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**WALLBANCK BROTHERS SECURITIES**

**(HONG KONG) LIMITED**

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Hong Kong

24th April 2006

*To the Independent Board Committee and the Independent Shareholders  
of ProSticks International Holdings Limited*

Dear Sirs,

**SUBSCRIPTION OF NEW SHARES,  
APPLICATION FOR WHITEWASH WAIVER AND  
CONSENT TO SPECIAL DEAL**

**INTRODUCTION**

We refer to our appointment as joint independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Subscription, the Whitewash Waiver and the Special Deal, details of which are set out in the circular to the Shareholders dated 24th April 2006 (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 requires the otherwise.

On 27th March 2006, the Company entered into the Subscription Agreement with the Subscribers pursuant to which the Company agreed to issue and (i) the First Subscriber agreed to subscribe in cash HK\$4,355,100 for a total of 43,551,000 Consolidated Shares at the Subscription Price of HK\$0.10 per Consolidated Share; and (ii) the Second Subscriber agreed to subscribe in cash HK\$3,644,900 for a total of 36,449,000 Consolidated Shares at the Subscription Price of HK\$0.10 per Consolidated Share.

The Subscription Shares represent approximately 122.76% of the issued share capital of the

Company upon completion of the Share Consolidation and approximately 55.11% of the issued share capital of the Company upon completion of the Share Consolidation and as enlarged by the Subscription Shares. Due to the fact that the Subscribers will collectively hold as aforementioned approximately 55.11% of the enlarged issued share capital of the Company subsequent to the issue of the Subscription Shares, the Subscribers and parties acting in concert with them (if any) will be obliged to make an unconditional mandatory general offer for all the Consolidated Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code unless a waiver from strict compliance with the relevant rule has been obtained from the Executive. The Subscribers and the parties acting in concert with them (if any) have made an application to the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, the grant of which, if successfully applied for, will be subject to approval by the Independent Shareholders on a vote taken by way of poll at the EGM. The granting of the Whitewash Waiver is a condition precedent to the completion of the Subscription Agreement.

The estimated net proceeds from the Share Subscription is HK\$7.5 million. It is the intention of the Company to use approximately HK\$2.5 million of the net proceeds as general working capital and approximately HK\$5.0 million for settlement of Swordfish CB and JL CB owed by the Company to the Funds on their maturity date of 1st September 2006, in the event that the Swordfish CB and JL CB have not been exercised before maturity. Since Mr. Loh is the beneficial owner of the investment manager of the Funds and at the same time holds approximately 5% of the existing issued share capital of the Company and approximately 4.56% of the Funds, such repayment arrangement constitutes a “Special Deal” pursuant to Rule 25 of the Takeovers Code and requires consent from the Executive. An application has been made by the Company to the Executive in relation to the Special Deal and the Executive has indicated that it will consent to the Special Deal subject to it being approved by the Independent Shareholders at the EGM taken on a vote taken by way of poll.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Share Subscription, the Whitewash Waiver and the Special Deal. We have been appointed by the Company as the Joint Independent Financial Advisers to advise the Independent Board Committee as to whether or not the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion regarding the Whitewash Waiver and the Special Deal for the Independent Board Committee’s consideration in making their recommendation to the Independent Shareholders as to whether or not the Independent Shareholders should approve the Whitewash Waiver and the Special Deal at the EGM. Such appointment has also been approved by the Independent Board Committee.

Mr. Lee Kar Wai, Mr. Ng Ge Bun and Mr. Wan Yiu Kwan Stephen, who are all independent non-executive Directors, have confirmed to the Company their nil interests in the Company and that they are independent with respect to the Share Subscription, the Whitewash Waiver and the Special Deal. Accordingly, the Independent Board Committee comprises Mr. Lee Kar Wai, Mr. Ng Ge Bun and Mr. Wan Yiu Kwan Stephen.

