15.5 million for the six months ended 30 June 2006.

2. Financial position of the Group

The following table summarises the consolidated balance sheets of the Group as at 31 December 2005 and 30 June 2006, which are set out in full in Appendix II to the Composite Document:

	As at 31 December 2005 (Audited) HK\$'000	As at 30 June 2006 (Unaudited) HK\$'000
Plant and equipment	8,519	7,000
Interests in associates	792	792
Interest in jointly controlled entity	195	195
Inventories	54,868	54,527
Trade receivables, rebates receivables, prepayments and deposits	109,570	112,411
Amount due from an associate	874	874
Pledged bank deposits	43,797	-
Bank balances and cash	7,676	1,222
Total assets	226,291	177,021
Trade payables, sales deposits and accrued charges	(138,187)	(69,936)
Amount due to a director	(195)	(1,998)
Bank overdrafts and bank borrowings	(230,149)	(263,928)
Derivate financial instruments	(1,057)	-
Deferred taxation	(1,300)	(1,300)
Net deficits	(144,597)	(160,141)

As a result of the decline in turnover and substantial provisions made for trade and other receivables during the year ended 31 December 2005 as discussed above, the Group's financial position deteriorated drastically and recorded net deficits attributable to Shareholders amounting to approximately HK\$144.6 million as at 31 December 2005, against an equity attributable to Shareholders of approximately HK\$451.9 million as at 31 December 2004. The adverse condition continued into the interim period ended 30 June 2006, with net deficits increased to approximately HK\$160.1 million as at 30 June 2006.

Independent Shareholders should note that the Group has not announced any further financial results after the 2006 interim period. The latest publicly available financial information shown above may not be indicative of the latest financial position of the Group. Independent Shareholders are advised to read the information disclosed in the section headed "Material changes" in Appendix II to the Composite

Document which sets out the material changes in the financial, trading position or outlook of the Group identified by the Directors subsequent to 31 December 2005. In particular, we note that because of (i) the unsatisfactory subsequent settlement of the Group's debtors balances as at 31 December 2005; (ii) the insignificant movement in and the obsolescence of the Group's inventories as at 31 December 2005 due to the fast changing market demand for computer components; and (iii) the recent relocation of the Group's principal place of business, the Directors will consider if provisions against the balances of the Group's debtors, inventories and furniture, fixtures and equipment, which were used to be the largest asset items of the Group, are required for the purpose of preparing the Company's audited financial statements for the year ended 31 December 2006.

As regards liabilities, the Group used to finance its working capital requirement by banks and its major supplier. As disclosed in the letter from the Board contained in the Composite Document, certain bankers and Intel took legal actions against the Group during 2006 due to the Group's default in repayment of certain bank borrowings and trade payables. The Bank Debts which amounted to approximately HK\$256 million as at 30 June 2006 and the Intel Debt amounting to approximately US\$7.6 million (equivalent to approximately HK\$59.2 million) as at 30 June 2006 were assigned by the bank creditors and Intel respectively to the Offeror in August and September 2007, and the Group became indebted to the Offeror in respect of these balances instead. Apart from the above, the Directors informed us that there had been no material changes in the payables and indebtedness position of the Group after 31 December 2005. According to the indebtedness statement of the Group contained in Appendix II of the Composite Document, the Group had outstanding borrowings of approximately HK\$331.3 million as at 31 August 2007, comprising short-term unsecured other loans of HK\$2.4 million, and unsecured amount due to a director and the Offeror of HK\$0.2 million and HK\$328.7 million respectively. As at 31 August 2007, the Group also had capital commitments in respect of the establishment of a joint venture in which the Group will invest approximately HK\$39.0 million to develop distributing channel of internet protocol television in the PRC.

3. Future prospects

As discussed above, the Group's trading business has been hit by intensified competition resulting in reduction of selling price of products and squeezed profit margins in recent years. The unsatisfactory collection of trade receivables has further aggravated the situation, which led to liquidity problem encountered by the Group as well as a substantial reduction in the level of trading activities since 2006. Despite the market opportunities exist in the computer and information technology product market particularly for digital audio products, given the huge deficits in Shareholders' equity, the heavy indebtedness and thin working capital of the Group as well as the lack of financial support from bankers and creditors, it is uncertain as to whether the Group would be able to improve its trading prospects or turnaround from its existing difficult financial position within a short period of time in the absence of further fund raising exercises and/or new business initiatives.

