Hercules
Hercules Capital Limited
凱 利 融 資 有 限 公 司

14 September 2007

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

**SUBSCRIPTION OF SHARES AND ZERO COUPON CONVERTIBLE NOTES;
MAJOR AND CONNECTED TRANSACTION –
DISPOSAL OF ENTIRE ISSUED SHARE CAPITAL OF JESSICA BVI;
APPLICATION FOR THE WHITEWASH WAIVER;
AND
APPLICATION FOR SPECIAL DEAL CONSENT**

1 INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Subscription, the Disposal and the application for the Whitewash Waiver, details of which are set out in the Letter from the Board contained in the circular dated 14 September 2007 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 16 August 2007, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe in cash for (i) 2,900 million Subscription Shares at the Subscription Price of HK$0.007 per Subscription Share; and (ii) the Convertible Notes in the principal amount of HK$14.7 million with an initial Conversion Price of HK$0.007 per Conversion Share.

The Subscription Shares represent approximately 85.1% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. Upon full exercise of the conversion right attaching to the Convertible Notes, the Subscriber's equity interest in the Company will further increase to approximately 90.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Conversion Shares. Therefore, pursuant to

1503 Ruttonjee House, 11 Duddell Street, Central, Hong Kong
香港中環都爹利街11號律敦治大廈1503室 Tel 電話: (852) 3106 4999 Fax 傳真: (852) 3106 4706

Rule 26 of the Takeovers Code, the Subscriber and parties acting in concert with it will be obliged to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by them unless a waiver from strict compliance with the relevant rule has been obtained from the Executive. The Subscriber and the parties acting in concert with it 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.

On 16 August 2007, Great Ready Assets, a wholly-owned subsidiary of the Company, also entered into the Disposal Agreement with the Purchaser, pursuant to which, Great Ready Assets has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Jessica BVI Sale Shares at a cash consideration of HK$1 million. Since the Purchaser is wholly-owned by Mr. Ng, a Director and controlling Shareholder, the Purchaser is a connected person of the Company under the GEM Listing Rules. Accordingly, the Disposal constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. As the relevant percentage ratios, as defined under the GEM Listing Rules, of the Disposal are greater than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules. Furthermore, by virtue of Mr. Ng's shareholding in the Purchaser, the Disposal also constitutes a "Special Deal" pursuant to Rule 25 of the Takeovers Code and requires consent from the Executive, which if granted will be subject to the public statement of the Company's independent financial adviser that the terms of the Disposal Agreement are fair and reasonable and the approval of the Disposal by the Independent Shareholders at the EGM taken on a vote by way of poll. As the Subscription Agreement and the Disposal Agreement are inter-conditional upon each other and the Purchaser is wholly-owned by Mr. Ng, Mr. Ng together with his associates and concert parties will abstain from voting at the EGM on the resolutions relating to the Disposal, the Subscription as well as the application for the Whitewash Waiver.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee should comprise all non-executive Directors. However, Ms. Ng Yuk Mui, Jessica, the sole non-executive Director, was considered not appropriate to be appointed to the Independent Board Committee to consider the Subscription, the Disposal and the Whitewash Waiver as Ms. Ng Yuk Mui, Jessica is the daughter of Mr. Ng, who has interests in such transactions. Accordingly, the Independent Board Committee, comprising all independent non-executive Directors, namely Mr. So Siu Ming, George, Ms. Pong Oi Lan, Scarlett and Mr. Cheng Yuk Wo, has been established to consider the transactions contemplated under the Subscription Agreement and the Disposal Agreement and to advise the Independent Shareholders on the fairness and reasonableness of the Subscription, the Disposal and the application for the Whitewash Waiver. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the Subscription, the Disposal and the application for the Whitewash Waiver are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

2 BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, inter alia, the Circular, the Subscription Agreement, the Disposal Agreement, the financial statements of the Company, the Jessica BVI Group and the Remaining Publishing Companies as well as other relevant information provided to us by the Company and the Subscriber. We have assumed that such information and statements and any representation made to us are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion. We have also assumed that all information, opinions and representations contained or referred to in the Circular are true, accurate and complete in all material respects as at the date of the Circular, and will continue to be so at the date of the EGM, and that they may be relied upon in formulating our opinion. The Directors and the Subscriber have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, 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 material facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We also consider that we have taken all reasonable steps as required under Rule 17.92 of the GEM Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have no reasons to suspect that any material information has been withheld by the Directors, management of the Company or the Subscriber, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Company and the background of the Subscriber. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

3 THE SUBSCRIPTION

3.1 Principal Factors and Reasons Considered

In arriving at our opinion regarding the terms of the Subscription Agreement, we have considered the following principal factors and reasons:

3.1.1 Rationale for entering into the Subscription Agreement

The Group is principally engaged in the magazine publication business. The magazines published by the Group include "*旭茉JESSICA*" and "*JESSICA China*" under the Jessica BVI Group and "*旭茉JESSICACODE*" and "*Lisa味道生活*" under the Remaining Publishing Companies.

The audited consolidated financial information of the Group for the five years ended 31 December 2006 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2007 is summarized in Table 1 below.

