
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Willie International Holdings Limited, you should at once hand this circular together with the enclosed proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the Shareholders of the Company for information in connection with the Extraordinary General Meeting of the Company to be held on Friday, 28 December 2007. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, securities of the Company.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



Willie International Holdings Limited

威利國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

(Warrant Code: 614)

**(1) PROPOSED CAPITAL REORGANIZATION
(2) PROPOSED RIGHTS ISSUE OF NEW SHARES ON THE BASIS
OF ONE RIGHTS SHARE FOR EVERY ADJUSTED SHARE HELD
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Underwriter



CHUNG NAM SECURITIES LIMITED

**Independent financial adviser to the Independent Board Committee and
Independent Shareholders**

VINC 

A letter from the Board is set out on pages 7 to 27 of this circular. A letter from the Independent Board Committee is set out on page 28 of this circular.

A letter from Grand Vinco Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 42 of this circular.

A notice convening an Extraordinary General Meeting of Willie International Holdings Limited (the "Company") to be held at 30/F, China United Centre, 28 Marble Road, North Point, Hong Kong at 9:00 a.m. on Friday, 28 December, 2007 is set out on pages 105 to 107 of this circular. A proxy form for use at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible, but in any event not less than 48 hours before the time appointed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting if you so wish.

If at any time on or before 6:00 p.m. on the second business day after 22 January 2008 or such other date the Underwriter may agree in writing with the Company as the Acceptance Date:—

- (a) there occurs any new regulation or any change in the existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (b) there occurs any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before or after the date hereof of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (d) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities) which, in the reasonable opinion of the Underwriter, makes it inexpedient or inadvisable to proceed with the Rights Issue;

then in any such case the Underwriter may, after consultation with the Company or its advisers as the circumstances shall admit, by notice in writing to the Company rescind the Underwriting Agreement, whereupon all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and the Rights Issue shall not proceed.

5 December 2007

CONTENTS

	<i>Page</i>
Definitions	1
Expected Timetable	5
Letter from the Board	7
Letter from the Independent Board Committee	28
Letter from Grand Vinco Capital Limited	29
Appendix I — Financial and Other Information	43
Appendix II — Pro Forma Financial Information	90
Appendix III — General Information	94
Notice of EGM	105

DEFINITIONS

In this circular, the following expressions have the meanings respectively set opposite them unless the context requires otherwise:

“Acceptance Date”	22 January 2008 or such other date as the Underwriter may agree in writing with the Company as the last date for acceptance of, and payment for, the Rights Shares
“%”	per cent.
“Adjusted Share(s)”	new ordinary share(s) of HK\$0.10 each in the capital of the Company arising from the completion of the Capital Reorganization
“Board”	the board of Directors
“Capital Reduction”	the proposed reduction of the capital of the Company involving the cancellation of the paid up capital to the extent of HK\$0.90 on each Consolidated Share in issue and the reduction of the nominal value of all the issued and unissued Consolidated Shares from HK\$1.00 to HK\$0.10
“Capital Reorganization”	the Share Consolidation and the Capital Reduction
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“China” or “PRC”	the People’s Republic of China
“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	Willie International Holdings Limited 威利國際控股有限公司, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange
“Consolidated Share(s)”	new ordinary share(s) of HK\$1.00 each in the capital of the Company resulting from the Share Consolidation
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of approving the Capital Reorganization and the Rights Issue

DEFINITIONS

“Excluded Overseas Shareholders”	the Overseas Shareholders to whom the Board, after making enquiries, considers it necessary or expedient not to offer the Rights Shares, on account of either legal restrictions under the laws of the relevant place of residence of such Overseas Shareholders or the requirements of the relevant regulatory body or stock exchange in that place
“General Mandates”	the Issue Mandate, the Repurchase Mandate and the Top-up Mandate
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of independent non-executive Directors formed for the purpose of advising the Independent Shareholders in relation to the Rights Issue
“Independent Shareholders”	Shareholders other than the controlling Shareholders and their associates or, where there are no controlling Shareholders, executive Directors and their respective associates
“Issue Mandate”	the general mandate granted to the Directors to allot, issue and deal with the Shares of the Company up to a maximum of 20% of the aggregate amount of the issued capital of the Company as at the date of the general meeting of the Company held on 10 September 2007
“Last Trading Day”	12 November 2007, being the last trading day prior to the suspension of the trading of the Shares, pending the release of the announcement of the Company dated 15 November 2007 relating to, inter alia, the Capital Reorganization and the Rights Issue
“Latest Practicable Date”	30 November 2007, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Overseas Shareholders”	the Shareholders whose registered addresses as shown on the register of members of the Company on the Record Date situate outside Hong Kong

DEFINITIONS

“Prospectus Documents”	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“Prospectus Posting Date”	such date as may be designated by the Company for the posting of the Prospectus Documents, which is currently expected to be 31 December 2007
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Qualifying Shareholders”	Shareholders, other than the Excluded Overseas Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	28 December 2007, being the date by reference to which entitlements under the Rights Issue will be determined
“Repurchase Mandate”	the general mandate granted to the Directors to repurchase the Shares up to a maximum of 10% of the aggregate nominal amount of the issued capital of the Company at the date of the annual general meeting of the Company held on 30 May 2007
“Rights Issue”	the issue by way of rights of not less than 1,517,931,298 Rights Shares and not more than 2,273,310,686 Rights Shares in the proportion of one Rights Share for every Adjusted Share held at the Subscription Price payable in full on acceptance
“Rights Share(s)”	new Adjusted Share(s) of HK\$0.10 each to be allotted and issued under the Rights Issue
“Scheme Mandate Limit”	the maximum number of shares which may be issued upon exercise of all of the options granted and to be granted under the Share Option Scheme and any other scheme(s) of the Company as approved by the Shareholders at the general meeting of the Company held on 10 September 2007
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Consolidation”	the proposed consolidation into one Consolidated Share of every ten issued and unissued Shares
“Share Option Scheme”	the share option scheme of the Company adopted on 20 November 2002
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company

DEFINITIONS

“Shareholder(s)”	registered holder(s) of the Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.22 per Rights Share
“Top-up Mandate”	the general mandate to issue the Shares repurchased by the Company pursuant to the Repurchase Mandate
“Underwriter”	Chung Nam Securities Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities) of the regulated activities and whose ordinary course of business includes underwriting
“Underwriting Agreement”	the underwriting agreement dated 12 November 2007 entered into between the Company and the Underwriter in relation to the Rights Issue, as amended by a supplemental letter dated 16 November 2007 between the same parties
“Vinco”	Grand Vinco Capital Limited, a corporation licensed under the SFO to conduct type 1 (dealing in securities) and type 6 (advising corporate finance) regulated activities and the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders in relation to the Rights Issue
“Warrants”	the warrants listed on the Stock Exchange conferring rights on the holders to subscribe for the Shares of the Company at the subscription price of HK\$0.10 per Share
“Warrantholder(s)”	holder(s) of the Warrants

EXPECTED TIMETABLE

The following timetable is indicative only and may be subject to changes:

Last day of dealings in the Shares on a cum-rights basis	Tuesday, 18 December 2007
First day of dealings in the Shares on an ex-rights basis	Wednesday, 19 December 2007
Latest time for lodging transfers of the Shares in order to qualify for the Rights Issue	4:30 p.m., Thursday, 20 December 2007
Latest time for lodging subscription money accompanied by the relevant warrant certificates in order to qualify for the Rights Issue	4:30 p.m., Thursday, 20 December 2007
Closure of register of members	Friday, 21 December 2007 to Friday, 28 December 2007 (both dates inclusive)
Latest time for return of proxy form for the EGM	9:00 a.m., Wednesday, 26 December 2007
EGM	9:00 a.m., Friday, 28 December 2007
Record Date	Friday, 28 December 2007
Effective date of the Capital Reorganization	Monday, 31 December 2007
Despatch of the Prospectus Documents by post	Monday, 31 December 2007
Commencement of dealings in the Adjusted Shares	Monday, 31 December 2007
Free exchange of existing share certificates for new share certificates for the Adjusted Shares commences	Monday, 31 December 2007
Temporary counter for trading in the Adjusted Shares in board lots of 400 each (in the form of existing certificates) opens	9:30 a.m., Monday, 31 December 2007
Existing counter for trading in the Shares (in board lots of 4,000 Shares each) closes	9:30 a.m., Monday, 31 December 2007
Register of members re-opens	Monday, 31 December 2007
First day of dealings in nil-paid Rights Shares	Monday, 7 January 2008
Latest time for splitting of nil-paid Rights Shares	4:30 p.m., Monday, 14 January 2008

EXPECTED TIMETABLE

Existing counter for trading in the Adjusted Shares in board lots of 4,000 each (in the form of new certificates) re-opens	9:30 a.m., Tuesday, 15 January 2008
Parallel trading in the Adjusted Shares begins (in the form of new and existing certificates)	9:30 a.m., Tuesday, 15 January 2008
Designated broker starts to stand in market to provide matching services	Tuesday, 15 January 2008
Last day of dealings in nil-paid Rights Shares	Thursday, 17 January 2008
Latest time for acceptance of the Rights Shares as well as application for excess Rights Shares and payment of consideration therefor	4:00 p.m., Tuesday, 22 January 2008
Latest time for completion of the Rights Issue and the Underwriting Agreement becoming unconditional	after 6:00 p.m., Thursday, 24 January 2008
Announcement of results of acceptance of Rights Issue	Tuesday, 29 January 2008
Despatch of refund cheques in respect of wholly or partially unsuccessful excess applications by post	Tuesday, 29 January 2008
Despatch of certificates for fully paid Rights Shares by post	Tuesday, 29 January 2008
Commencement of dealings in fully paid Rights Shares	Thursday, 31 January 2008
Temporary counter for trading in the Adjusted Shares in board lots of 400 each (in the form of existing certificates) closes	4:00 p.m., Tuesday, 5 February 2008
Parallel trading in the Adjusted Shares ends (in the form of new and existing certificates)	4:00 p.m., Tuesday, 5 February 2008
Designated broker ceases to stand in the market to provide matching services	4:00 p.m., Tuesday, 5 February 2008
Free exchange of existing share certificates for new share certificates ends	Tuesday, 12 February 2008

LETTER FROM THE BOARD



Willie International Holdings Limited

威利國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

(Warrant Code: 614)

Executive Directors:-

Mr. Chuang Yueheng, Henry
Mr. King Phillip
Mr. Lo Kan Sun
Mr. Wong Ying Seung, Asiong
Mr. Wang Lin

Registered Office:-

32/F, China United Centre
28 Marble Road
North Point
Hong Kong

Independent Non-Executive Directors:-

Mr. Nakajima Toshiharu
Ms. Lin Wai Yi
Mr. Liu Jian
Mr. Shum Ming Choy
Mr. Yau Yan Ming, Raymond

5 December 2007

To the Shareholders and the Warrantholders (for information only)

Dear Sir and Madam,

(1) PROPOSED CAPITAL REORGANIZATION
(2) PROPOSED RIGHTS ISSUE OF NEW SHARES ON THE BASIS
OF ONE RIGHTS SHARE FOR EVERY ADJUSTED SHARE HELD
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

(1) Proposed Capital Reorganization

The Company proposes to put forward a proposal to the Shareholders to effect the Capital Reorganization comprising the Share Consolidation (i.e. the consolidation of 10 Shares of HK\$0.10 each into one Consolidated Share of HK\$1.00) and the Capital Reduction (i.e. the reduction of the par value of a Consolidated Share from HK\$1.00 to HK\$0.10).