## **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement 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 their respective subsidiaries or associated companies.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Share Subscription, the Whitewash Wavier and the Special Deal, we have taken into consideration the following principal factors and reasons:

### **(I) THE SHARE SUBSCRIPTION**

#### **(1) Information on the Group**

The Group is principally engaged in two business segments, namely (i) operational software application products which are designed to provide solutions to financial institutions for the automation and integration of various operational functions; and (ii) financial instruments analysis software products which are designed to provide analytical solutions to both institutional and individual investors.

Tabularised below is a summary of the audited consolidated financial information of the Group for the two years ended 31st December 2004 and 31st December 2005 respectively:

	<b>For the year ended 31st December</b>		<b>Percentage change</b>
	<b>2005</b>	<b>2004</b>	<b>between the two years ended 31st December 2004 and 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Turnover	11,656	8,556	36.23
Net loss	(4,056)	(9,673)	(58.07)

  

	<b>As at 31st December</b>		<b>Percentage change</b>
	<b>2005</b>	<b>2004</b>	<b>as from 31st December 2004 to 31st December 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Net liabilities	(9,471)	(5,382)	75.98
Cash and cash equivalents	1,319	1,023	28.93
Short-term interest bearing borrowings	(4,890)	(2,977)	64.26
Current ratio (Current assets/ Current liabilities)	0.39	0.69	(43.58)
Gearing ratio (total borrowings/ total assets)	2.73	1.96	39.47

As depicted in the table above, the Group's total turnover rose from the year ended 31st December 2004 to the year ended 31st December 2005. As referred to the Company's annual report for the year ended 31st December 2005 (the "Annual Report"), the enhancement of the Group's total turnover was mainly contributed by the success in the business segment of operational software application products while the business segment of financial instruments analysis software products still recorded substantial loss. According to the Directors, as basic technical analysis knowledge is a pre-requisite for

the effective use of the Group's financial instruments analysis software products, it is expected that more educational and marketing effort are required to increase the penetration of such products. Moreover, in view of the persistent underperformance of the financial instruments analysis software products segment, the Group is also exploring opportunities for new business development and strategic partnership.

Although the Group's overall business performance as aforementioned was recovering, the liability, liquidity and leverage positions of the Group had not yet shown any signs of improvement. During the year ended 31st December 2005, the audited consolidated net liabilities of the Group amounted to approximately HK\$9.47 million, representing an increase of approximately 75.98% as compared to that of the previous year. The current ratio and gearing ratio, which explain the Group's liquidity and gearing positions respectively, were reduced from approximately 0.69 to 0.39 and grew from approximately 1.96 to 2.73 respectively from the year ended 31st December 2004 to the year ended 31st December 2005. In accordance with the Annual Report, the Group had total borrowings of approximately HK\$10 million as at 31st December 2005. Of this total, approximately HK\$5 million, being the Swordfish CB and JL CB, will fall due on 1st September 2006. The Directors anticipate that the Group may fail to fulfil its repayment obligation in relation to the Swordfish CB and JL CB should the Group be unable to obtain additional capital from external sources.

**(2) Financing alternatives available to the Group**

As stated in the Letter from the Board, the Group has not conducted any equity-related fund raising activities during the past 12 months immediately prior to the date of the Announcement.

In view of aforementioned imminent endowment need of the Group, we have enquired into and were informed by the Directors that they have considered various methods, namely debt financing and equity financing, for fund raising. Nevertheless, in view of that (i) the Group has a net liability position and is still recording loss from its business operations at present; (ii) the Group has high gearing position; and (iii) the Group lacks valuable assets for pledging against bank borrowings, the Directors believe that the Company would be unable to obtain additional debts/borrowings; and therefore, debt financing is not considered to be practical to the Group.

With regard to equity financing, the Company is a GEM listed company with relatively small market capitalisation. Accordingly, the Directors advised that placing of new Shares under the general mandate granted to the Directors would be rather inadequate. In addition, the Directors also advised that the Company would be unable to secure an underwriter in the case of a rights issue or an open offer due to (i) the present poor business and financial positions of the Group as set forth under the section headed “Information on the Group” in this letter; and (ii) the low liquidity of the Shares which will be described in more details under the section headed “Historical trading volume of the Shares” in this letter. Even if the Company can succeed in procuring an underwriter, the Shares to be issued in either a rights issue or an open offer are expected to be at a deep discount not to mention that both the two methods will be more time-consuming than the subscription of new shares.