4. Background of the Offeror and his intention regarding the future of the Group

(i) Background of the Offeror

Mr. Kan Che Kin, Billy Albert, the Offeror, has over 20 years of experience in serving on the board of directors of financial institutions and listed companies in Hong Kong. He had worked with Deloitte Touche Tohmatsu and KPMG and is equipped with extensive experience in accountancy, taxation and corporate finance. Independent Shareholders and Optionholders may refer to the "Letter from CIMB-GK" contained in the Composite Document for further information about the Offeror.

(ii) Business and operations

As stated in the "Letter from CIMB-GK" contained in the Composite Document, following the close of the Offers, the Offeror intends to continue all of the existing businesses of the Group. The Offeror intends to review and strengthen the financial position of the Group after the close of the Offers. The Offeror does not intend to make any material changes to the businesses of the Group or to dispose of or redeploy any fixed assets of the Group following the close of the Offers. The Offeror will explore other business opportunities and consider whether any assets and/or business acquisitions will be appropriate in order to enhance the growth of the Group. As at the Latest Practicable Date, the Offeror had no intention or concrete plan for any acquisition of assets and/or business by the Group.

(iii) Management

The Board is currently made up of two Directors, comprising one executive Director and one independent non-executive Director. As stated in the "Letter from CIMB-GK" contained in the Composite Document, all of the existing Directors will remain on the Board and the Offeror intends to nominate (i) Mr. Kan Che Kin, Billy Albert (being the Offeror), Mrs. Kan Kung Chuen Lai, Ms. Li Shu Han, Eleanor Stella and Mr. Li Kai Yien, Arthur Albert as executive Directors; and (ii) Mr. Li Siu Yui and Mr. Ip Woon Lai as independent non-executive Directors at the time when the Composite Document is despatched.

The biographical details of the proposed directors to be nominated by the Offeror are set out in the "Letter from CIMB-GK" contained in the Composite Document.

(iv) Maintenance of the listing status of the Company

As stated in the "Letter from CIMB-GK", the Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offers. The Offeror and the new Directors to be appointed to the Board will undertake that following the close of the Offers, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the issued Shares will be held by public hands.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares.

Despite the intention of the Offeror to maintain the listing status of the Company, Independent Shareholders and Optionholders should note that trading of the Shares has been suspended for over a year since 7 September 2006. As mentioned in the letter from the Board contained in the Composite Document, the Company received a letter from the Stock Exchange dated 22 May 2007 stating that in view of the prolonged suspension and the Company's failure to demonstrate its compliance with Rule 13.24 of the Listing Rules (i.e. the Company carries out, directly or indirectly, a sufficient level of operations or has tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated), the Stock Exchange would place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules. The Company was required to submit viable resumption proposals to the Stock Exchange within six months from the date of the letter. Should the Company fail to submit a viable resumption proposal to the Stock Exchange, the Stock Exchange will consider whether to proceed to the third stage of the delisting procedures at the end of such six-month period. The Company is in the process of finalising the Resumption Proposal which is expected to include details on a restructuring proposal to strengthen the Company's financial position, involving issue of new Shares and/or convertible securities to the Offeror to settle in full the amount of debts owed by the Group to the Offeror and to raise working capital of the Group. As at the Latest Practicable Date, the Company has not yet submitted the Resumption Proposal and it expects to submit the Resumption Proposal to the Stock Exchange by early November 2007. Accordingly, it is expected that trading in the Shares will remain suspended after the close of the Offers on 31 October 2007.

5. Share Offer Price

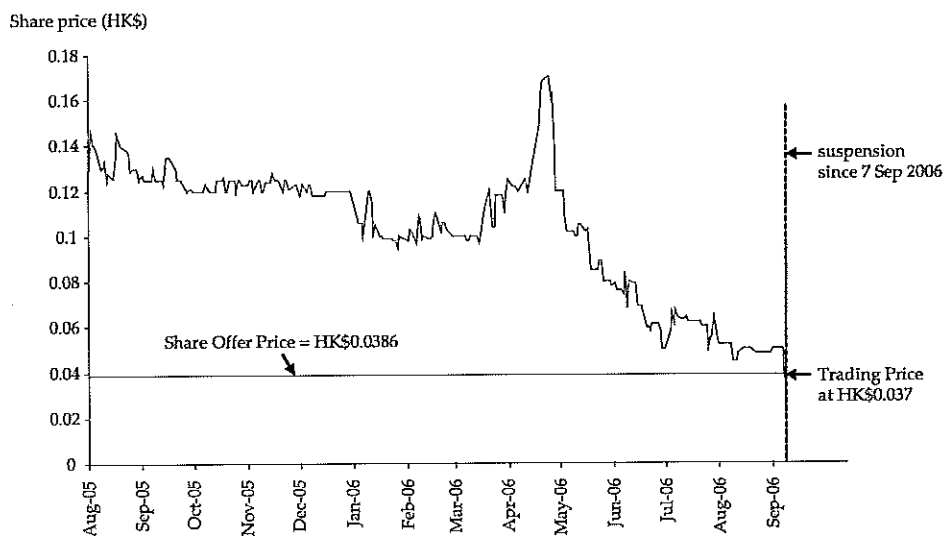
Basis of determining the Share Offer Price