(2) Proposed Rights Issue

The Directors also propose, subject to the completion of the Capital Reorganization, to implement the Rights Issue in the proportion of one Rights Share for every Adjusted Share held at the Subscription Price of HK\$0.22 per Rights Share.

LETTER FROM THE BOARD

Accordingly, the purpose of this circular is to provide you with details on, (i) the proposed Capital Reorganization; and (ii) the Rights Issue. The recommendations from the Independent Board Committee, the advice from Vinco to the Independent Board Committee and the Independent Shareholders on the Rights Issue and notice of the EGM at which the necessary resolutions will be proposed for consideration and, if thought fit, approval of the proposed Capital Reorganization and the Rights Issue are also set out in this circular.

II. PROPOSED CAPITAL REORGANIZATION

As stated above, the Capital Reorganization comprises the Share Consolidation and the Capital Reduction.

A. Share Consolidation

The Company is empowered by section 53(1)(b) of the Companies Ordinance and article 64A(i) of its articles of association to implement the Share Consolidation. Under the Share Consolidation, every 10 issued and unissued Shares of HK\$0.10 each will be consolidated into one issued or unissued Consolidated Share of HK\$1.00. Fractional Consolidated Shares will not be issued to the Shareholders but will be aggregated and sold for the benefits of the Company. Fractional Consolidated Shares may arise in respect of the entire shareholding of a Shareholder, regardless of the number of share certificates held by such Shareholder in respect of his holding.

B. Capital Reduction

Section 58(1) of the Companies Ordinance requires, among other things, the passing of a special resolution to effect a reduction of the capital of a company if its articles of association so authorize. Pursuant to article 64(B) of its articles of association, the Company has power to reduce its share capital by special resolution and subject to any conditions prescribed by law.

It is proposed that immediately after the Share Consolidation, the authorized capital of the Company will be reduced from HK\$5,000,000,000 divided into 5,000,000,000 Consolidated Shares of HK\$1.00 each to HK\$500,000,000 divided into 5,000,000,000 Adjusted Shares of HK\$0.10 each. The Capital Reduction will be effected by cancelling HK\$0.90 of the paid up capital on each issued Consolidated Share and by reducing the nominal value of each issued or unissued Consolidated Share from HK\$1.00 to HK\$0.10. The Adjusted Shares of HK\$0.10 each will arise on the Capital Reduction taking effect. The Capital Reduction is proposed to be implemented under section 58(3) of the Companies Ordinance pursuant to which no court confirmation will be required.

Section 58(3) of the Companies Ordinance provides that confirmation by the court of a reduction of the share capital of a company under subsection (1) of the same section is not required if the sole purpose of the reduction is to re-designate the nominal value of the shares of the company to a lower amount and the following conditions are satisfied:

- (a) the company has only one class of shares;

LETTER FROM THE BOARD

- (b) (i) all issued shares are fully paid-up and (ii) the amount of the net assets of the company is not less than its paid-up share capital;
- (c) the reduction applies to and affects all shares equally;
- (d) the amount arising from the reduction is not less than an amount representing the difference between the amount of the company's fully paid-up share capital immediately before the reduction and the amount of its fully paid-up share capital immediately after the reduction; and
- (e) the amount arising from the reduction is credited to the share premium account of the company.

The Directors confirmed that the conditions described in sub-paragraphs (a), (b)(i) and (c) have been and would be satisfied and that in sub-paragraph (e) would also be satisfied at the time of completion of the Capital Reorganization.

Based on the latest unaudited balance sheet of the Company as at 30 September 2007, sub-paragraphs (b)(ii) and (d) would have been complied with if the Capital Reorganization were to take place on that date. However, in order for the Capital Reorganization to be effective, all the conditions under section 58(3) will have to be satisfied as at the time of the passing of the special resolution at the EGM. Accordingly, unless the financial position of the Company as at that time is to deteriorate to such an extent that the conditions set out in sub-paragraphs (b)(ii) and (d) could not be satisfied, it is the expectation of the Board that all such statutory requirements will be fully complied with at the time of the EGM. At present, the Directors are not aware of any matter which will render the Company unable to comply with those requirements.

Set out below is the components of the shareholders' fund of the Company (i) immediately before the Capital Reorganization becoming effective on the assumption that the Capital Reorganization took place on 30 September 2007 and (ii) immediately after the Capital Reorganization becoming effective:

Unaudited pro forma shareholders' fund of the Company

	As at 30 September 2007 before Capital Reorganization becoming effective	As at 30 September 2007 immediately after Capital Reorganization becoming effective
	<i>HK\$'000</i>	<i>HK\$'000</i>
Issued capital	1,517,931	151,793
Share premium	420,213	1,786,351
Accumulated losses	<u>(388,332)</u>	<u>(388,332)</u>
	<u>1,549,812</u>	<u>1,549,812</u>

LETTER FROM THE BOARD

C. Conditions of the Capital Reorganization

The Capital Reorganization is conditional upon:

- a) the passing by the Shareholders of the special resolution to be proposed at the EGM; and
- b) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Adjusted Shares to be issued following completion of the Capital Reorganization.

Subject to fulfillment of the above conditions, the Capital Reorganization will take effect upon the registration by the Registrar of Companies of the special resolution to approve the Capital Reorganization at the EGM, the minute and the statement required by section 61A of the Companies Ordinance. At present, it is expected that the Capital Reorganization will become effective on Monday, 31 December 2007 when trading in the Adjusted Shares will commence.

Further announcements will be made by the Company to inform the Shareholders of the exact date when the Capital Reorganization takes effect.

D. Effect of the Capital Reorganization

As at the Latest Practicable Date, the authorized capital of the Company was HK\$5,000,000,000 divided into 50,000,000,000 Shares, of which 15,179,312,988 Shares had been issued and were fully paid. As a Consolidated Share consists of ten Shares and based on 15,179,312,988 Shares in issue as at the Latest Practicable Date, the Company on 29 November 2007 acquired from the market eight issued Shares pursuant to the powers granted to the Directors under the Repurchase Mandate for the purpose of rounding down the 15,179,312,988 issued Shares to 15,179,312,980 Shares so as to avoid a Consolidated Share comprising eight issued Shares and two unissued Shares. Such repurchase, however, would only take effect on the cancellation of the eight Shares on the register of members and is expected to take place at some time between the despatch of this circular and before the holding of the EGM. On the basis of 15,179,312,980 Shares in issue after the repurchase of the eight Shares becoming effective and upon the Capital Reorganization becoming effective, the authorized capital of the Company will become HK\$500,000,000 comprising 5,000,000,000 Adjusted Shares, of which 1,517,931,298 Adjusted Shares will be in issue and fully paid and the amount of the paid up share capital of the Company will be approximately HK\$151,793,130. The Directors confirm that the repurchase of the eight Shares as mentioned above will not affect the number of Right Shares to be issued.

The credit of approximately HK\$1,366,138,168 arising from the reduction of the paid-up capital of HK\$0.90 per Adjusted Share will be credited to the share premium account of the Company as required by section 58(3) of the Companies Ordinance.

The Directors believe that implementation of the Capital Reorganization will not, of itself, alter the underlying assets, liabilities, businesses, management or financial position of the Group or the rights of the Shareholders, except for payment of the related expenses. The proportionate interests and the voting rights of the Shareholders in the Company will not be affected by the Capital Reorganization.

LETTER FROM THE BOARD

Save for the subscription rights attaching to the 3,000,000,000 Warrants, the Company has no outstanding options, warrants or other securities convertible into or giving rights to subscribe for the Shares. The Capital Reorganization is expected to give rise to an adjustment to the subscription price under the Warrants. Details of the adjustments will be announced in due course.

The Adjusted Shares will rank *pari passu* in all respects with each other and the Capital Reorganization will not result in any change in the relative rights of the Shareholders. Fractional Adjusted Shares will not be issued to the Shareholders but will be aggregated and sold for the benefit of the Company.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Adjusted Shares once the Capital Reorganization becomes effective.

E. Trading Arrangement

The Shares are currently traded in board lots of 4,000 Shares each and the market value per board lot of the Shares is HK\$232, based on the closing price of HK\$0.058 per Share as quoted on the Stock Exchange on the Last Trading Day. Assuming the Capital Reorganization becomes effective, the Adjusted Shares will be traded in board lots of 4,000 Adjusted Shares each and the estimated market value per board lot of the Adjusted Shares will be HK\$2,320, based on the closing price of HK\$0.058 per Share as quoted on the Stock Exchange on the Last Trading Day.

Subject to the Capital Reorganization, the Shareholders are advised to submit during business hours from 31 December 2007 to 12 February 2008, submit their certificates for the Shares to the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for exchange, at the expense of the Company, for new certificates for the Adjusted Shares. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be allowed by the Stock Exchange) for each certificate issued or cancelled, whichever is higher. Certificates for the Shares will continue to be good evidence of legal title to the Adjusted Shares and may be exchanged for the certificates for the Adjusted Shares at any time at the expense of the Shareholders. Further announcement will be made as and when appropriate in confirming the effective date of the arrangements for the exchange of share certificates and the arrangements relating to trading and dealings in the Adjusted Shares.

In order to alleviate the difficulties arising from the existence of odd lots of Adjusted Shares, the Company has agreed to procure the Underwriter to stand in the market to provide matching services for the odd lots of Adjusted Shares on a best effort basis, during the period from 15 January 2008 to 5 February 2008 (both dates inclusive). Holders of the Adjusted Shares in odd lots (i.e. lots which are not in integral multiples of 4,000 Adjusted Shares) who wish to take advantage of this matching facility either to dispose of their odd lots of Adjusted Shares or to top up to a board lot of 4,000 Adjusted Shares, may contact Mr. Cecil Chan of the Underwriter at 31/F., China United Centre, No. 28 Marble Road, North Point, Hong Kong at telephone number (852) 3198 0838 during office hours.

LETTER FROM THE BOARD

F. Reasons for the Capital Reorganization

Based on the closing price of HK\$0.058 per Share as quoted on the Stock Exchange on the Last Trading Day, the value per board lot of 4,000 Shares and 4,000 Adjusted Shares would be HK\$232 and HK\$2,320 respectively. After the Share Consolidation, the transaction costs per dollar value of each Adjusted Share will be significantly lower.