Having taken into account the above reasons, we concur with the Directors that the Share Subscription is the most feasible and time effective method that the Group can reasonably use for fund raising purpose.

### **(3) The Subscription Agreement**

#### *The Subscription Price*

The Subscription Price of HK\$0.10 per Consolidated Shares was determined after arm’s length negotiations between the Company and the Subscribers and it represents:-

- (i) a discount of approximately 50.0% to the theoretical closing price of HK\$0.200 per Consolidated Share (after adjusting for the effect of the Share Consolidation) as quoted on GEM on 27th March 2006, being the last trading day immediately before the date of the Announcement (the “Last Trading Day”);
- (ii) a discount of approximately 47.1% to the theoretical average closing price of HK\$0.189 per Consolidated Share (after adjusting for the effect of the Share Consolidation) as quoted on GEM over the last ten consecutive trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 54.5% to the theoretical closing price of HK\$0.220 per Consolidated Share (after adjusting for the effect of the Share Consolidation) as quoted on GEM on the Latest Practicable Date.

### *Historical trading volume of the Shares*

The average monthly trading volume of the Shares, the percentages of monthly trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public from April 2005 to March 2006 (the “Relevant Period”), being a full year period prior to the release of the Announcement, were as follows:

<b>Month</b>	<b>Average trading volume</b>	<b>% of average trading volume for the month to the total number of issued Shares (Note 1)</b>	<b>% of average trading volume for the month to the total number of the Shares in the hand of the public (Note 2)</b>
<b>2005</b>			
April	836,000	0.13%	0.28%
May	674,400	0.10%	0.22%
June	112,000	0.02%	0.04%
July	156,800	0.02%	0.05%
August	581,565	0.09%	0.19%
September	149,714	0.02%	0.05%
October	367,200	0.06%	0.12%
November	82,909	0.01%	0.03%
December	178,800	0.03%	0.06%
<b>2006</b>			
January	308,211	0.05%	0.10%
February	2,611,111	0.40%	0.86%
March (Note 3)	1,075,368	0.17%	0.36%

*Notes:*

1. Based on 651,700,000 Shares in issue as at the Last Trading Day as stated in the Announcement.
2. Based on 302,559,772 Shares held in public hands as at the Last Trading Day as stated in the Announcement.
3. Trading in the Shares was suspended from 28th March 2006 to 3rd April 2006 pending the release of the Announcement.

*Source: The Stock Exchange website (www.hkex.com.hk)*

The table above demonstrates that during the Relevant Period, the trading volume of the Shares on GEM was thin within a range of (i) approximately 0.01% to 0.40% as to the total number of issued Shares as at the Last Trading Day; and (ii) approximately 0.03% to 0.86% as to the total number of the Shares held in the hands of the public as at the Last Trading Day. Save and except for the calendar month of February 2006, the trading volume of the Shares on GEM was constantly below 0.4% of the public float. According to the Directors, they were not aware of any reasons for the increase in trading volume of the Shares in February 2006. Besides that, there were 141 days within the 246 trading days during the Relevant Period in which the Shares had no trading, representing approximately 57.32% of the total trading days of the Shares in the Relevant Period.

Subsequent to the release of the Announcement, we note that the trading of the Shares on GEM has become relatively more active; however, we consider that such a sudden up rise of market interest in the Shares is mainly attributable to the announcement of the Share Subscription and hence may not be sustainable in the long run.

We are of the view that the low liquidity of the Shares may as aforementioned above hinder the Directors in securing for an underwriter to underwrite the Shares in case of a rights issue or an open offer of the Shares and at the same time lead to a deep discount on the Subscription Price.