Table 1 – A summary of the consolidated financial information of the Group

	For the six months ended 30 June 2007	**For the year ended 31 December**				
		2006	**2005**	**2004**	**2003**	**2002**
	(unaudited)	(audited)	(audited)	(audited)	(audited)	(audited)
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Revenue	40,605	83,464	94,855	81,389	41,287	27,599
Net profit/ (loss) for the period	1,726	(14,169)	3,430	(2,733)	(2,810)	(4,402)

	As at 30 June 2007 (unaudited) *(HK$'000)*	**As at 31 December 2006** (audited) *(HK$'000)*
Cash and cash equivalents	2,878	2,563
Net current liabilities	(5,131)	(7,574)
Current ratio (current assets/current liabilities)	0.78	0.73
Net liabilities	(4,581)	(7,001)
Gearing ratio (total liabilities/total assets)	1.24 times	1.33 times

As shown in the above table, save for the year ended 31 December 2005, the Group recorded net losses for the past five financial years. Due to the intensified competition in the magazine publication market, the Group's audited consolidated net losses further increased to approximately HK$14.2 million for the year ended 31 December 2006. Although there was an improvement in the Group's performance for the six months ended 30 June 2007, the Group was still having significant net liabilities as at 30 June 2007. The Group's gearing ratio as at 30 June 2007 was as high as 1.24 times. Furthermore, the Group's current ratio of 0.78 times revealed that the Group was suffering liquidity problem as its current assets were insufficient to cover the current liabilities.

According to the information disclosed in the 2007 Interim Report and 2006 Annual Report of the Company, the Group's operation was mainly financed by the internal financial resources of the Group during the year ended 31 December 2006 and the six months ended 30 June 2007. No equity-related fund raising activities were conducted during the past twelve months.

In view of the tight cashflow and pressing need of additional funding of the Group, we have enquired into and were informed by the management of the Company that they had in fact considered various methods for fund raising. Given that (i) the Group had a net liability position and was still suffering losses from its business operations for the last financial year; (ii) the Group had high gearing and liquidity problem; and (iii) the Group was in lack of valuable assets for pledging against bank borrowings, the management of the Company considered that the Group might not be able to obtain debt financing.

We were advised by the management of the Company that they had also considered raising fund by means of rights issue or open offer. However, the management of the Company anticipated that the unsatisfactory business and financial position of the Group and the low liquidity of the Shares (more detailed analysis on liquidity of the Shares is set out in section 3.1.2 below) would deter the Company in securing an underwriter for the rights issue or open offer. Together with the fact that it would normally take a longer time to complete a rights issue or open offer than a subscription of new shares, the management of the Company considered that the Subscription is the most appropriate financing alternative currently available to the Group.

Upon completion of the Subscription, the Group will receive gross proceeds of HK$35 million. The Directors indicated that the net proceeds from the Subscription will be applied for financing the operation of the Remaining Publishing Companies and for general working capital purpose. Given that (i) the Group's financial position will be significantly improved after receipt of the proceeds from the Subscription; (ii) the improved financial position will lay a foundation for the future development of the Group's businesses; (iii) the Company's capital base will be further enhanced; (iv) the Subscription is the most appropriate financing alternative currently available to the Group; (v) the Convertible Notes are non-interest bearing and thus it will not have any immediate negative impact on the working capital of the Group, we concur with the opinion of the Directors that the entering into of the Subscription Agreement is in the interest of the Company and the Shareholders as a whole.

3.1.2 The Subscription Price

The Subscription Price of HK$0.007 represents:

a) a discount of approximately 99.0% to the closing price of HK$0.74 per Share as quoted on GEM on the Last Trading Day;

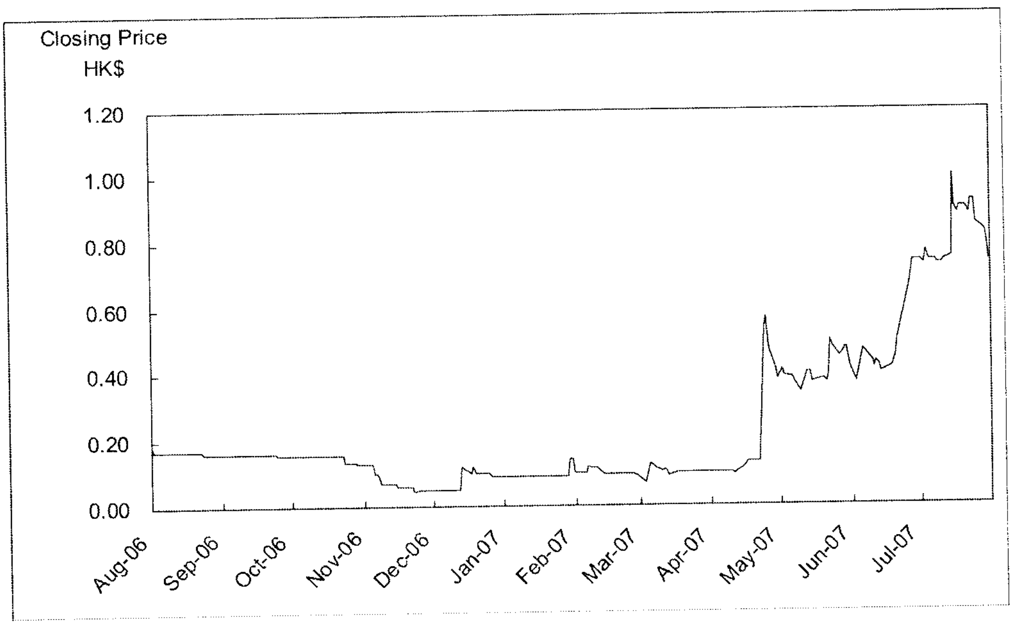
b) a discount of approximately 99.1% to the average closing price of HK$0.81 per Share as quoted on GEM for the last five consecutive trading days up to and including the Last Trading Day;

c) a discount of approximately 99.2% to the average closing price of HK$0.857 per Share as quoted on GEM for the last ten days up to and including the Last Trading Day; and

d) a premium of approximately HK$0.016 over the consolidated deficiency in net assets of the Company per Share of HK$0.009 as at 30 June 2007.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in trading prices of the Shares during the period from 17 August 2006 to 16 August 2007, representing the whole year period immediately preceding the Last Trading Day (the "Review Period").