Further, since August 2007, the Shares have been trading at prices below their nominal value of HK\$0.10 each. As mentioned above, the closing price of the Share on the Stock Exchange on the Last Trading Day was HK\$0.058 per Share. Under the Companies Ordinance, it is not permissible for a company to issue shares at a discount to the nominal value of its share unless, among other things, it is authorized by the shareholders and sanctioned by the court. Compliance with these statutory requirements would involve considerable expense and time to go through the procedures for each capital raising exercise. With a view to facilitating any capital raising exercise when circumstances arise in the future, the Board proposes the Capital Reorganization, which has the effect of converting ten Shares of HK\$0.10 each to an Adjusted Share of HK\$0.10 by way of the Share Consolidation and the Capital Reduction. The Directors therefore consider that the Capital Reorganization is in the interests of the Company and the Shareholders as a whole.

III. PROPOSED RIGHTS ISSUE

The Board also proposes to implement a Rights Issue upon the following terms:

A. Issue statistics

Basis of the Rights Issue	: One Rights Share for every Adjusted Share held
Number of the Shares in issue as at Latest Practicable Date	: 15,179,312,988 Shares
Number of the Shares in issue immediately after the repurchase of the eight Shares becoming effective	: 15,179,312,980 Shares
Number of the Adjusted Shares in issue upon the Capital Reorganization becoming effective	: 1,517,931,298 Adjusted Shares (assuming no further issue of the Shares up to the effective date of the Capital Reorganization)
Number of the Shares or Adjusted Shares which may be issued pursuant to the Share Option Scheme	: Up to 1,517,931,298 Shares before the Capital Reorganization or up to 151,793,129 Adjusted Shares after the Capital Reorganization
Number of the Shares or Adjusted Shares which may be issued upon full exercise of the subscription rights attaching to the Warrants	: Up to 3,000,000,000 Shares before the Capital Reorganization or up to 300,000,000 Adjusted Shares after the Capital Reorganization

LETTER FROM THE BOARD

Number of the Shares or Adjusted Shares which may be issued pursuant to the General Mandates	: Up to 3,035,862,597 Shares before the Capital Reorganization or up to 303,586,259 Adjusted Shares after the Capital Reorganization
Number of the Rights Shares	: Not less than 1,517,931,298 and not more than 2,273,310,686 Rights Shares
Subscription Price per Rights Share	: HK\$0.22

The number of the Rights Shares which may be issued pursuant to the Rights Issue will be increased in proportion to any additional Shares which may be issued and allotted on or before the close of business on the Record Date, including the Shares or Adjusted Shares (i) which may be issued and allotted to the holders of options granted pursuant to the Share Option Scheme; (ii) which may be issued and allotted to the holders of the Warrants; and (iii) which may be issued and allotted to allottees pursuant to the General Mandates.

As at the Latest Practicable Date, the Company has no outstanding options granted under the Share Option Scheme. Save for the 3,000,000,000 Warrants, there are no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into the Shares as at the date hereof. Prior to the Record Date, which precedes the effective date of the Capital Reorganization, the share capital of the Company will remain denominated in the form of the existing Shares (and not the Adjusted Shares). Accordingly, prior to the Record Date, the Company is permitted under the Scheme Mandate Limit as refreshed on 10 September 2007 to grant options to subscribe for up to 1,517,931,298 Shares. In addition, in the event of the exercise in full of the subscription rights attached to the Warrants, 3,000,000,000 Shares will fall to be issued. Upon exercise of the General Mandates in full, a total of up to 3,035,862,597 Shares can possibly be issued prior to the Record Date. Assuming that (i) the aforesaid options are granted and exercised; (ii) the subscription rights conferred by the Warrants are fully exercised; (iii) new Shares are issued under the General Mandates; and (iv) the Shares issued pursuant to such options, Warrants and General Mandates are issued and allotted, in each case, in full on or prior to the Record Date, the number of the Rights Shares to be issued under the Rights Issue will be increased by 755,379,388 Rights Shares.

B. Conditions of the Rights Issue

The Rights Issue is conditional upon, among other things, each of the following events being fulfilled:

- a) the passing by the Shareholders at the EGM of the special resolution to approve the Capital Reorganization;
- b) the Capital Reorganization becoming effective;
- c) the passing by the Shareholders of ordinary resolution numbered 2 to be proposed at the EGM to approve the Rights Issue;
- d) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Rights Shares in their nil-paid and fully paid forms, either unconditionally or subject

LETTER FROM THE BOARD

to such conditions which the Company accepts, the satisfaction of such conditions (if any) by no later than the date of posting of the Prospectus Documents, and such listing approval for the Rights Shares not having been withdrawn or revoked on or before 4:00 p.m. on the second business day after the Acceptance Date;

- e) the delivery to the Stock Exchange and the filing with and registration by the Registrar of Companies of all documents relating to the Rights Issue; and
- f) the compliance by the Company and the Underwriter with all of their respective obligations under the Underwriting Agreement and the Underwriting Agreement becoming unconditional.

In the event that the conditions of the Rights Issue are not fulfilled on or before the various dates set out in the Underwriting Agreement or such later dates as the Company and the Underwriter may agree, neither the Underwriter nor the Company shall have any right or be subject to any obligation arising from the Underwriting Agreement and the Rights Issue will not proceed accordingly.

C. Qualifying Shareholders

The Company will send (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Prospectus, for information only, to the Excluded Overseas Shareholders and Warranholders.

In order to qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date, and must not be an Excluded Overseas Shareholder.

In order to be registered as a member of the Company by the Record Date, all transfers of the Shares with the relevant share certificates must be delivered by the transferee to the Company's share registrar for registration, and the subscription money accompanied by the warrant certificates must be lodged no later than 4:30 p.m. on 20 December 2007. The Company's share registrar is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Those persons whose Shares are held by a nominee company should note that the Board will regard the nominee as a single shareholder according to the register of members of the Company. Accordingly, such persons should note that the arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares as referred to below will not be extended to beneficial owners individually. Beneficial owners with their Shares held by a nominee company are therefore advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names or in the name of other persons prior to the Record Date.

Those persons whose Shares are held by their nominee(s) and who would like to have their own names registered on the register of members of the Company on the Record Date must lodge all necessary documents with the Company's share registrar for completion of registration no later than 4:30 p.m. on 20 December 2007.

LETTER FROM THE BOARD

D. Excluded Overseas Shareholders

Based on the register of members of the Company at present, there are Overseas Shareholders residing in Australia, Canada, China, the United Kingdom, Macau, Malaysia, New Zealand and the United States of America. Pursuant to Rule 13.36(2) of the Listing Rules, the Directors have made enquiries as to whether the issue of the Rights Shares to these Overseas Shareholders may contravene the applicable securities legislation of their respective places of residence or the requirements of the relevant regulatory body or stock exchange.

The Rights Issue will be extended to the Overseas Shareholders in China, Macau, Malaysia, Australia and New Zealand as the Company has sought the relevant legal opinions that no local regulatory compliance is required to be made in these jurisdictions.

The Company has also sought opinions from legal advisers in Canada, the United States of America and the United Kingdom that local legal and regulatory requirements may have to be complied with if the Rights Issue is to be extended to the Shareholders who reside in such jurisdictions. In this connection, the Company has considered that it would be necessary or expedient to exclude the Overseas Shareholder in Canada, the United States of America and the United Kingdom in the Rights Issue due to the time involved and costs incurred in complying with such relevant legal and regulatory requirements. The Company will therefore send the Prospectus, for information only, to such Excluded Overseas Shareholders. In addition, the provisional allotment letter and the form of application for excess Rights Shares will not be sent to the Excluded Overseas Shareholders. The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any of such jurisdictions other than Hong Kong.

Arrangements will be made for those Rights Shares which would otherwise have been provisionally allotted to the Excluded Overseas Shareholders to be sold in the open market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the relevant Excluded Overseas Shareholders in Hong Kong dollars. The Company will retain individual amounts of HK\$100 or less for its own benefit.

E. Subscription Price

The subscription price of HK\$0.22 per Rights Share is payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of the Rights Shares or applies for any excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

LETTER FROM THE BOARD

The Subscription Price represents:

- (i) a discount of approximately 62.07% to the closing price of HK\$0.58 per Adjusted Share, based on the closing price of HK\$0.058 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation;
- (ii) a discount of approximately 45% to the theoretical ex-rights price of approximately HK\$0.40 per Adjusted Share, based on the closing price of HK\$0.058 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation;
- (iii) a discount of approximately 64.17% to the average closing price of approximately HK\$0.614 per Adjusted Share, based on the average closing price of HK\$0.0614 per Share as quoted on the Stock Exchange from 5 November 2007 to 9 November 2007 (both days inclusive), being the last five trading days immediately before the date of the Underwriting Agreement and adjusted for the effect of the Share Consolidation; and
- (iv) a discount of approximately 31.25% to the closing price of HK\$0.32 per Adjusted Share, based on the closing price of HK\$0.032 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter. The Board considers the Subscription Price to be fair and reasonable and to be in the interests of the Company and the Shareholders as a whole on the basis that it is a general market practice to issue rights shares at a discount to the market price of the Shares. The Board also considers that the discount will encourage the existing Shareholders to take up their entitlements, so as to share in the potential growth of the Company.

F. Status of Rights Shares

The Rights Shares, when fully paid and issued, will rank *pari passu* in all respects with the Adjusted Shares then in issue, including the right to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment of the Rights Shares.

G. Share certificates and refund cheques

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully paid Rights Shares are expected to be posted on or before 29 January 2008 to those who have accepted or, where applicable, applied and paid for the Rights Shares at their own risk, and refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before 29 January 2008 by post to the applicants at their own risk.

H. Fractions of Rights Share

The Company will not allot fractions of a Rights Share in nil-paid form to any Shareholders. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market and, if a premium (net of expenses) can be obtained, the Company will keep the proceeds for its own benefit. Any unsold Rights Shares aggregated from fractions of Rights Shares will be available for excess application.

LETTER FROM THE BOARD

I. Application for excess Rights Shares

The Qualifying Shareholders may apply for any unsold entitlements of the Excluded Overseas Shareholders, any unsold Rights Shares created by aggregating fractions of Rights Shares and any Rights Shares provisionally allotted but not accepted.

Application may be made by the Shareholders by completing a prescribed form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares. The Board will allocate the excess Rights Shares at its discretion with reference to the level of acceptance of the Rights Shares and the number of excess Rights Shares available on a fair and reasonable basis on the following principles:

- (1) preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings; and
- (2) subject to availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to Qualifying Shareholders who have applied for excess application based on a pro-rata basis to the excess Rights Shares applied by them, with board lots allocations to be made on best effort's basis.

J. Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully paid forms. Under the Listing Rules, the Rights Issue will be subject to the approval of the Independent Shareholders.

The Rights Shares in their nil-paid form will be traded in board lots of 4,000 Rights Share each. Dealings in the Rights Shares, in both their nil-paid and fully paid forms, will be subject to the payment of stamp duty.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully paid forms to be admitted to CCASS.

K. Closure of register of members

The register of members of the Company will be closed from 21 December 2007 to 28 December 2007 in order to determine the eligibility of the holders of the Adjusted Shares to the Rights Issue. No transfer of any Share will be registered during this period.

L. Underwriting arrangements for the Rights Issue

Pursuant to the Underwriting Agreement, the Underwriter has agreed to underwrite up to 2,273,310,686 Rights Shares. The Underwriter is considered to be a connected person of the Company for the reason that it is an associate of the brother of Mr. Chuang Yueheng, Henry, the chairman of

LETTER FROM THE BOARD

the Company. However, the underwriting arrangement falls within the exemption under Rule 14A.31(3)(c) of the Listing Rules. The Underwriter will receive an underwriting commission of 2.5% on the total amount equal to the Subscription Price multiplied by the total number of the Rights Shares to be underwritten by the Underwriter under the Underwriting Agreement.

The Underwriting Agreement is conditional upon fulfillment of the following conditions:

- (a) the passing of by the Shareholders at the EGM of the special resolution to approve the Capital Reorganization;
- (b) the passing of the Independent Shareholders at the EGM of an ordinary resolution to approve the Rights Issue;
- (c) the Capital Reorganization becoming effective;
- (d) the obligations of the Underwriter under the Underwriting Agreement not being terminated in accordance with the terms thereof;
- (e) the delivery to the Stock Exchange and registration by the Registrar of Companies of one copy of each of the Prospectus Documents duly signed by all the Directors (or by their agents duly authorized in writing) as having been approved by a resolution of the Directors (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and in compliance with the Listing Rules and the Companies Ordinance;
- (f) the posting of the Prospectus Documents to the Qualifying Shareholders on the Prospectus Posting Date; and
- (g) the Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked the listing of and permission to deal in all the Rights Shares, in both nil-paid and fully paid forms, prior to the Prospectus Posting Date.

If at any time on or before 6:00 p.m. on the second business day following the Acceptance Date:

- (a) there occurs any new regulation or any change in the existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (b) there occurs any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, or after the date hereof, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

LETTER FROM THE BOARD

- (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (d) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities) which, in the reasonable opinion of the Underwriter, makes it inexpedient or inadvisable to proceed with the Rights Issue;

then in any such case the Underwriter may, after consultation with the Company or its advisers as the circumstances shall admit, by notice in writing to the Company rescind the Underwriting Agreement, whereupon all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and the Rights Issue shall not proceed.

M. Warning of the risks of dealing in the Shares and nil-paid Rights Shares

The Rights Issue is conditional upon, among other things, the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms referred to under the section headed “Underwriting Arrangements for the Rights Issue” above. If the Underwriting Agreement does not become unconditional or is terminated, the Rights Issue will not proceed.

The Shareholders should note that the Shares will be dealt in on an ex-entitlement basis commencing from 19 December 2007 and that dealings in the Shares and Rights Shares in nil-paid form will take place while the conditions to which the Rights Issue is subject remain unfulfilled. Any Shareholder or other person dealing in the Shares or Rights Shares in nil-paid form up to the date on which all conditions to which the Rights Issue is subject remain unfulfilled will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. If any Shareholder or other person who is contemplating selling or purchasing the Shares and the Rights Shares in nil-paid form is in any doubt about his position, he is recommended to consult his own professional adviser.

N. Expected timetable for the Rights Issue

The expected timetable for the Rights Issue is set out below:

Last day of dealings in the Shares on a cum-rights basis Tuesday, 18 December 2007

First day of dealings in the Shares on an ex-rights basis Wednesday, 19 December 2007

Latest time for lodging transfers of the Shares in order
to qualify for the Rights Issue 4:30 p.m., Thursday, 20 December 2007

Latest time for lodging subscription money accompanied
by the relevant warrant certificates in order
to qualify for the Rights Issue 4:30 p.m., Thursday, 20 December 2007

LETTER FROM THE BOARD

Closure of register of members	Friday, 21 December 2007 to Friday, 28 December 2007 (both dates inclusive)
Latest time for return of proxy form for the EGM	9:00 a.m., Wednesday, 26 December 2007
EGM	9:00 a.m., Friday, 28 December 2007
Record Date	Friday, 28 December 2007
Effective date of the Capital Reorganization	Monday, 31 December 2007
Despatch of the Prospectus Documents by post	Monday, 31 December 2007
Commencement of dealings in the Adjusted Shares	Monday, 31 December 2007
Free exchange of existing share certificates for new share certificates commences	Monday, 31 December 2007
Temporary counter for trading in the Adjusted Shares in board lots of 400 each (in the form of existing certificates) opens	9:30 a.m., Monday, 31 December 2007
Existing counter for trading in the Shares (in board lots of 4,000 Shares each) closes	9:30 a.m., Monday, 31 December 2007
Register of members re-opens	Monday, 31 December 2007
First day of dealings in nil-paid Rights Shares	Monday, 7 January 2008
Latest time for splitting of nil-paid Rights Shares	4:30 p.m., Monday, 14 January 2008
Existing counter for trading in the Adjusted Shares in board lots of 4,000 each (in the form of new certificates) re-opens	9:30 a.m., Tuesday, 15 January 2008
Parallel trading in the Adjusted Shares begins (in the form of new and existing certificates)	9:30 a.m., Tuesday, 15 January 2008
Designated broker starts to stand in market to provide matching services	Tuesday, 15 January 2008
Last day of dealings in nil-paid Rights Shares	Thursday, 17 January 2008
Latest time for acceptance of the Rights Shares as well as application for excess Rights Shares and payment of consideration therefor	4:00 p.m., Tuesday, 22 January 2008

LETTER FROM THE BOARD

- Latest time for completion of the Rights Issue and
the Underwriting Agreement to become unconditionalafter 6:00 p.m., Thursday, 24 January
2008
- Announcement of results of acceptance of the Rights IssueTuesday, 29 January 2008
- Despatch of refund cheques in respect of wholly or
partially unsuccessful excess applications by postTuesday, 29 January 2008
- Despatch of certificates for fully paid Rights Shares
by postTuesday, 29 January 2008
- Commencement of dealings in fully paid Rights SharesThursday, 31 January 2008
- Temporary counter for trading in the Adjusted Shares
in board lots of 400 each
(in the form of existing certificates) closes4:00 p.m., Tuesday, 5 February 2008
- Parallel trading in the Adjusted Shares ends
(in the form of new and existing certificates)4:00 p.m., Tuesday, 5 February 2008
- Designated broker ceases to stand in the market
to provide matching services4:00 p.m., Tuesday, 5 February 2008
- Free exchange of existing share certificates for new share
certificates endsTuesday, 12 February 2008

O. **Adjustment**

The Right Issue is expected to give rise to an adjustment to the subscription price under the Warrants. Details of the adjustments will be announced in due course.

LETTER FROM THE BOARD

IV. EFFECTS ON SHAREHOLDING

The effects of the Rights Issue on the shareholding of the Company are as follows:

	Shareholding immediately before Capital Reorganization		Shareholding after Capital Reorganization but before Rights Issue		Shareholding after Capital Reorganization and Rights Issue (assuming all Shareholders take up their entitlements)		Shareholding after Capital Reorganization and Rights Issue of 1,517,931,298 Rights Shares (assuming no Shareholders take up their entitlements)		Shareholding after Capital Reorganization and Rights Issue of 2,273,310,686 Rights Shares (assuming no Shareholders take up their entitlements)	
	No. of Shares	Approximate %	No. of Adjusted Shares	Approximate %	No. of Adjusted Shares	Approximate %	No. of Adjusted Shares	Approximate %	No. of Adjusted Shares	Approximate %
Substantial Shareholder										
Unity Investments Holdings Limited										
Unity Investments Holdings Limited	850,000,000	5.6	85,000,000	5.6	170,000,000	5.6	85,000,000	2.8	85,000,000	1.9
Public	14,329,312,980	94.4	1,432,931,298	94.4	2,865,862,596	94.4	1,432,931,298	47.2	1,432,931,298	31.5
Holder of options	—	—	—	—	—	—	—	—	151,793,129 <i>(Note 1)</i>	3.3
Holder of Warrants	—	—	—	—	—	—	—	—	300,000,000 <i>(Note 2)</i>	6.6
Allottee under General Mandates	—	—	—	—	—	—	—	—	303,586,259 <i>(Note 3)</i>	6.7
Underwriter and/or sub-underwriters <i>(Notes 4 and 5)</i>	—	—	—	—	—	—	1,517,931,298	50.0	2,273,310,686	50.0
Total	15,179,312,980	100.0	1,517,931,298	100.0	3,035,862,596	100.0	3,035,862,596	100.0	4,546,621,372	100.0

Notes:

- The Company is permitted under the Scheme Mandate Limit as refreshed on 10 September 2007 to grant options to subscribe for a maximum of 1,517,931,298 Shares (before the Capital Reorganization) or 151,793,129 Adjusted Shares (after the Capital Reorganization). Assuming that the aforesaid options are granted and exercised in full and the maximum number of the Shares to be issued pursuant to such options are issued and allotted on or prior to the Record Date, the number of the Rights Shares to be issued under the Rights Issue will be increased by 151,793,129 Rights Shares.
- Assuming that the subscription rights conferred upon the holders of the 3,000,000,000 Warrants are exercised in full and the maximum number of the Shares to be issued pursuant to the Warrants are issued and allotted on or prior to the Record Date, the number of the Rights Shares to be issued under the Rights Issue will be increased by 300,000,000 Rights Shares.
- Assuming that new Shares are to be issued and allotted pursuant to the General Mandates in full on or prior to the Record Date, the number of the Rights Shares to be issued under the Rights Issue will be increased by 303,586,259 Rights Shares.
- To the best knowledge of the Company, the Underwriter and the sub-underwriters will not individually own more than 10% of the issued share capital of the Company after completion of the Rights Issue unless the Underwriter and the sub-underwriters are required to take up the Rights Shares under their underwriting commitments.

LETTER FROM THE BOARD

5. The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Underwriting Agreement to sub-underwriters such that each of the Underwriter and the sub-underwriters will not individually own more than 30% of the issued share capital of the Company immediately after completion of the Rights Issue.