The Sale Shares which were previously pledged to the Bank Creditors for the Bank Debts were released to the Offeror upon completion of the assignment of the Bank Debts to the Offeror for a consideration of HK\$30,300,000 on 31 August 2007. The Share Offer Price of HK\$0.0386 per Share is equivalent to sum of the consideration paid by the Offeror under the Sale and Purchase Agreement (being HK\$16,000,000) and the assignment of the Bank Debts (being HK\$30,300,000) divided by the total number of Sale Shares (being 1,200,000,000 Shares).

Historical price performance of the Shares

Trading in the Shares on the Stock Exchange has been suspended (the "Suspension") since 11:48 a.m. on 7 September 2006 at the request of the Company. Chart 1 below depicts the daily closing prices of the Shares for the twelve full calendar months up to and including 7 September 2006, being the last trading day of the Shares prior to the Suspension (the "Review Period").

Chart 1: Share price performance



Source: Bloomberg

During the Review Period, the Shares traded within a range of HK\$0.17 to HK\$0.037 each. We noted from the above chart that Share price fluctuated between HK\$0.095 and HK\$0.146 during the period from August 2005 to March 2006, and reached its highest at HK\$0.17 on 24 April 2006. The Company had not made any announcement and was not aware of any reasons for such increase in Share price. On 26 April 2006, the Company announced that it expected a material amount of provisions for trade receivables and rebate receivables would be made in the consolidated financial statements for the year ended 31 December 2005 due to the deterioration in recoverability. Subsequent to this announcement, Share price dropped and plunged to HK\$0.1 on 9 May 2006. Share price further dropped to HK\$0.05 in June and July 2006 and further to HK\$0.037 (the "Last Trading Price") before the Suspension. The Share Offer Price of HK\$0.0386 represents a premium of 4.3% over the Last Trading Price. However, Independent Shareholders should note that due to the prolonged Suspension of more than a year, the comparison of the Share Offer Price against the Last Trading Price may be of little relevance.

Liquidity of the Shares

Table 2 below sets out the total number and average daily number of the Shares traded per month and the respective percentages of monthly trading volume compared to the issued share capital and the Shares held by the public during the Review Period:

Table 2: Historical trading volume of the Shares

	Total monthly trading volume of the Shares	Average trading volume of the Shares per trading day during the month	% of average daily trading volume of the total issued Shares (Note 1)	% of average daily trading volume of the Shares to public float (Note 2)
2005				
August	16,695,000	725,870	0.05%	0.18%
September	4,605,000	219,286	0.01%	0.05%
October	6,435,000	321,750	0.02%	0.08%
November	8,835,000	401,591	0.03%	0.10%
December	1,075,000	53,750	0.00%	0.01%
2006				
January	8,415,000	442,895	0.03%	0.11%
February	4,955,000	247,750	0.02%	0.06%
March	6,535,000	284,130	0.02%	0.07%
April	13,735,000	807,941	0.05%	0.20%
May	5,795,000	289,750	0.02%	0.07%
June	8,735,000	397,045	0.02%	0.10%
July	8,340,000	397,143	0.02%	0.10%
August	1,090,000	47,391	0.00%	0.01%
September (up to 7 September 2006)	4,010,000	802,000	0.05%	0.20%

Source: Bloomberg

Notes:

1. Based on 1,600,000,000 Shares in issue throughout the Review Period.
2. Public float is based on 400,000,000 Shares held by Independent Shareholders, calculated as 1,600,000,000 Shares in issue less 1,200,000,000 Shares held by Mr. Yu and his associates throughout the Review Period.