Chart 1 – Closing prices of the Shares during the Review Period.



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

During the Review Period, the closing price of the Shares ranged from the lowest of HK$0.043 per Share (recorded on 8 December 2006) to the highest of HK$1.000 per Share (recorded on 31 July 2007). The average closing price of the Shares for the Review Period is approximately HK$0.246.

As shown in Chart 1 above, the closing price of the Shares plunged from HK$0.171 at the beginning of the Review Period to the lowest level of HK$0.043 on 8 December 2006. We have discussed with the Directors about the reasons for the decease in share price and were informed that the Company was not aware of any reason for such price movement. After that, the closing price of the Shares remained stable in the range of HK$0.047 and HK$0.051 during the period from 9 December 2006 to 21 December 2006. On 22 December 2006, the trading of the Shares was suspended pending the release of the Company's announcement regarding a very substantial acquisition and connected transaction of the Company. On 28 December 2006, the Company resumed the trading of its Shares and published an announcement to disclose that the Company had entered into a termination agreement on 27 December 2006 to terminate the proposed very substantial acquisition and connected transaction. The closing price of the Shares suddenly escalated to HK$0.12 on 29 December 2006. Given that (i) there was no trading in the Shares during the period from 22 December 2006, being the date on which the announcement for the proposed very substantial acquisition and connected transaction was released, to 27 December 2006, being the date on which the announcement for termination of the proposed transaction was published; and (ii) there should be no material changes in the financial and trading prospects of the Group before and after the publication of the announcements dated 22 December 2006 and 28 December 2006, the Directors considered that the price movement on 29 December 2006 was unusual and it might not reflect any change in the fair value of the Company.

Since then, the closing price of the Shares fluctuated between HK$0.068 and HK$0.14 during the period from 29 December 2006 to 7 May 2007. The closing price of the Shares then surged sharply from HK$0.13 on 7 May 2007 to HK$0.57 on 10 May 2007. According to the Directors, save for the publication of the loss-making results for the first quarter of 2007 on 8 May 2007, neither there was any substantial change in the financial and trading prospects of the Group nor there was any negotiation or agreement relating to intended acquisitions or realizations during the above review period. Therefore, the Directors believe that there were no conclusive reasons for such share price movements. Subsequently, the closing price of the Shares fluctuated between HK$0.345 and HK$0.57 and reached HK$0.5 on 6 July 2007.

After the publication of the Company's announcement dated 9 July 2007 which disclosed that the Company was in preliminary discussion with some third parties for different funding alternatives and future business development of the Company, the closing price of the Company rocketed and hit the peak of HK$1.00 on 31 July 2007. Since then, the closing prices of the Shares fluctuated in the range of HK$0.80 and HK$0.90 and gradually decreased to HK$0.74 on the Last Trading Day. In the absence of any material change in the financial position and trading prospects of the Group during the said period, we consider that the fluctuations in share price during the period from 9 July 2007 to the Last Trading Day had relatively low correlation to the fundamentals of the Company and such price movements might have been caused purely by market speculation.

To further examine whether the unusual price movements in the Shares were caused by changes in industry specific factors, we have looked into all companies which are listed on the main board and GEM of the Stock Exchange and are principally engaged in similar business of the Company (i.e. publishing business) for comparison purpose. We, to the best of our knowledge, have identified 10 such comparable companies ("Comparables"), the principal business activities of which are set out in Table 2 below:

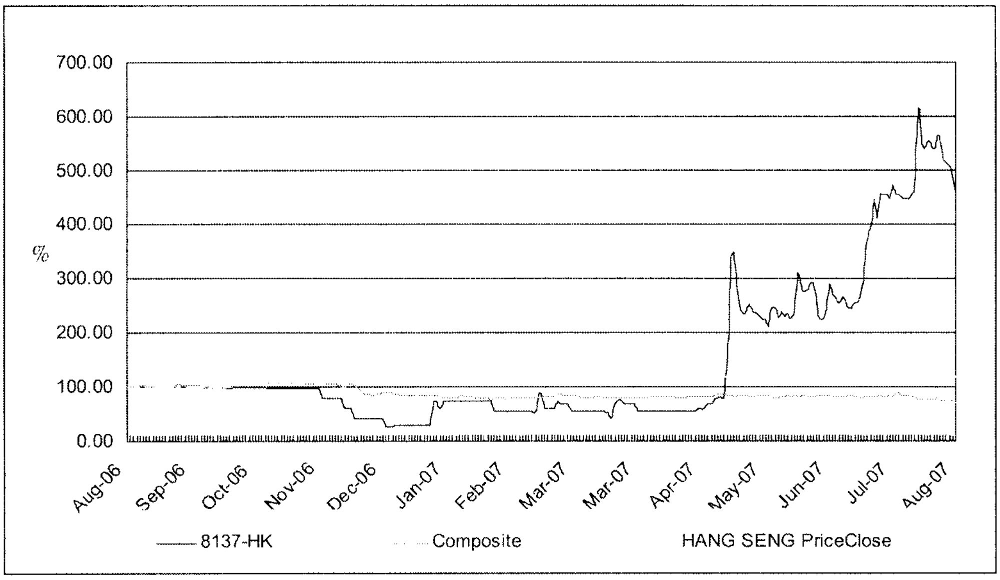
Table 2 – Comparables

Name of Issuers (Stock Code)	**Principal Business Activities**
Oriental Press Group Ltd. (18)	Publication of newspapers and magazines, property investment and building management.
Next Media Ltd. (282)	Magazine publishing and advertising, printing and reprographic services, internet content provision and advertising.
Culturecom Holdings Ltd. (343)	Publication of comics and related business, sales of Chinese operating system, processor, eTextbook and application software and investment holding.
Hong Kong Economic Times Holdings Ltd. (423)	Publication of Hong Kong Economic Times, magazine publishing (e-zone), book publishing, recruitment advertising and training for business executives, and provide real-time financial information.
One Media Group Ltd. (426)	Publication, marketing and distribution of Chinese-language lifestyle magazines and sale of advertising space in those magazines.
SCMP Group Ltd. (583)	Publishing, printing & distribution of the South China Morning Post, Sunday Morning Post and other print & digital publications, video & film post-production and property investment.
Ming Pao Enterprise Corporation Ltd. (685)	Publication of Chinese newspapers, periodicals and books, provision of travel and related services and property investment.
Sing Tao News Corporation Ltd. (1105)	Media ownership and services, human capital management, broadband content and distribution, trading.

SMI Publishing Group Ltd. (8010)	Publication and distribution business including but not limited to books, audio-visual products, electronic publishing products, newspaper and magazine.
Jade Dynasty Group Ltd. (970)	Publication of comics books and operation of restaurants in Hong Kong.

A chart showing the share prices of the Company and the composite index based on the weighted market capitalization of the Comparables (such compilation methodology is the same as that for Hang Seng Index) versus the Hang Seng Index for the Review Period is set out below.

Chart 2 – The closing price of the Shares relative to the Hang Seng Index and the Comparables composite index



Source: *Datastream*

As illustrated by Chart 2, the price movement trend of the composite index basically performed in tandem to the Hang Seng Index in the Review Period. On the other hand, the price movements of the Shares did not follow the general trends of the composite index and the Hang Seng Index. In light of the above, we deduced that both general and industry specific external factors were not the major causes of the price movements in the Shares.

We have also reviewed the historical trading volume of the Shares during the Review Period. The average daily trading volume of the Shares, the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Review Period are shown in Table 3 below.

Table 3 – Historical average daily trading volume of the Shares

Month	Average daily trading volume	% of average daily trading volume to the total number of issued Shares *(Note 1)*	% of average daily trading volume to the total number of Shares in public hands *(Note 2)*
2006			
August *(Note 3)*	–	–	–
September	762	0.000%	0.000%
October	–	–	–
November	4,000	0.001%	0.002%
December	14,588	0.003%	0.009%
2007			
January	10,545	0.002%	0.006%
February	109,778	0.022%	0.064%
March	54,859	0.011%	0.032%
April	19,111	0.004%	0.011%
May	7,913,312	1.555%	4.633%
June	6,200,994	1.219%	3.630%
July	5,454,905	1.072%	3.194%
August *(Note 4)*	2,965,333	0.583%	1.736%

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

Notes:

1. Based on 508,879,716 Shares in issue as at the Last Trading Day.
2. Based on 170,810,313 Shares held in public hands as at the Last Trading Day.
3. For the period from 17 August 2006 to 31 August 2006 only.
4. For the period from 1 August 2007 to 16 August 2007 only.
5. Trading in the Shares was suspended on 22 December 2006, 27 December 2006, 17 August 2007 and 20 August 2007.

Table 3 demonstrates that during the Review Period, the average daily trading volume of the Shares was in the range of approximately 0.000% to 1.555% as to the total number of issued Shares as at the Last Trading Day and approximately 0.000% to 4.633% as to the total number of the Shares held in public hands as at the Last Trading Day. During the 245 trading days in the Review Period, 136 days had no trading in the Shares, representing approximately 55.5% of the total trading days of the Shares in the relevant period. The above statistics proved that the liquidity of the Shares was very low.

Having considered that (i) the trading prices of the Shares fluctuated greatly during the Review Period without any conclusive reasons or correlation with the fundamentals of the Company or the market conditions of the publishing industry and Hong Kong stock market; (ii) the Shares were traded at a high price even the Company was having a net deficit position and was suffering from continuous losses in the past few years; and (iii) the trading volume of the Shares was extremely low, we suspect that the share prices of the Company may not truly reflect the fair value of the Shares. Therefore, we consider that it is inappropriate to justify the reasonableness and fairness of the Subscription Price purely by comparing with the recent historical trading prices of the Shares.