V. FUND-RAISING ACTIVITIES BY THE COMPANY DURING THE PAST 12 MONTHS

Date of announcement	Date of mandates granted	Nature of transaction	Places/subscriber/allottee	Net proceeds raised (approximately)	Number of Shares issued	Approximate % of the total issued share capital of the Company as at the Latest Practicable Date	Intended use of proceeds	Use of proceeds according to the intended use	Use of proceeds other than the intended use
5 December 2006	N/A	Placing of convertible notes with principal amount of up to HK\$150 million	Independent third parties	HK\$146 million	1,500,000,000	9.9%	To be used for general working capital purposes, possible investments in the PRC in the natural resources sectors and other sectors	HK\$146 million — general working capital	Nil
26 February 2007	30 May 2006	Placing of 684,000,000 new Shares	Independent third parties	HK\$80 million	684,000,000	4.5%	To be used for general working capital and/or possible investment in the future	HK\$80 million — general working capital	Nil
12 March 2007	N/A	Placing of convertible notes with principal amount of HK\$200 million	Independent third parties	HK\$195 million	2,000,000,000	13.2%	To be used for general working capital and/or other possible investments in the future	HK\$57.8 million — acquisition of property interest (details of which were set out in the announcement of the Company dated 12 April 2007)	Nil
								HK\$88 million — acquisition of property interest (details of which were set out in the announcement of the Company dated 15 June 2007)	
								HK\$10 million — other investments	
								HK\$39.2 million — general working capital	
27 March 2007	26 March 2007	Placing of 1,189,000,000 new Shares	Independent third parties	HK\$127 million	1,189,000,000	7.8%	To be used for general working capital and/or possible investment in the future	HK\$61 million — investment properties and other investments	Nil
								HK\$66 million — general working capital	

LETTER FROM THE BOARD

Date of announcement	Date of mandates granted	Nature of transaction	Places/ subscriber/ allottee	Net proceeds raised (approximately)	Number of Shares issued	Approximate % of the total issued share capital of the Company as at the Latest Practicable Date	Intended use of proceeds	Use of proceeds according to the intended use	Use of proceeds other than the intended use
6 June 2007	30 May 2007	Placing of 1,946,218,000 new Shares	Independent third parties	HK\$239 million	1,946,218,000	12.8%	To be used for general working capital and/or possible investment in the future	HK\$39.50 million — general working capital HK\$136 million — acquisition of 100% interest in Allied Loyal International Investments Limited (details of which were set out in the announcement of the Company dated 28 June 2007) HK\$63.50 million — investment properties and other investments	Nil
5 July 2007	4 July 2007	Placing of 2,335,000,000 new Shares	Independent third parties	HK\$252 million	2,335,000,000	15.4%	To be used for general working capital and/or possible investment in the future	HK\$156 million — general working capital HK\$57 million — other investments in artworks HK\$39 million — not yet utilized as at the Latest Practicable Date and to be utilized as per the intended use of proceeds	Nil
3 August 2007	N/A	Placing of 3,000,000,000 Warrants at an issue price of HK\$0.025	Independent third parties	HK\$71 million	N/A	N/A	To be used for general working capital and/or other investments in the future	HK\$71 million — not yet utilized as at the Latest Practicable Date and to be utilized as per the intended use of proceeds	Nil

The proceeds set out above utilized as working capital were for the business operations of the Company and include the trading of investments (sale and purchase of securities) and provision of loan financing. The Directors consider that it is prudent to finance the Group's long-term growth by the significant amount of funding described above, preferably in the form of equity which will not increase the Group's finance costs.

LETTER FROM THE BOARD

VI. REASONS FOR THE RIGHTS ISSUE AND APPLICATION OF PROCEEDS OF THE RIGHTS ISSUE

Despite a significant amount of cash on hand in the Company as a result of the unutilized proceeds raised from the last two fund-raising activities and disposal of its interest in Amerinvest Coal Industry Holding Company Limited (particulars thereof are described in paragraph (28) headed “Material Contracts” in Appendix III hereto), the Board considers that the Rights Issue will enable the Group to strengthen its capital base and to enhance its financial position and will hence allow all Shareholders the opportunity to participate in the growth of the Company. Since the Rights Issue will allow the Qualifying Shareholders to maintain their proportional shareholdings in the Company, the Board considers that raising capital through the Rights Issue to provide available funds for future investment by the Company is in the interests of the Company and the Shareholders as a whole.

The estimated net proceeds of the Rights Issue will be approximately HK\$323 million (assuming no further Shares will be issued on or prior to the Record Date) or HK\$485 million (assuming options are granted and exercised to the fullest extent possible and full exercise of the subscription rights attached to the Warrants on or prior to the Record Date as well as allotment pursuant to the General Mandates to the fullest extent) after taking into account the commission to be paid to the Underwriter, professional fees and administration expenses relating to the completion of the Rights Issue. The Company intends to apply such net proceeds for expanding the Group’s businesses in natural resources, energy and property investment sectors as disclosed by the Company in its annual report for the year ended 31 December 2006 and its interim report for the six months ended 30 June 2007. As at the Latest Practicable Date, there is no specific investments identified by the Company.

Further, the Company is still negotiating with the relevant parties in relation to the possible expansion into such sectors and will make further announcement once the material terms are finalized. If such opportunity does not materialize, the net proceeds of the Rights Issue will be applied towards the general working capital of the Group.

VII. BUSINESS OF THE GROUP

The Group is principally engaged in the business of property investment, investment in securities trading, money lending, investing in energy related businesses and acquiring, exploring and developing natural resources. The Group remains focusing mainly on the businesses of property investment, natural resources and energy related segments as disclosed in the latest annual report and interim report of the Company. Since the Board regards the natural resources and energy sectors as the major and critical development in the PRC with potential for tremendous growth, the Board continues its strategies to explore opportunities in these areas. In addition, the Board considers that property market in Hong Kong will become stable with an upward trend, especially for luxury properties and will strive to build up its property portfolio and prepare to lease out the properties so as to provide a stable source of rental income to the Company. Since 2007, the Company has acquired several investment properties through its subsidiaries.

LETTER FROM THE BOARD

In January 2006, the Group entered into an agreement with Mr. Wang Sing (former CEO and executive director of TOM Group Limited) for the acquisition of 25% of Amerinvest Coal Industry Holding Company Limited (“Amerinvest”) through a placement of shares and thus making Mr. Wang Sing a strategic investor of the Company. In March 2006, the Group further acquired an additional 25% of Amerinvest. Amerinvest is a company that invests in the West China Coking Project in the Yunnan Province in the PRC. On 5 September 2007, the Company made an announcement in relation to the disposal of its 50% interest in Amerinvest. The completion of disposal of the 50% interest in Amerinvest took place on 5 October 2007 and a total consideration of US\$12,190,032.50 was received.

In June 2007, Richful Zone International Limited, an indirect wholly-owned subsidiary of the Company entered into an agreement to acquire 100% equity interest in Allied Loyal International Investments Limited (“Allied Loyal”) for a total consideration of HK\$136 million in cash. The principal asset of Allied Loyal is a 50% of the forestry lands use rights (林地使用權) and forestry trees entitlement (林木所有權) of the forests granted by 雲南省普洱市翠雲區人民政府 in Simao District (思茅區), Puer City (普洱市), Yunnan Province, the PRC.

In April 2007, the Company announced that it would incorporate a wholly-owned subsidiary, Cordoba Homes Limited, as the holding company for its property investments including but not limited to acquiring House No.6, Somerset Path, The Royal Oaks, 8 Kam Tsin South Road, Sheung Shui for a consideration of HK\$57.8 million in cash. In June 2007, the Company announced that it would acquire a property located at Unit 1, Sunshine Villa, No. 48 Mount Kellett Road, The Peak, Hong Kong for a consideration of HK\$88 million in cash.

The above sets out the major developments of the Group in 2007 and the Company would from time to time review and explore potential investments in property, energy and natural resources related projects in order to strengthen the financial position of the Group.

VIII. NOTICE OF EGM

A notice of the EGM is set out on pages 105 to 107 of this circular. A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish. In the event that you attend the EGM after having lodged the proxy form, such proxy form will be deemed to have been revoked.

LETTER FROM THE BOARD

IX. PROCEDURES FOR DEMANDING A POLL

Pursuant to the article 81 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:-

1. by the chairman of such meeting; or
2. by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or
3. by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
4. by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting, being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

X. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 28 of this circular and the letter of advice from Vinco to the Independent Board Committee and Independent Shareholders in connection with the Rights Issue and the principal factors and reasons considered by them in arriving at such advice as set out on pages 29 to 42 of this circular.

The Board considers that the resolutions in relation to the Capital Reorganization and the Rights Issue are in the interests of the Company and its Shareholders as a whole, and, accordingly, the Board recommends the Shareholders to vote in favour of these resolutions to be proposed at the EGM.

XI. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

By Order of the Board
Willie International Holdings Limited
Chuang Yueheng, Henry
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



WILLIE INTERNATIONAL

Willie International Holdings Limited

威利國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

(Warrant Code: 614)

**(1) PROPOSED CAPITAL REORGANIZATION;
(2) PROPOSED RIGHTS ISSUE OF NEW SHARES ON THE BASIS
OF ONE RIGHTS SHARE FOR EVERY ADJUSTED SHARE HELD
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular dated 5 December, 2007 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board to advise the Independent Shareholders as to whether the proposed Right Issues are fair and reasonable as far as the interests of the Company and the Shareholders taken as a whole are concerned.

We wish to draw your attention to the letter from the Board as set out on pages 7 to 27 of the Circular and the letter from Vinco as set out on pages 29 to 42 of the Circular which contains, inter alia, its advice and recommendation to us and to the Independent Shareholders regarding the terms and conditions of the Right Issues, with the principal factors and reasons for its advice and recommendation set out in that letter.

Having taken into account the advice and recommendation of Vinco, we consider that the terms and conditions of the Right Issues are in the interests of the Company and the Shareholders as a whole and the Right Issues are conducted on terms that are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution numbered 2 to be proposed at the EGM for the approval of the terms and conditions of the Right Issues.

Yours faithfully,
For and on behalf of
Independent Board Committee
Mr. Nakajima Toshiharu, Ms. Lin Wai Yi,
Mr. Shum Ming Choy and
Mr. Yau Yan Ming, Raymond
Independent non-executive Directors

LETTER FROM GRAND VINCO CAPITAL LIMITED

The following is the text of a letter of advice from Grand Vinco Capital Limited to the Independent Board Committee and the Independent Shareholders in connection with the proposed Rights Issue which has been prepared for the purpose of incorporation in this circular:



**Grand Vinco Capital Limited
Unit 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong**

5 December 2007

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

Dear Sirs,

PROPOSED RIGHTS ISSUE OF NEW SHARES ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY ADJUSTED SHARE HELD

A. INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed Rights Issue, details of which are set out in the "Letter from the Board" in the circular (the "Circular") issued by the Company to the Shareholders dated 5 December 2007 of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 15 November 2007, the Company made an announcement to propose the Rights Issue of not less than 1,517,931,298 Rights Shares and not more than 2,273,310,686 Rights Shares in the proportion of one Rights Share for every Adjusted Share held by Qualifying Shareholders at the Subscription Price of HK\$0.22 per Rights Share, in order to raise, after expenses, not less than approximately HK\$323 million but not more than approximately HK\$485 million.