#### *Comparison with other share subscriptions or placing exercises*

In order to assess the fairness and reasonableness of the Subscription Price, we have also looked into the recent transactions announced by the main board and GEM listed companies on the Stock Exchange during March 2006 (being the full calendar month before the release of the Announcement) involving placing and subscription of shares. To the best of our knowledge and based on the information from the Stock Exchange and GEM's websites, we understand that there is no company listed on GEM that is engaged in identical business with the Company. In order to ensure that there is reasonable number of comparable companies even though they are not in similar business with the Company, we have included both the main board and GEM listed companies for our comparison purpose and identified 22 such transactions (the "Market Comparables"). Set out below is a summary of the key terms of the Market Comparables:–



<b>Date of announcement</b>	<b>Name of listed issuer (Stock code)</b>	<b>Transaction type</b>	<b>Placing price/ Subscription price (HK\$)</b>	<b>Premium on/ (Discounts) to the closing share price of the last trading day before release of the announcement (%)</b>	<b>Premium on/ (Discounts) to the average closing share price for the last ten trading days before release of the announcement (%)</b>
1/3/2006	Wing On Travel (Holdings) Limited (1189)	Placing of new shares	0.690	(6.8)	1.6
3/3/2006	Co-winner Enterprise Limited (8108)	Placing of new shares	0.064	(19.0)	7.6
3/3/2006	XinAo Gas Holdings Limited (2688)	Placing of existing shares	6.200	(6.1)	(3.1)
6/3/2006	Takson Holdings Limited (918)	Placing of new shares	0.100	(2.0)	(3.9)
7/3/2006	Heritage International Holdings Limited (412)	Subscription of new shares	0.025	nil	35.9
8/3/2006	Vongroup Limited (318)	Placing of existing shares and subscription of new shares	1.400	(10.3)	(5.5)
9/3/2006	Tradeeasy Holdings Limited (8163)	Subscription of new shares	0.040	2.6	nil
10/3/2006	Lai Fung Holdings Limited (1125)	Subscription of new shares	0.400	(7.0)	3.5
10/3/2006	Seapower Resources International Limited (269)	Subscription of new shares	0.128	(18.0)	(14.0)
15/3/2006	REXCAPITAL International Holdings Limited (155)	Placing of existing shares and subscription of new shares	0.590	(6.3)	19.8
15/3/2006	eSun Holdings Limited (571)	Placing of new shares	5.800	(6.5)	37.4
16/3/2006	China Water Affairs Group Limited (855)	Placing of existing shares and subscription of new shares	0.960	(12.7)	(10.0)
16/3/2006	Sino Gas Group Limited (260)	Placing of existing shares and subscription of new shares	0.520	(14.8)	(1.9)
20/3/2006	Mei Ah Entertainment Group Limited (391)	Placing of new shares	0.315	26.0	22.1
21/3/2006	Hi Sun Technology (China) Limited (818)	Subscription of new shares	1.460	(19.8)	(14.6)
23/3/2006	Capital Strategic Investment Limited (497)	Placing of existing shares and subscription of new shares	1.310	(8.4)	2.3

<b>Date of announcement</b>	<b>Name of listed issuer (Stock code)</b>	<b>Transaction type</b>	<b>Placing price/ Subscription price (HK\$)</b>	<b>Premium on/ (Discounts) to the closing share price of the last trading day before release of the announcement (%)</b>	<b>Premium on/ (Discounts) to the average closing share price for the last ten trading days before release of the announcement (%)</b>
23/3/2006	China Merchants Dichain (Asia) Limited (632)	Subscription of new shares	0.010	(67.7)	(65.9)
24/3/2006	REXCAPITAL Financial Holdings Limited (555)	Placing of existing shares and subscription of new shares	0.200	(8.3)	38.3
24/3/2006	CATIC International Holdings Limited (232)	Placing of existing shares and subscription of new shares	0.115	(9.5)	(4.2)
24/3/2006	China Best Group Holding Limited (370)	Placing of existing shares and subscription of new shares	0.109	(15.5)	(11.6)
28/3/2006	China Rare Earth Holdings Limited (769)	Placing of existing shares and subscription of new shares	1.380	(8.6)	(1.7)
30/3/2006	China Golden Development Holdings Limited (162)	Placing of new shares	0.460	(17.9)	(19.7)
		<b>Mean</b>		<b>(10.7)</b>	<b>0.6</b>
		<b>Median</b>		<b>(8.5)</b>	<b>(1.8)</b>
		<b>Range</b>		<b>(67.7) to 26.0</b>	<b>(65.9) to 38.3</b>
<b>3/4/2006</b>	<b>The Company (8055)</b>	<b>Subscription of new shares</b>	<b>0.100</b>	<b>(50.0)</b>	<b>(47.1)</b>