Alternatively, we have compared the Subscription Price with the lowest, average and the highest closing price of the Shares during the Review Period of HK$0.043, HK$0.246 and HK$1.000 per Share respectively. The Subscription Price of HK$0.007 represents:

a) a discount of approximately 83.72% to the lowest closing price of HK$0.043 per Share as quoted on GEM during the Review Period;

b) a discount of approximately 97.15% to the average closing price of HK$0.246 per Share as quoted on GEM for the Review Period; and

c) a discount of approximately 99.30% to the highest closing price of HK$1.000 per Share as quoted on GEM during the Review Period.

We have also made reference to the placements and subscriptions of new shares for cash of other companies listed on GEM announced during the period from 1 July 2007 to the date of the Announcement (the "Share Comparables"), details of which are summarized in Table 4 below:

Table 4 – Comparable transactions for subscription of new shares

Announcement date	**Company name (stock code)**	**Discount represented by issue price to the closing price of the share on the last trading day prior to the date of the relevant announcement**	
3-Jul-07	Global Solution Engineering Limited (8192)	(98.70%)	
4-Jul-07	China Chief Cable TV Group Limited (8153)	(15.56%)	
4-Jul-07	Yantai North Andre Juice Company Limited (8259)	(12.59%)	
5-Jul-07	Trasy Limited (8063)	(17.34%)	
11-Jul-07	Enviro Energy International Holdings Limited (8182)	(15.00%)	
12-Jul-07	Golding Soft Limited (8190)	(38.24%)	
16-Jul-07	Sau San Tong Holdings Limited (8200)	(17.43%)	
18-Jul-07	B.A.L. Holdings Limited (8079)	(16.60%)	
23-Jul-07	B.A.L. Holdings Limited (8079)	(27.27%)	
25-Jul-07	EMER International Group Limited (8149)	(14.71%)	
25-Jul-07	DeTeam Company Limited (8112)	(8.82%)	
27-Jul-07	Maxitech International Holdings Limited (8136)	(13.10%)	
31-Jul-07	Medical China Limited (8186)	(19.77%)	*Note 1*
31-Jul-07	Medical China Limited (8186)	(38.37%)	*Note 2*
31-Jul-07	Sino Haijing Holdings Limited (8065)	(9.80%)	
31-Jul-07	Tinheng Automative Safety Technology Holdings Limited (8293)	(15.34%)	
14-Aug-07	Cardlink Technology Group Limited (8066)	(19.30%)	
15-Aug-07	Everpride Biopharmaceutical Company Limited (8019)	(16.67%)	
16-Aug-07	New Chinese Medicine Holdings Limited (8085)	(81.80%)	
20-Aug-07	Galileo Holdings Limited (8029)	(1.79%)	
	Maximum	**(98.70%)**	
	Minimum	**(1.79%)**	
	Average	**(24.91%)**	
	Median	**(16.64%)**	

Announcement date	Company name (stock code)		Discount represented by issue price to the closing price of the share on the last trading day prior to the date of the relevant announcement
20-Aug-07	**The Company (8137)**		
	–	discount to the lowest closing price of the Share for the Review Period	(83.72%)
	–	discount to the average closing price of the Share for the Review Period	(97.15%)
	–	discount to the highest closing price of the Share during the Review Period	(99.30%)

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

Notes: *1. For new share placing.*
2. For top-up placing.

As shown in the above table, the discount represented by the issue price to the closing price of the share on the last trading day prior to the date of the relevant announcement of the Share Comparables ranged from approximately 1.79% to 98.70%, with the average and median of approximately 24.91% and 16.64% respectively. The discounts represented by the Subscription Price to the respective lowest and average closing prices of the Shares during the Review Period are lower than the average and median of the Share Comparables although they fall within the range of the Share Comparables. The discount represented by the Subscription Price to the highest closing price of the Shares during the Review Period even falls outside the range of the Share Comparables. Therefore, the Subscription Price is relatively low when compared with the Share Comparables.

However, after taking into consideration that (i) the Subscription Price represents a premium of approximately HK$0.016 over the consolidated deficiency in net assets of the Company per Share of HK$0.009 as at 30 June 2007; (ii) the Subscription Price is the best price that can be negotiated by the Company on an arm's length basis after taking into account the loss-making track record of the Company and the net deficiency in net asset value of the Group; (iii) low liquidity in the shares usually warrants a larger discount in the share price; and (iv) the net deficit per Share of approximately HK$0.009 as at 30 June 2007 shall be enhanced to a positive net asset value per Share of approximately HK$0.006 after Completion (calculated based on the net asset value of approximately HK$30.4 million after taking into account the net increase of approximately HK$35.0 million in the net asset value of the Company resulting from the Subscription (assuming the conversion rights attached to the Convertible Notes are fully exercised), and the total number of issued shares of 5,509,199,716 after the issue of the Subscription Shares and Conversion Shares), we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

3.1.3 The terms of the Convertible Notes

In assessing the fairness and reasonableness of the terms of the Convertible Notes, we have reviewed the terms of issues of convertible bonds/notes for cash by other companies listed on GEM announced during the period from 1 July 2007 to the date of the Announcement (the "CN Comparables"), details of which are summarized in Table 5 below:

Table 5 – Comparable transactions for the subscription of the Convertible Notes

Announcement date	**Company name (stock code)**	**Maturity** (Years)	**Coupon rate** (%)	**Premium/ (discount) of conversion price over/to the closing price of the share on the last trading day prior to the date of the relevant announcement** (%)
03-Jul-07	Global Solution Engineering Limited (8192)	5	0.0%	(98.70%)
05-Jul-07	Trasy Gold EX Limited (8063)	2	4.0%	(1.23%)
12-Jul-07	Golding Soft Limited (8190)	5	0.0%	47.06%
31-Jul-07	Medical China Limited (8186)	7	2.0%	(78.14%)
08-Aug-07	Venturepharm Laboratories Limited (8225)	5	3.5%	N/A[Note]
	Minimum	**2**	**0.0%**	**(98.70%)**
	Maximum	**7**	**4.0%**	**47.06%**
	Average	**4.8**	**1.9%**	**(32.75%)**
	Median	**5**	**2.0%**	**(39.69%)**

Announcement date	Company name (stock code)	Maturity	Coupon rate	Premium/ (discount) of conversion price over/to the closing price of the share on the last trading day prior to the date of the relevant announcement
		(Years)	*(%)*	*(%)*
20-Aug-07	**The Company (8137)**	**2**	**0.0%**	
	– discount to the lowest closing price of the Share for the Review Period			(83.72%)
	– discount to the average closing price of the Share for the Review Period			(97.15%)
	– discount to the highest closing price of the Share during the Review Period			(99.30%)

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

Note: The conversion price is fixed at 130% for the average closing price of the shares for 30 consecutive trading days up to and including the fifth business days prior to the issue of the convertible bonds.

3.1.3.1 Maturity and coupon rate

As shown in Table 5, although the maturity of the Convertible Notes is relatively short when compared with the average and median maturity of the CN Comparables, the maturity of the Convertible Notes falls within the range of the CN Comparables. Therefore, we consider that the maturity of the Convertible Notes are fairly set and in normal commercial terms.

Furthermore, given that the Convertible Notes bear a zero coupon rate while the 12-month Hong Kong Interbank Offered Rate and the prime rate were maintained at approximately 4.7% and 7.75% respectively as quoted from the website of Hang Seng Bank as at the Latest Practicable Date, we are of the view that the zero coupon rate of the Convertible Notes is in the interests of the Company.

3.1.3.2 Conversion Price

The Conversion Price is the same as the Subscription Price and represents:

a) a discount of approximately 83.72% to the lowest closing price of HK$0.043 per Share as quoted on GEM during the Review Period;

b) a discount of approximately 97.15% to the average closing price of HK$0.246 per Share as quoted on GEM for the Review Period; and

c) a discount of approximately 99.30% to the highest closing price of HK$1.000 per Share as quoted on GEM during the Review Period.

As shown in Table 5, the premium/(discount) represented by the conversion price of the convertible bonds over/to the closing price of the share on the last trading day prior to the date of the relevant announcement of the CN Comparables ranged from a discount of approximately 98.70% to a premium of approximately 47.06%. The discounts represented by the Conversion Price to the respective lowest and average closing prices of the Shares during the Review Period fall within the range of the CN Comparables although they are lower than the average and median of the CN Comparables. On the other hand, the discount represented by the Conversion Price to the highest closing price of the Shares during the Review Period falls outside the range of the CN Comparables.

Based on the analysis of the Subscription Price set out in section 3.1.2 of this letter and after taking into consideration that (i) the issue of the Convertible Notes is an integral part of the Subscription Agreement; (ii) the Group is in pressing need of additional working capital; (iii) the Subscription is the most appropriate financing alternative available to the Company at the moment; and (iv) the discount represented by the Conversion Price to the respective lowest and average closing prices of the Shares during the Review Period fall within the range of the CN Comparables, we are of the opinion that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

3.1.4 The financial effects of the Subscription on the Group

3.1.4.1 Earnings

The Subscription shall have no significant effects on the Group's earnings as the Convertible Notes carry zero coupon rate.

3.1.4.2 Cashflow

The issue of the Subscription Shares will bring a net cash inflow of approximately HK$20.3 million to the Group. The cashflow of the Group will also increase by an amount of HK$14.7 million upon issue of the Convertible Notes. If the conversion right attached to the Convertible Notes is not exercised, the Group has to redeem all outstanding principal of the Convertible Notes at the maturity date. Therefore, a cash outflow equivalent to the outstanding principal of the Convertible Notes may occur at the maturity date.

3.1.4.3 Net asset value

Upon issue of the Subscription Shares, the net asset value of the Group shall increase by an amount of approximately HK$20.3 million and thus the net deficit per Share of approximately HK$0.009 as at 30 June 2007 shall be enhanced to a net asset value per Share of approximately HK$0.005 after the issue of the Subscription Shares (but before issuance of any Conversion Share).

Upon the issue of the Convertible Notes, the Group's liabilities shall increase by the amount equivalent to the liability component of the Convertible Notes while the Group's equity shall increase by the equity component of the Convertible Notes. As the determination of the fair value of the liability component of the Convertible Notes at initial recognition will require the use of the prevailing market rate of interest for a similar instrument with a similar credit rating that can only be ascertained at the time of issue of the Convertible Notes, the exact amount of the net effect of the issue of the Convertible Notes cannot be ascertained at the moment.

If the conversion right attached to the Convertible Notes is exercised in full, the net asset value of the Group shall further increase by approximately HK$14.7 million as a result of the transfer of the liability component of the Convertible Notes to the share capital of the Group. The net asset value per Share shall then be further enhanced to approximately HK$0.006 after the issue of the Subscription Shares and Conversion Shares.