The Company intends to apply the net proceeds of the Rights Issue for expanding the Group's business in natural resources, energy and property investment sectors (as disclosed by the Company in its annual report for the year ended 31 December 2006 and its interim report for the six months ended 30 June 2007) and/or general working capital of the Group in the event that possible investment opportunities of the Group under negotiation do not materialize.

In accordance with Rule 7.19(6) & (8) of the Listing Rules, the Rights Issue is conditional upon, among other things, approvals by the Independent Shareholders at the EGM by a resolution on which

LETTER FROM GRAND VINCO CAPITAL LIMITED

any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue.

The Independent Board Committee, comprising Mr. Nakajima Toshiharu, Ms. Lin Wai Yi, Mr. Shum Ming Choy and Mr. Yau Yan Ming, Raymond, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders on the terms of the Rights Issue. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the terms of the Rights Issue are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and whether the Independent Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue.

B. BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

LETTER FROM GRAND VINCO CAPITAL LIMITED

In formulating our opinion, we have not considered the taxation implications on Independent Shareholders in relation to the subscription for, holding or disposal of the Rights Shares or otherwise, since these are particular to their individual circumstances. It is emphasized that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Rights Shares or otherwise. In particular, Independent Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the proposed Rights Issue and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, we have considered the principal factors and reasons set out below:

The Proposed Rights Issue

1. *Background information of the Company*

The Group is principally engaged in the business of property investment, investment in securities trading, money lending, investing in energy related businesses and acquiring, exploring and developing natural resources.

Set out below is a summary of the financial performance of the Group for the three years ended 31 December 2004, 2005 and 2006:

	Year ended 31 December		
	2006	2005	2004
	HK\$'000	HK\$'000	HK\$'000
Turnover	295,508	124,477	92,744
Loss before taxation	(114,761)	(131,715)	(336,868)
Loss after taxation	(114,761)	(131,715)	(336,868)
Loss for the year	(114,761)	(131,715)	(336,868)
Non-current assets	128,295	277,733	232,220
Current assets	232,856	66,464	53,715
Non-current liabilities	15,788	13,770	23,451
Current liabilities	15,749	18,860	171,033
Equity holders' fund	329,614	311,567	91,451

LETTER FROM GRAND VINCO CAPITAL LIMITED

We noted that the turnover of the Group experienced a 218.6% growth from 2004 to 2006. The net loss of the Group has also been improving from 2004 to 2006 from a net loss of approximately HK\$337 million in 2004 to a net loss of approximately HK\$115 million.

During the past twelve months, the Company conducted seven fund-raising activities for approximately HK\$1,110 million, which the Company raised (i) approximately HK\$341 million by two placing of convertible notes to independent third parties; (ii) approximately HK\$698 million by four placing of new Shares to independent third parties; and (iii) approximately HK\$71 million by one placing of warrants to independent third parties. We noted that (i) approximately HK\$526.7 million, representing approximately 47.45% of the total fund raised, was applied as general working capital; (ii) approximately HK\$473.3 million, representing approximately 42.64% of the total fund raised, was applied for various investments of the Group; and (iii) approximately HK\$110 million, representing approximately 9.91% of the total fund raised, was not yet utilized as at the Latest Practicable Date. Details of which are listed in the Letter from the Board.

There are still approximately HK\$110 million of funds remained unutilized as at the Latest Practicable Date. However, Independent Shareholders should note that there is no certainty that such cash resources will be adequate for possible investments that may be finalized or identified by the Company in the future. In the event that the Group finalized a suitable investment opportunity and does not have sufficient cash resources on hand, or it cannot find other alternatives to finance the acquisition of such investment opportunity in a timely manner, the Group may lose its bid in an otherwise favourable investment.

Save for the foregoing, no other fund-raising activities took place within twelve-month period up to and including the Latest Practicable Date.

Having taken into account, (i) the improving financial performance of the Group from 2004 to 2006; and (ii) active successful fund-raising activities conducted by the Group, we are of the view that the Company has made effort in improving the financial position through applying the fund raised for investment purposes and general working capital in a timely and appropriate manner. As such, we are of the view that the implementation of the Rights Issue is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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

As set out in the Letter from the Board, the Company intends to apply the net proceeds of the Rights Issue for expanding the Group's business in natural resources, energy and property investment sectors (as disclosed by the Company in its annual report for the year ended 31 December 2006 and its interim report for the six months ended 30 June 2007) and/or general working capital of the Group in the event that possible investment opportunities of the Group under negotiation do not materialize. The Company is still negotiating with the relevant parties in relation to the possible expansion into such sectors. We are of the view that the proposed use of proceeds from the Rights Issue is in line with the business development of the Group and in the interests of the Company and Independent Shareholders as a whole.

LETTER FROM GRAND VINCO CAPITAL LIMITED

The Rights Issue, which is on an underwritten basis, will remove a certain degree of uncertainty as compared to best-efforts placing. In addition, the Rights Issue will not incur burden on interest expenses to the Group as compared to bank borrowing. As such, we are of the view that the Rights Issue is a preferred source of financing over the aforementioned alternatives.

We have also considered that the Rights Issue will (i) strengthen the Group's capital base and enhance its financial position, so as to allow the Group to seize good business opportunities in natural resources, energy and property investment sectors with immediately available fund when appropriate chance arises; (ii) allow the Qualifying Shareholders to maintain their respective pro rata shareholding interest and an equal opportunity to participate in the enlargement of the capital base of the Company; and (iii) the Rights Issue is a preferred source of financing over other alternative fund-raising methods, we are of the view that raising funds by means of a rights issue is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

3. *Pricing for the Rights Issue*

The Subscription Price is HK\$0.22 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its relevant provisional allotments of the Rights Issue or applies for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Right Shares. The Subscription Price represents:

- (i) a discount of approximately 62.07% to the closing price of HK\$0.58 per Adjusted Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 31.25% to the closing price of HK\$0.32 per Adjusted Share quoted on the Stock Exchange on the Last Practicable Date;
- (iii) a discount of approximately 45.00% to the theoretical ex-rights price of HK\$0.40 per Adjusted Share based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (iv) a discount of approximately 64.17% to the average closing price of HK\$0.614 per Adjusted Share as quoted on the Stock Exchange from 5 November 2007 to 9 November 2007, both days inclusive, being the last five trading days immediately before the date of the Underwriting Agreement and adjusted for the effect of the Share Consolidation.

As stated in the Letter from the Board, the Subscription Price has been determined based on arm's length negotiation between the Company and the Underwriter.

LETTER FROM GRAND VINCO CAPITAL LIMITED

To assess as to the fairness and reasonableness of the Rights Issue, we have reviewed and included below all the companies (the “Comparables”) listed on the main board of The Stock Exchange which have announced rights issue during the last six months preceding the date of the Announcement (the “Review Period”) as follows:

Company name	Stock code	Date of announcement	Basis of entitlement	Underwriting commission	Discount / (premium) of the subscription price to the closing price of last trading day prior to the date of announcement	Discount / (premium) of the subscription price to the theoretical ex-right price of last trading day prior to the date of announcement
TCL Multimedia Technology Holdings Limited	1070	15-May-07	1 for 2	N/A	37.50%	28.60%
Kingway Gewery Holdings Limited	124	16-May-07	2 for 9	3.70%	25.50%	21.90%
Cheong Ming Investments Limited	1196	25-May-07	1 for 4	2.50%	44.44%	34.80%
Sino Katalysts Investment Corporation	2324	12-Jun-07	1 for 2	2.50%	28.00%	20.60%
Asia Orient Holdings Limited	214	13-Jun-07	1 for 2	2.00%	42.20%	32.60%
National Investments Funs Limited	1227	21-Jun-07	12 for 1	2.25%	91.94%	46.70%
SunCorp Technologies Limited	1063	26-Jun-07	3 for 10	N/A	26.92%	22.08%
Matsunichi Communication Holdings Limited	283	28-Jun-07	1 for 2	N/A	10.00%	6.30%
Century Legend (Holdings) Limited	79	3-Jul-07	1 for 5	2.50%	61.00%	51.00%
Shangri-La Asia Limited	69	3-Jul-07	1 for 9	1.00%	4.80%	4.30%
The Sun’s Group Limited	988	6-Jul-07	1 for 2	1.50%	69.70%	60.50%
Sino Technology Investments Company Limited	1217	16-Aug-07	10-for-1	2.11%	87.30%	33.33%
New Heritage Holdings Ltd.	95	17-Aug-07	3 for 8	1.25%	14.75%	11.86%
Heritage International Holdings Limited	412	27-Aug-07	1 for 2	2.25%	13.79%	9.09%
China Star Entertainment Limited	326	30-Aug-07	1-for-2	2.50%	17.36%	12.28%
See Corporation Limited	491	13-Sep-07	2-for-1	2.50%	52.90%	27.30%
Angang Steel Company Limited (H share)	347	29-Sep-07	2.2-for-10	N/A	47.10%	42.20%