Source: The Stock Exchange website ([www.hkex.com.hk](http://www.hkex.com.hk))

The above table shows that (i) the premium on/discount to the closing share prices of the last trading days before the release of the relevant announcements of the Market Comparables ranged from a discount of approximately 67.7% to a premium of approximately 26.0% (the “First Comparable Range”), with the mean at a discount of approximately 10.7% and the median at a discount of approximately 8.5%; and (ii) the premium on/discount to the average closing share prices for the last ten trading days before the release of the relevant announcements of the Market Comparables ranged from a discount of approximately 65.9% to a premium of approximately 38.3% (the “Second Comparable Range”), with the mean at a premium of approximately 0.6% and the median at a discount of approximately 1.8%.

The Subscription Price, being at a discount of approximately 50.0% to the closing price of HK\$0.200 per Consolidated Share (after adjusting for the effect of the Share Consolidation) as quoted on GEM on the Last Trading Day, is within the First Comparable Range but is higher than the mean and median of that of the Market Comparables.

The Subscription Price, being at a discount of approximately 47.1% to the closing price of HK\$0.200 per Consolidated Share (after adjusting for the effect of the Share Consolidation) as quoted on GEM over the last ten consecutive trading days up to and including the Last Trading Day, is within the Second Comparable Range but is higher than the mean and median of that of the Market Comparables.

Although the Subscription Price as compared to (i) the closing price per Consolidated Share (after adjusting for the effect of the Share Consolidation) as quoted on GEM on the Last Trading Day; and (ii) the closing price per Consolidated Share (after adjusting for the effect of the Share Consolidation) as quoted on GEM over the last ten consecutive trading days up to and including the Last Trading Day are at deeper discounts than those of the mean and median of the Market Comparables, we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned in light of that (i) the Group had an audited consolidated net liability position as at 31st December 2005 and was incurring loss from its business operations according to the Annual Report; (ii) the Group has a pressing financial need to settle its short-term debt liabilities; (iii) the Share Subscription, for the time being, is the most probable and fastest way for the Company to raise capital; and (iv) the trading of the Shares was historically thin and hence it is logical for the Company to offer a higher discount as an incentive to the Subscribers to subscribe for the Shares.

#### **(4) Future intentions of the Subscribers**

As stated in the Letter from the Board, the Subscribers intend to continue the existing business of the Group in software development for the financial sector. In addition, they have no plan for any future acquisition or disposal of assets by the Company and will maintain the listing of the Shares on GEM of the Stock Exchange.

Pursuant to the Subscription Agreement, all the existing Directors, other than Mr. Li Ching Ping Vincent who will remain as an executive Director, will resign from the Board. The Subscribers proposes to nominate five additional new executive directors to the Board, namely Dr. Chan Lai Yin (“Dr. Chan”), Mr. Chan Yat Leong (“Mr. Chan”), Mr. Yuen Sun Chak (“Mr. Yuen”), Ms. Tsang Wing Yee (“Ms. Tsang”) and Mr. Law Tin Fan Arthur (“Mr. Law”). Particulars of these five proposed Directors are already set out under the section headed “Information of the Subscribers” in the Letter from the Board. Given the

substantial technical knowledge of Dr. Chan and Mr. Chan in areas related to networking and software development, together with Mr. Yuen, Ms. Tsang and Mr. Law's extensive experience in the accounting and financial management field, it is the opinion of the Subscribers that the Group may capitalise on the knowledge and experience of the proposed Directors to promote the Group's business in the operational software application products segment which is currently the main driver for the Group's business recovery.