3.1.4.4 Gearing

The issue of the Subscription Shares and the Convertible Notes will increase the Group's total assets by approximately HK$35 million. At the same time, the Group's liabilities shall also increase by the amount equivalent to the liability component of the Convertible Notes. Although the exact amount of the liability component cannot be ascertained at the moment, it is expected that the increase in total assets will be greater than the increase in the liabilities of the Group. Therefore, it is expected that the Subscription will result in an improvement in the gearing ratio of the Group (as expressed in the ratio of total liabilities to total assets).

Upon full conversion of the Convertible Notes, the liability component will be transferred to the share capital of the Group. Therefore, a further improvement in the gearing ratio of the Group is expected.

Based on the above analysis, the Subscription would have an immediate positive financial effect on the Group in terms of cashflow, net asset value and gearing. On such basis, we are of the opinion that the Subscription is in the interests of the Company and the Shareholders as a whole.

3.1.5 Future intentions of the Subscriber

As disclosed in the Letter from the Board, the Subscriber intends to continue the existing businesses of the Group following the Completion. In addition, the Subscriber may consider diversifying the business of the Group to the energy and resources industry and automobile parts industry by leveraging on the business experience and successful track record of its sole shareholder, Mr. He, in such industries.

Through the review of the public documents, we notice that Mr. He has extensive experience in financial management and in the investment field. During the past few years, Mr. He had successfully restructured and introduced new business opportunities and funding to several loss-making listed companies, which have then turned around to record substantial profits. Successful cases include Shanghai Zendai Property Ltd. (stock code: 755) and Geely Automobile Holdings Ltd. (stock code: 175) which are principally engaged in the businesses of property sales and investment and manufacturing and trading of automobile parts and related automobile components respectively. Mr. He is now the chairman of a listed company in Hong Kong, the chairman of a company listed on Over-The-Counter Bulletin Board in the United States of America and a director of a company listed on Over-The-Counter Bulletin Board in the United States of America. The Directors believe that the extensive business network and experience of Mr. He will help expediting the recovery of the existing business of the Group and developing new business opportunities that can further enhance the shareholders' value of the Group.

Apart from Mr. He, the Subscriber will nominate another two candidates, namely Mr. Liu Wei and Mr. Shi Lixin, to the Board. Mr. Liu Wei has extensive experience in the publication business and was involved in the publication of World Economic Journal Monthly, Healthy Life Today and China News Weekly. He was a director of Hans Energy Company Limited (stock code: 554), the shares of which are listed on the Stock Exchange. Together with Mr. Shi Lixin's extensive experience in mergers and acquisitions and project finance, the Subscriber believes that the new management team will be able to further enhance the shareholders' value of the Company.

In light of the above, we concur with the views of the Directors and the Subscriber that the introduction of the proposed Directors to the Board will be advantageous to the further development of the Group.

3.1.6 Dilution of the Independent Shareholders' interests in the Company

Immediately after the Completion but before exercise of the conversion right attached to the Convertible Notes and exercise of the outstanding share options, the Subscriber will become the controlling Shareholder holding approximately 85.1% of the enlarged issued share capital of the Company and the shareholding of the Independent Shareholders in the Company shall decrease from approximately 33.6% to approximately 5.0%.

In the event that the conversion right of the Convertible Notes is fully exercised and all outstanding share options are exercised, the Subscriber will be interested in approximately 90.7% of the enlarged issued share capital of the Company. The shareholding of the Independent Shareholders will be further reduced to approximately 3.2%.

We consider the abovementioned dilution effect to the shareholding interests of the Independent Shareholders to be significant. However, as balanced by the fact that the Group is in need of additional capital for revitalizing its financial position and business development, and taking into account the principal factors considered in the previous sections, in particular:

a) the Group recorded losses in four years out of the five preceding years;

b) the Group is having an inferior financial position which may have an adverse impact on the operation and business development of the Group if no mitigation measures are conducted in the near term;

c) the Subscription is the most viable financing alternative currently available for the Group;

d) the Group may capitalize on the knowledge and experience of the proposed new Directors to expedite the Group's upturn of existing business and to develop new business opportunities; and

e) the Subscription will have positive effects on the cashflow, net asset value and gearing of the Group,

we are of the opinion that the Subscription is in the interest of the Company and the Shareholders as a whole. We also consider that the aforementioned dilution effect on the shareholding of the Independent Shareholders is justifiable and fair and reasonable as the Independent Shareholders are concerned.

3.1.7 Sufficiency of public float

As mentioned in the previous section, the shareholding in public hands shall decrease to approximately 15% upon the issue of the Subscription Shares. In order to maintain the minimum public float of 25% upon and following Completion, the Subscriber will enter into a placing agreement with an independent placing agent to place the relevant Shares held by the Subscriber to independent placees upon Completion.

In order to avoid high concentration of shareholding in the Company and to further enhance the shareholder base of the Company, we are of the opinion that the placing of Shares by the Subsciber to independent third parties is in the interests of the Company and the Shareholders as a whole.

3.2 Conclusion

Having considered the principal factors and reasons stated above, we are of the view that the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Subscription Agreement are in normal commercial terms and that they are fair and reasonable so far as the Independent Shareholders are concerned.