LETTER FROM GRAND VINCO CAPITAL LIMITED

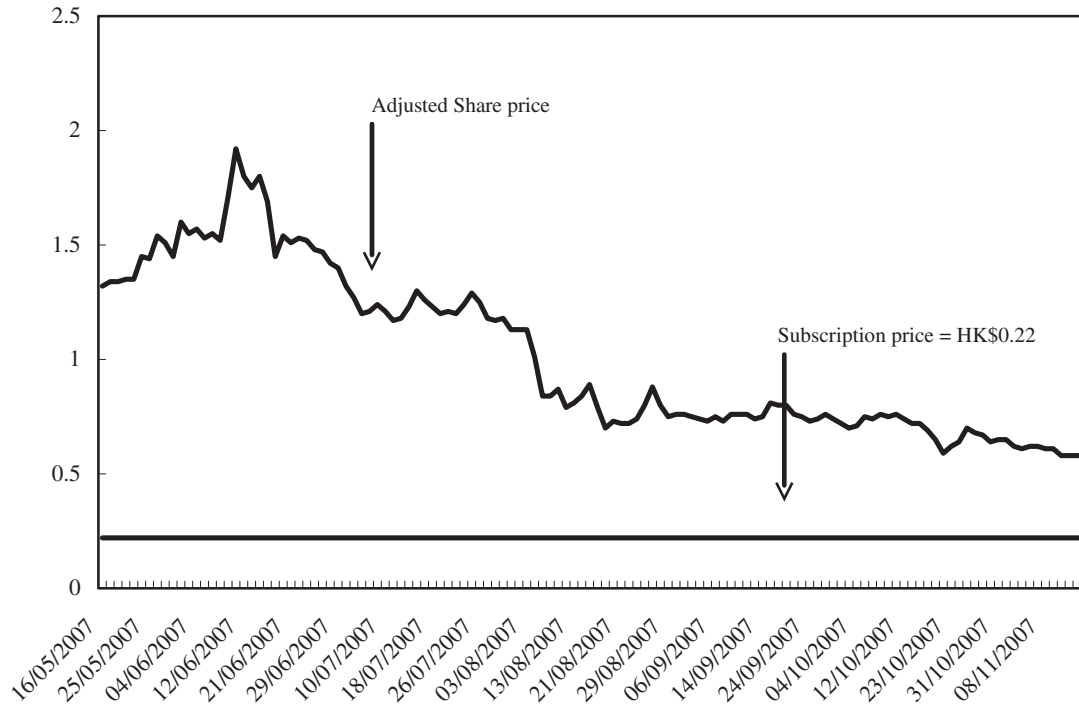
Company name	Stock code	Date of announcement	Basis of entitlement	Underwriting commission	Discount / (premium) of the subscription price to the closing price of last trading day prior to the date of announcement	Discount / (premium) of the subscription price to the theoretical ex-right price of last trading day prior to the date of announcement
GFT Holdings Limited	1003	10-Oct-07	3-for-1	2.50%	61.62%	28.64%
Karrie International Holdings Limited	1050	11-Oct-07	4-for-10	Nil	27.18%	21.05%
Radford Investment Company Limited	901	25-Oct-07	3-for-2	2.00%	45.05%	24.70%
Sun Man Tai Holdings Company Limited	433	29-Oct-07	1-for-2	1.00%	54.20%	43.93%
			Max.	3.70%	91.94%	60.50%
			Min.	Nil	4.80%	4.30%
			Mean	2.13%	41.11%	27.80%
The Company	273	15-Nov-07	1-for-1	2.50%	62.07%	45.00%

Source: Stock Exchange

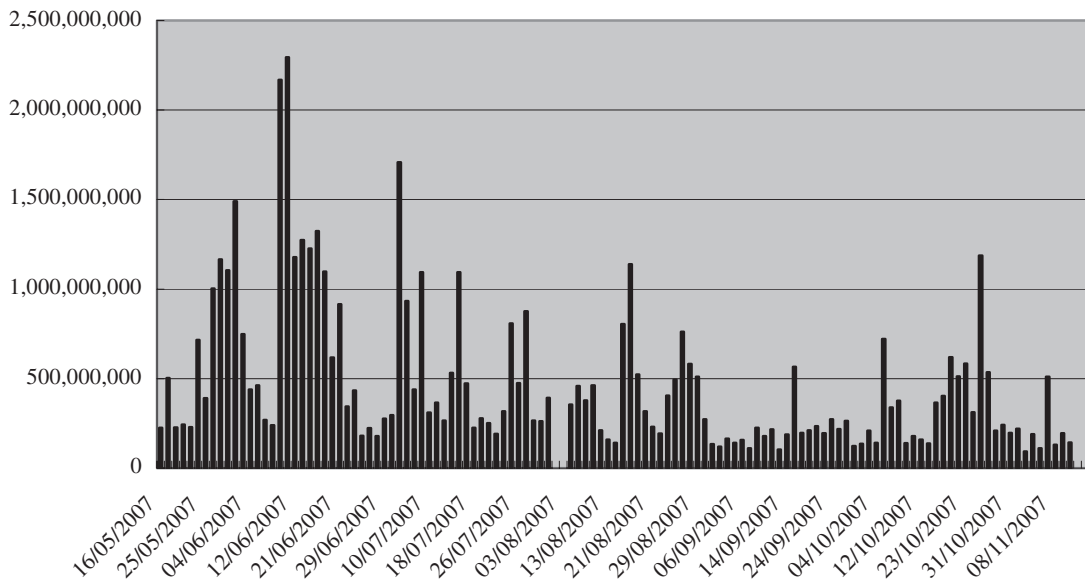
Based on the above table, we noted that (i) the subscription prices to the closing price on the last trading day prior to the dates of announcement of the Comparables ranged from a discount of approximately 4.80% to 91.94%, with the mean at discount of approximately 41.11%. The discount of the Subscription Price of the Rights Issue to the closing price of the Shares on the Last Trading Day is approximately 62.07%, which is deeper than the mean but falls within the range of the Comparables; and (ii) the subscription prices to the theoretical ex-rights prices per share based on the last trading day prior to the dates of announcement in relation to the Comparables ranged from a discount of 4.30% to a discount of 60.50%, with the mean at discount of approximately 27.80%. The discount of the subscription price of the Rights Issue to the theoretical ex-rights price per Share of approximately 45.00%, based on the closing price of the Shares on the Last Trading Day, is deeper than the mean but falls within the range of the Comparables.

LETTER FROM GRAND VINCO CAPITAL LIMITED

Set out below are the graph of daily closing price (adjusted for the proposed Capital Reorganization) and the daily trading volume of the Shares under the Review Period:



Source: Stock Exchange



Source: Stock Exchange

LETTER FROM GRAND VINCO CAPITAL LIMITED

We noted that the daily closing price of the Adjusted Shares has experienced a downward trend since June 2007 during the Review Period and thus the Subscription Price represents a discount over the closing price of the Adjusted Shares throughout the Review Period. In addition, the average daily trading volume in the Shares during the Review Period was 448,833,224 Shares per trading day, which represents approximately 2.96% of the entire issued share capital of the Company as at the Latest Practicable Date. We are of the view that the liquidity in trading of the Shares under the Review Period is low.

Based on the aforesaid, although the subscription price of the Rights Issue represents a relatively deeper discount to the relevant means of the closing prices on the Last Trading Day and the theoretical ex-rights prices per share, they are still within the range of the Comparables. We also consider (i) the weak performance in the price of the Shares; (ii) the low liquidity in the trading of the Shares under the Review Period; and (iii) the common practice by the Comparables to set their subscription prices of their rights issues at a discount rate to the prevailing market prices of the relevant shares before the relevant announcements. As such, we are of the view that the Subscription Price of the Rights Issue is in line with market practice and is fair and reasonable, and thus is in the interests of the Company and the Independent Shareholders as a whole.

4. *Application for excess Rights Shares*

As stated in the Letter from the Board, Qualifying Shareholders will be given the right to apply for any unsold entitlements of the Excluded Shareholders; or any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders; or any unsold Rights Shares arising from the aggregation of fractional entitlements.

Application can be made by completing a prescribed form of application and lodging the same with appropriate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis and will give preference to topping up odd lots to whole board lots.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the application for excess Rights Shares will not be extended to beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

After reviewing the circulars of the Comparables, we noted that the above practices are in line with market practice. Based on the foregoing, we are of the view that such arrangement is fair and reasonable to the Company and the Independent Shareholders as a whole.

5. *Underwriting Agreement*

The Rights Issue is subject to the Underwriting Agreement, the Underwriter has agreed to underwrite up to 2,273,310,686 Rights Shares.

LETTER FROM GRAND VINCO CAPITAL LIMITED

In addition, based on the Underwriting Agreement, the Company will pay the Underwriter an overall underwriting commission of 2.5% of the Subscription Price. The Comparables showed a range of nil to 3.70% of underwriting commission with a mean of 2.13%. On this basis, we noted the underwriting commission charged by the Underwriter to the Company is higher than the mean of the Comparables, yet still within range of the Comparables. As such, we are of the view that the underwriting commission charged by the Underwriter is under normal commercial terms and is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

6. *Termination of the Underwriting Agreement*

It also should be noted that the Rights Issue would not proceed if the Underwriter exercise their termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are included in the Letter from the Board. After reviewing the circulars of the Comparables, we consider such provisions are on normal commercial terms and in line with the market practice.

7. *Dilution effect of the Rights Issue on shareholding interests*

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

For those Qualifying Shareholders who do not exercise their rights to subscribe for the Rights Shares in full, depending on the extent that they accept their entitlements, their shareholding interests will be diluted up to a maximum of approximately 62.88%. However, it should be noted that such Shareholders will have the opportunity to realize their nil-paid rights to subscribe for the Rights Shares (the “Nil-Paid Rights”) on the market during the dealing of Nil-Paid Rights on the Stock Exchange, subject to the then prevailing market conditions.

Meanwhile, Qualifying Shareholders who wish to increase their shareholdings in the Company through the Rights Issue may, subject to availability, acquire additional Nil-Paid Rights in the market. The Qualifying Shareholders may also apply for excess Rights Shares.

We are of the view that the arrangement for the Rights Issue is in line with recent market practice for rights issue and are able to cater for different objective for the Qualifying Shareholders.

LETTER FROM GRAND VINCO CAPITAL LIMITED

The shareholding structure before and after the Rights Issue is illustrated as below:

	Shareholding immediately before Capital Reorganization		Shareholding after Capital Reorganization but before Rights Issue		Shareholding after Capital Reorganization and Rights Issue (assuming all Shareholders take up their entitlements)		Shareholding after Capital Reorganization and Rights Issue of 1,517,931,298 Rights Shares (assuming no Shareholders take up their entitlements)		Shareholding after Capital Reorganization and Rights Issue of 2,273,310,686 Rights Shares (assuming no Shareholders take up their entitlements)	
	Approximate Shares	%	Approximate Shares	%	Approximate Shares	%	Approximate Shares	%	Approximate Shares	%
Substantial Shareholder:										
Unity Investments Holdings Limited	850,000,000	5.60%	85,000,000	5.60%	170,000,000	5.60%	85,000,000	2.80%	85,000,000	1.87%
Other Shareholders:										
The Underwriter and/or sub-underwriters (Note 4 and 5)	—	—	—	—	—	—	1,517,931,298	50.00%	2,273,310,686	50.00%
Holder of options	—	—	—	—	—	—	—	—	151,793,129 (Note 1)	3.34%
Holder of Warrants	—	—	—	—	—	—	—	—	300,000,000 (Note 2)	6.60%
Allotee under the General Mandate	—	—	—	—	—	—	—	—	303,586,259 (Note 3)	6.68%
Other public Shareholders	14,329,312,980	94.40%	1,432,931,298	94.40%	2,865,862,596	94.40%	1,432,931,298	47.20%	1,432,931,298	31.51%
Total	15,179,312,980	100.00%	1,517,931,298	100.00%	3,035,862,596	100.00%	3,035,862,596	100.00%	4,546,621,372	100.00%

Note:

- The Company is permitted under the Scheme Mandate Limit as refreshed on 10 September 2007 to grant options to subscribe for a maximum of 1,517,931,298 Shares (before the Capital Reorganization) or 151,793,129 Adjusted Shares (after the Capital Reorganization). Assuming that the aforesaid options are granted and exercised in full and the maximum number of the Shares to be issued pursuant to such options are issued and allotted on or prior to the Record Date, the number of the Rights Shares to be issued under the Rights Issue will be increased by 151,793,129 Rights Shares.
- Assuming that the subscription rights conferred upon the holders of the 3,000,000,000 Warrants are exercised in full and the maximum number of the Shares to be issued pursuant to the Warrants are issued and allotted on or prior to the Record Date, the number of the Rights Shares to be issued under the Rights Issue will be increased by 300,000,000 Rights Shares.
- Assuming that new Shares are to be issued and allotted pursuant to the General Mandates in full on or prior to the Record Date, the number of the Rights Shares to be issued under the Rights Issue will be increased by 303,586,259 Rights Shares.
- To the best knowledge of the Company, the Underwriter and the sub-underwriters will not individually own more than 10% of the issued share capital of the Company after completion of the Rights Issue unless the Underwriter and the sub-underwriters are required to take up the Rights Shares under their underwriting commitments.
- The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Underwriting Agreement to sub-underwriters such that each of the Underwriter and the sub-underwriters will not individually own more than 30% of the issued share capital of the Company immediately after completion of the Rights Issue.