Save and except for the proposed changes to the Board, as put forth in the Letter from the Board and aforementioned above, there would be no further changes to the current business operations of the Company. As such, we consider that the Subscription Agreement would not lead to any material impact on the now improving business operations of the Group. Regarding the proposed changes to the composition of the Board, we concur with the opinion of the Subscribers that the Company may benefit from the technical knowledge and accounting and financial management experience of the aforementioned five proposed Directors which may further promote the Group's performance in the operational software application products segment and in turn expedites the Group's upturn of business, though there is no certainty on such benefit.

**(5) Possible financial effects of the Share Subscription**

*Net liabilities and current ratio*

The Company plans to apply approximately HK\$5.0 million of the total net proceeds from the Share Subscription to settle the Swordfish CB and JL CB on their maturity date in the event that these two convertible bonds have not been exercised before maturity, and the remaining HK\$2.5 million of the total net proceeds as general working capital. Accordingly, the current liabilities of the Group would be decreased by approximately HK\$5.0 million while its current assets would be increased by approximately HK\$2.5 million.

Based on the Annual Report, the Group's audited consolidated net liabilities were approximately HK\$9.47 million as at 31st December 2005. Upon completion of the Share Subscription, the net liabilities of the Group would therefore be decreased by approximately HK\$7.5 million, being the estimated net proceeds from the Share Subscription. In addition, the current ratio of the Group would be increased.

### *Working capital and gearing ratio*

As aforementioned above, should the HK\$5.0 million be used to settle the Swordfish CB and JL CB, the working capital of the Group would be increased by approximately HK\$2.5 million. Due to the reduction in total borrowings as also mentioned above and the enlargement in the Group's total assets attributable to the said rise in working capital, and thus the cash and cash equivalents, it is expected that the Group's gearing level would shrink.

Concluding from the above, the Share Subscription would have a positive effect to the Group's asset, liquidity and leverage positions. For this reason, we are of the opinion that the Share Subscription will strengthen the overall financial position of the Group and therefore is in the interests of the Company and the Shareholders as a whole.

### **(6) Dilution of the Shareholder' interests in the Company**

The full effect of the Share Subscription on the shareholding structure of the Company is illustrated in the chart under the section headed "Change in the shareholding structure of the Company" in the Letter from the Board. For easy reference, the Subscribers will collectively become the controlling Shareholders, holding approximately 55.11% of the issued share capital of the Company upon completion of the Share Consolidation and the Subscription Agreement. In the event that all of the outstanding share options and convertible bonds of the Company have been exercised, the Subscribers will be collectively interested in approximately 49.22% of the issued share capital of the Company upon completion of the Share Consolidation and the Subscription Agreement. The shareholding of the other public Shareholders in the Company will be reduced from approximately 46.43% to 20.84% and 18.61% in the aforementioned two scenarios respectively.

Based on the fact that the Share Subscription will strengthen the financial position of the Group and enable the Group to meet its near debt repayment obligation in relation to the Swordfish CB and JL CB, we are of the view that the Share Subscription is essential to the Company's continual business operations. In addition, in view of the synergy effect likely to be contributed by the proposed Directors in relation to the development of the Group's operational software application products, we consider that the Share Subscription is advantageous to the Company and is therefore in the interests of the Company and the Shareholders as a whole. Accordingly, we consider the aforementioned dilution of the Shareholders' interests in the Company to be acceptable.

### *Conclusion*

Having considered the principal factors and reasons as discussed above and as summarised below:

- (i) the poor performance of the financial instruments analysis software products segment;
- (ii) the inferior asset and liquidity positions, together with the high gearing level of the Group despite of its recuperating financial results;
- (iii) the Share Subscription being the most viable immediate method presently available to the Group for fund raising purpose;
- (iv) the discounts of the Subscription Price being within the First Comparable Range and the Second Comparable Range even though they are higher than those of the means and medians of the Market Comparables which are still justifiable;
- (v) the Share Subscription will not affect the business operations of the Company and instead may provide potential benefits to the Company due to the aforementioned synergy effect;
- (vi) the Share Subscription will result in positive impact on the financial positions of the Group; and
- (vii) the dilution effect to the Shareholders' interests in the Company being acceptable,

we consider that the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable so far as the Independent Shareholders are concerned and that the Share Subscription is in the interests of the Company and the Shareholders as a whole.