4 THE WHITEWASH WAIVER

4.1 Principal Factors and Reasons Considered

4.1.1 Background

Upon issue of the Subscription Shares, the Subscriber and parties acting in concert with it will be interested in approximately 85.1% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. Immediately after the full exercise of the conversion right attached to the Convertible Notes, the Subscriber's equity interest in the Company will further increase to approximately 90.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Conversion Shares. Therefore, pursuant to Rule 26 of the Takeovers Code, the Subscriber and parties acting in concert with it will be obliged to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by them unless a waiver from strict compliance with the relevant rule has been obtained from the Executive.

The Subscriber and the parties acting in concert with it 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. As the Subscription Agreement and the Disposal Agreement are inter-conditional upon each other and Mr. Ng, the controlling Shareholder, has personal interest in the Disposal, Mr. Ng and its concert parties shall abstain from voting on the resolutions for the Subscription and the application for the Whitewash Waiver.

We noted from the Letter from the Board that, save for the entering into of the Subscription Agreement, neither the Subscriber nor any of its concert parties has acquired any Share during the period commencing on the date falling six months prior to the date of the Subscription Agreement and up to the Latest Practicable Date.

4.1.2 The Whitewash Waiver is a condition to the Subscription Agreement

The Completion is subject to the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription Agreement will lapse and the Subscription will not proceed. Consequently, the Disposal Agreement will also lapse as the completion of the Disposal Agreement is subject to the Subscription Agreement having become unconditional.

4.2 Conclusion

Given the aforementioned benefits of the Subscription to the Group 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 and the Disposal, 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 Subscription and the Disposal.

Nevertheless, Shareholders should note that the Subscriber's interest in the Company would exceed 50% of the enlarged issued share capital of the Company upon Completion. Accordingly, if the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, the Subscriber and parties acting in concert with it may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

5 THE DISPOSAL

5.1 Principal Factors and Reasons Considered

In arriving at our opinion regarding the terms of the Disposal Agreement, we have considered the following principal factors and reasons:

5.1.1 Rationale for Entering into the Disposal Agreement

Jessica BVI Group is principally engaged in the publication of two magazines, namely "*旭茉JESSICA*" and "*JESSICA China*" while the remaining companies in the Group are principally engaged in the publication of "*旭茉JESSICACODE*" and "*Lisa味道生活*".

Based on the unaudited management accounts of the Group, which have been prepared in accordance with accounting principles generally accepted in Hong Kong, the combined results and financial position of the Jessica BVI Group, the Group excluding the Jessica BVI Group (the "Remaining Group") and the whole Group for the two years ended 31 December 2006 and the six months ended 30 June 2007 were as follows:

Table 6 –the unaudited combined financial information of the Jessica BVI Group and the Remaining Group

	Jessica BVI Group			The Remaining Group			The Group		
	Six months ended 30 Jun 2007	Year ended 31 Dec 2006	Year ended 31 Dec 2005	Six months ended 30 Jun 2007	Year ended 31 Dec 2006	Year ended 31 Dec 2005	Six months ended 30 Jun 2007	Year ended 31 Dec 2006	Year ended 31 Dec 2005
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Revenue	**29,082**	**60,732**	**74,783**	**11,523**	**22,732**	**20,072**	**40,605**	**83,464**	**94,855**
Direct operating expenses	20,975	53,958	52,384	5,627	14,096	13,158	26,602	68,054	65,542
Selling & distribution costs	8,080	16,996	16,512	1,139	2,495	2,455	9,219	19,491	18,967
Administrative & other operating expenses	1,841	5,837	6,006	1,217	4,251	910	3,058	10,088	6,916
Total expenses	**30,896**	**76,791**	**74,902**	**7,983**	**20,842**	**16,523**	**38,879**	**97,633**	**91,425**
Profit/(Loss) for the period	**(1,814)**	**(16,059)**	**(119)**	**3,540**	**1,890**	**3,549**	**1,726**	**(14,169)**	**3,430**

	As at 30 June 2007		
	Jessica BVI Group *(HK$'000)*	**The Remaining Group** *(HK$'000)*	**The Group** *(HK$'000)*
Non-current Assets			
– fixed assets	531	–	531
– trademark	19	–	19
	550	–	550
Current Assets			
– trade receivables	10,244	3,783	14,027
– other receivables	547	697	1,244
– cash & bank balances	106	2,772	2,878
	10,897	7,252	18,149
Current Liabilities			
– trade payables	(13,999)	(3,884)	(17,883)
– other payables & accruals	(1,088)	(4,068)	(5,156)
– due to related companies	(241)	–	(241)
	(15,328)	(7,952)	(23,280)
Net Current Liabilities	**(4,431)**	**(700)**	**(5,131)**
Net Liabilities	**(3,881)**	**(700)**	**(4,581)**

As shown in Table 6, the Jessica BVI Group recorded substantial losses for the past consecutive financial periods. As a result, the Group recorded unsatisfactory results even the Remaining Publishing Companies contributed net profits to the Group. According to the Directors, the loss of the Jessica BVI Group in 2006 was exceptionally high due to the increased circulation of "*JESSICA China*" in the PRC, which had led to a substantial rise in the operating costs of the Jessica BVI Group but a limited increase in advertising income, and the discontinuation of two magazines, namely "*Paralife*" and "*8 Weekly*" during the year. The losses arising from "*Paralife*" and "*8 Weekly*" amounted to approximately HK$6.2 million for the year ended 31 December 2006.