As illustrated in Table 2 above, the daily trading volume of the issued Shares has been relatively thin at less than 1% of both the total issued Shares and the total Shares held by the public during the Review Period. During the Review Period, the highest monthly trading volume was recorded in August 2005 at 16,695,000 Shares (representing 4.17% of the public float). Highest average daily trading volume was recorded in April 2006 at 807,941 Shares (representing 0.2% of the public float). In our view, the liquidity of the Shares had been low before the Suspension and there may not be sufficient liquidity in the Shares for the Independent Shareholders to dispose of their Shares in the open market even if trading in the Shares were not suspended.

Other fundamental analysis of the Share Offer Price

Other commonly used benchmarks in evaluating share price of a listed company include price to earnings ratio, price to book ratio and dividend yield. However, given that the Group recorded net loss for the financial year ended 31 December 2005, and net liabilities as at 30 June 2006 and 31 December 2005, and no dividend has been declared since the financial year ended 31 December 2005, none of the aforesaid commonly used benchmarks is applicable for the purpose of evaluating the Share Offer Price.

CONCLUSION AND ADVICE

The Share Offer

Having taken into account the above principal factors and reasons, in particular:

- the Independent Shareholders are treated even-handedly by the Offeror who is offering to acquire the Shares of the Independent Shareholders at the Share Offer Price of HK\$0.0386 per Share, which is equivalent to sum of the consideration paid by the Offeror under the Sale and Purchase Agreement (being HK\$16,000,000) and for the assignment of the Bank Debts (being HK\$30,300,000) divided by the total number of Sale Shares (being 1,200,000,000 Shares);
- as noted from the latest audited financial reports issued by the Group and the information disclosed in the Composite Document about the material changes in the financial, trading position and prospects of the Group since 31 December 2005 (being the date to which the latest audited financial statements of the Group were made up), the business performance of the Company had been deteriorating since 2004 and its working capital position remains weak with heavy borrowings. It is unlikely that the Group will be able to achieve improved results or generate sufficient cashflow to support its business without further fund raising and/or new business initiatives;

- the liquidity of the Shares had been thin before the Suspension. It is uncertain whether the liquidity of the Shares could be improved after the close of the Offers and the successful resumption of trading in the Shares to allow the Independent Shareholders to dispose of their holding in the Shares in the market; and
- as at the Latest Practicable Date, the Company has not yet submitted the Resumption Proposal to the Stock Exchange, it is therefore expected that trading of the Shares in the Stock Exchange will remain suspended after the close of the Offers on 31 October 2007. In addition, it is uncertain whether the Resumption Proposal can be successfully implemented,

we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned and accordingly advise the independent non-executive Director to recommend the Independent Shareholders to accept the Share Offer.

Independent Shareholders should note the possibility that, following the close of the Offers and the resumption of trading in the Shares (if the Resumption Proposal is approved by the Stock Exchange), the price of the Shares may or may not be higher than the Offer Price. If any Independent Shareholders are able to identify other potential purchaser to purchase the Shares at a price higher than the Share Offer Price, such Independent Shareholders shall consider not accepting the Share Offer and should seek to sell their Shares if they are able to do so.

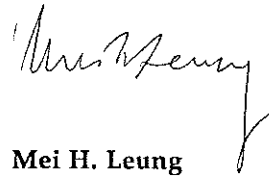
Those Independent Shareholders who, after considering the information on the Offeror and the future intention of the Offeror regarding the Company, are attracted by the future prospects of the Company following the Offers, should consider retaining some or all of their Shares.

The Option Offer

The outstanding Share Options are out-of-the-money as the exercise prices of HK\$0.2166 or HK\$0.3810 per Share are substantially higher than the Share Offer Price of HK\$0.0386 per Share. Accordingly, they have no intrinsic value and are therefore offered at a nominal price of HK\$0.0001 per Share Option. Given our view that the terms of the Share Offer are fair and reasonable as discussed above, we consider that the terms of the Option Offer to be fair and reasonable so far as the Optionholders are concerned. In addition, pursuant to the terms of the Share Option Scheme, any outstanding Share Options shall lapse automatically upon the close of the Offers (which is on 31 October 2007). Accordingly, we advise the independent non-executive Director to recommend the Optionholders to accept the Option Offer.

The procedures for acceptance of the Offers are set out in Appendix I to the Composite Document and the accompanying Forms of Acceptance. The latest time for acceptance of the Offers and lodging the Forms of Acceptance (unless extended by the Offeror) is 4:00 p.m. on 31 October 2007. Independent Shareholders and the Optionholders are urged to act according to this timetable if they wish to accept the Offers.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED



Mei H. Leung
Chairman