## **(II) THE WHITEWASH WAIVER**

Upon completion of the Subscription Agreement, the Subscribers will collectively be interested in approximately 55.11% of the issued share capital of the Company upon completion of the Share Consolidation and as enlarged by the issue of the Subscription Shares. Therefore, pursuant to Rule 26 of the Takeovers Code, the Subscribers and the parties acting in concert with them (if any) will be obliged to make a mandatory general offer for all the Consolidated Shares not already owned or agreed to be acquired by them.

The Subscribers have made an application to the Executive for a waiver from strict compliance with such obligation and the Executive has agreed, subject to the approval by the Independent Shareholders on a vote taken by way of poll at the EGM, to grant the Whitewash Waiver. Pursuant to the Subscription Agreement, completion of the Subscription Agreement is conditional upon, among others, the Executive granting the Whitewash Waiver to the Subscribers. As such, the Subscription Agreement will lapse if the Independent Shareholders disapprove the Whitewash Waiver at the EGM.

Given the aforementioned potential benefits of the Share Subscription to the Company and the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Subscription Agreement, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Share Subscription.

Shareholders should note that upon completion of the Share Consolidation and the Subscription Agreement, the Subscribers will as aforementioned above collectively hold more than 50% of the enlarged issued share capital of the Company. In the event that the Subscribers and their concert parties' (if any) shareholding interests in the Company exceed 50% upon completion of the Share Consolidation and the Subscription Agreement, and the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, the Subscribers and parties acting in concert with them (if any) may increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

### **(III) THE SPECIAL DEAL**

As stated in the Letter from the Board, it is the intention of the Company to apply part of the net proceeds from the Share Subscription, being approximately HK\$5.0 million, to settle the Swordfish CB and JL CB owned by the Company to the Funds on their maturity date of 1st September 2006 in the event that these two convertible bonds have not been exercised before maturity. As Mr. Loh, the beneficial owner of the investment manager of the Funds, holds approximately 5% of the existing issued share capital of the Company and approximately 4.56% of the Funds, the repayment of Swordfish CB and JL CB constitutes a "Special Deal" pursuant to Rule 25 of the Takeovers Code and is therefore subject to the approval of the Independent Shareholders on a vote taken by way of poll at the EGM as well as the consent of the Executive.

We note that the aforementioned repayment arrangement is not a term or condition of the Subscription Agreement. Furthermore, neither the Funds, their investment manager, parties acting in concert with any of them and their respective associates are connected persons of the

Company or the Subscribers nor have they been involved in or are interested in the transactions contemplated under the Subscription Agreement. As also confirmed by the Directors, the proposed use of the net proceeds from the Share Subscription to settle the Swordfish CB and JL CB is mainly due to their close maturity dates and the difficulties of the Company in obtaining funds from other external sources in the short-term so as to repay those debts. Taking into account the present relatively tight cash flow position of the Group, we concur with the Directors that the Company may fail to fulfil its repayment obligation under the Swordfish CB and JL CB should the Company be unable to raise funds externally. Therefore, we consider such repayment arrangement which constitutes a “Special Deal” to be fair and reasonable so far as the Independent Shareholders are concerned.

## **RECOMMENDATION**

Based on our favourable opinion regarding the Share Subscription, the Whitewash Waiver and the Special Deal, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution at the EGM to approve the Subscription Agreement, the Whitewash Waiver and the Special Deal.

Yours faithfully,  
For and on behalf of

**Kingston Corporate Finance Limited**  
**Graham Lam**  
*Executive Director*

**Wallbanck Brothers Securities**  
**(Hong Kong) Limited**  
**Phil Chan**  
*Chief Executive Officer*