LETTER FROM GRAND VINCO CAPITAL LIMITED

The Independent Shareholders who are Qualifying Shareholders should note that, should they decide to subscribe for their full provisional allotment entitlements of the Rights Shares, there would not be any dilution effect on their interests in the Company. However, we would like to draw the Independent Shareholders' attention to the fact that, for those Independent Shareholders who do not wish to take up all or part of their provisional allotment entitlements to the Rights Shares, their corresponding interest in the Company will be diluted. In case all the Qualifying Shareholders (other than the Underwriter) decide not to take up the provisional allotments of the Rights Issue and the Underwriter has taken up all the provisional allotments in its capacity as the Underwriter, the percentage of shareholding of the other public Shareholders will be reduced from approximately 94.40% to approximately 31.51%.

We are of the view that the dilution effect is not prejudicial to the Independent Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue.

8. *Arrangement of the Excluded Overseas Shareholders*

We have reviewed the arrangements of the Excluded Overseas Shareholders regarding the Rights Issue. We noted that the Directors are of the opinion that it would be necessary or expedient, on account of either the legal restrictions under the laws of the relevant place of residence or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the allotment of fully paid Rights Shares to an Overseas Shareholder, no provisional allotment of nil-paid Rights Shares or allotment of fully paid Rights Shares will be made to such Overseas Shareholders. As such, the Company will send the Prospectus to the Excluded Overseas Shareholders only for information only.

We also noted that the Rights Issue will be extended to the Overseas Shareholders in the mainland China, Macau, New Zealand, Malaysia, Australia as the Company has sought the relevant legal opinions that no local regulatory compliance is required to be made in these jurisdictions.

The Company has also sought opinions from legal advisers in Canada, the United States of America and the United Kingdom that local legal and regulatory requirements may have to be complied with if the Rights Issue is to be extended to the Shareholders who reside in such jurisdictions. In this connection, the Company has considered that it would be necessary or expedient to exclude the overseas Shareholder in Canada, United States of America and United Kingdom in the Rights Issue due to the time involved and costs incurred in complying with such relevant legal and regulatory requirements. The Company will therefore send this Circular, for information only, to such Excluded Overseas Shareholders. In addition, the provisional allotment letter and the form of application for excess Rights Shares will not be sent to the Excluded Overseas Shareholders. We have reviewed the recent similar rights issue in the market and are of the view that the arrangement is in line with the market practice.

LETTER FROM GRAND VINCO CAPITAL LIMITED

9. *Financial effects of the Rights Issue*

a) *Net assets value*

As at 30 June 2007, the unaudited net assets value of the Group was approximately HK\$1,353 million. After taking the net proceeds from the Rights Issue into account, the net assets of the Group will increase by not less than HK\$323 million and not more than HK\$485 million. We noted that the proposed Rights Issue should enhance the net asset value of the Group. However, the Shareholders should note that the total number of shares after the Rights Issue shall be increased from 1,517,931,298 Adjusted Shares to not less than 3,035,862,596 Adjusted Shares to not more than 4,546,621,372 Adjusted Shares and thus the net assets value per Adjusted Shares will be decreased from approximately HK\$0.89 to not less than approximately HK\$0.40 to not more than approximately HK\$0.55 accordingly.

b) *Gearing ratio (total borrowings / total equity)*

According to the interim report 2007 of the Company, the gearing ratio of the Group was approximately 5.42%. Immediately after completion of the Rights Issue, the total borrowings of the Group would remain unchanged whereas the shareholders' equity of the Group would increase by not less than HK\$323 million and not more than HK\$485 million. Hence, the gearing ratio of the Group would be improved to not more than 4.38% and not less than 3.99% respectively. We noted that the Rights Issue results in a favourable and effective gearing position to the Company.

c) *Working capital*

According to the interim report 2007 of the Company, the working capital of the Group was approximately HK\$1,024 million as at 30 June 2007. Immediately after completion of the Rights Issue, the working capital of the Group would increase by not less than HK\$323 million and not more than HK\$485 million. In this regard, we are of the view that the Rights Issue will improve the liquidity position of the Group.

Based on the foregoing, the Rights Issue will enhance the net assets value of the Group, reduce the indebtedness and improve the liquidity position of the Group. Hence, we are of the view that the Rights Issue is in the interest of the Company and the Independent Shareholders as a whole.

LETTER FROM GRAND VINCO CAPITAL LIMITED

D. CONCLUSION

Having taken into consideration of the following principal factors and reasons regarding the major terms of the Right Issue including:

- a) the net proceeds from the Rights Issue will strengthen the capital base and to enhance the financial position of the Company for future development of the Group;
- b) the Rights Issue would be a preferred method of equity financing as it will allow all the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future growth and development of the Company;
- c) the Subscription Price and the theoretical ex-right price fall within the Comparables;
- d) the major terms of the Underwriting Agreement is in line with the market practice;
- e) the dilution effect is not prejudicial to the Independent Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue; and
- f) the Rights Issue will enhance the net assets value of the Group, reduce the indebtedness and improve the liquidity position of the Group;

we are of the view that the terms of Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

1 SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the unaudited consolidated results and financial position of the Group for the period from 1 January 2007 to 31 June 2007 as extracted from the interim report of the Company for the period ended 30 June 2007 and the audited consolidated results and financial position of the Group for the years ended 31 December 2006, 2005 and 2004 as extracted from the 2006, 2005 and 2004 annual reports of the Company.

The Company's auditors have issued qualified opinion on the Group's financial statements for the year ended 31 December 2004 and have not issued any qualified opinion on the Group's financial statements for the years ended 31 December 2005 and 2006.

CONSOLIDATED INCOME STATEMENT

	Unaudited 01/01/2007 to 30/06/2007 HK\$'000	Audited 01/01/2006 to 31/12/2006 HK\$'000	Audited 01/01/2005 to 31/12/2005 HK\$'000	Audited 01/01/2004 to 31/12/2004 HK\$'000
Turnover	787,911	295,508	124,477	92,744
Other income	45,498	12,694	8,605	14,383
Cost of investments held for trading sold	(678,411)	(293,316)	(133,475)	(87,356)
Depreciation expense	(1,080)	(1,155)	(1,307)	(1,678)
Employee benefits expense	(4,616)	(9,155)	(9,565)	(8,785)
Other operating expenses	(7,343)	(15,233)	(27,500)	(73,579)
Reversal of impairment loss (impairment loss) on interest in an associate	—	—	75,036	(75,036)
Impairment loss on amount due from an associate	—	—	(75,000)	—
(Loss) Profit on disposal of interests in subsidiaries	—	(143)	5,925	—
Negative goodwill released upon recognition of impairment loss in an associate	—	—	—	21,246
Loss on disposal of convertible note issued by an associate	—	(31,000)	—	—
Profit on disposal of an unlisted investment	—	—	20,528	—
Profit (Loss) on deemed disposal of interest in an associate	21,087	8,429	1,406	(24,045)
Loss on deemed acquisition of interest in an associate	—	—	(13,331)	—
Loss on disposal of interest in an associate	(12,520)	—	—	—
Share of profit (loss) of associates	7,522	(79,010)	(99,351)	(180,577)
Finance costs	(1,067)	(2,380)	(8,163)	(14,185)
Profit (Loss) before taxation	156,981	(114,761)	(131,715)	(336,868)
Taxation	(21,000)	—	—	—
Profit (Loss) for the period/year	<u>135,981</u>	<u>(114,761)</u>	<u>(131,715)</u>	<u>(336,868)</u>
Profit (Loss) attributable to equity holders	<u>135,981</u>	<u>(114,761)</u>	<u>(131,715)</u>	<u>(336,868)</u>
Earnings (Loss) per share — Basic	<u>2.0 cents</u>	<u>(3.4 cents)</u>	<u>(6.4 cents)</u>	<u>(28 cents)</u>

CONSOLIDATED BALANCE SHEET

	Unaudited		Audited	
	As at		As at	
	30 June		31 December	
	2007	2006	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES				
Non-current assets				
Investment properties	175,100	7,200	9,650	11,930
Property, plant and equipment	29,482	22,977	22,391	39,177
Interests in associates	100,009	98,118	238,549	181,113
Other financial asset	—	—	7,143	—
Other investments	39,934	—	—	—
Prepayment for acquisition of investment properties	53,459	—	—	—
	<u>397,984</u>	<u>128,295</u>	<u>277,733</u>	<u>232,220</u>
Current assets				
Investments held for trading	607,932	118,818	13,626	20,374
Loans receivable	230,829	103,529	40,280	18,802
Other receivables	3,904	1,631	1,138	3,876
Cash and cash equivalents	260,666	8,878	11,420	10,663
	<u>1,103,331</u>	<u>232,856</u>	<u>66,464</u>	<u>53,715</u>
Current liabilities				
Other payables	54,031	8,242	14,231	13,350
Current portion of interest-bearing borrowings	4,155	7,507	4,629	104,683
Convertible notes	—	—	—	53,000
Tax payable	21,000	—	—	—
	<u>79,186</u>	<u>15,749</u>	<u>18,860</u>	<u>171,033</u>
Net current assets (liabilities)	<u>1,024,145</u>	<u>217,107</u>	<u>47,604</u>	<u>(117,318)</u>
Total assets less current liabilities	<u>1,422,129</u>	<u>345,402</u>	<u>325,337</u>	<u>114,902</u>
Non-current liabilities				
Long-term interest-bearing borrowings	69,232	15,788	13,770	23,451
NET ASSETS	<u>1,352,897</u>	<u>329,614</u>	<u>311,567</u>	<u>91,451</u>
CAPITAL AND RESERVES				
Share Capital	1,167,731	350,649	303,209	136,939
Reserves	185,166	(21,035)	8,358	(45,488)
TOTAL EQUITY	<u>1,352,897</u>	<u>329,614</u>	<u>311,567</u>	<u>91,451</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited		Audited	
	As at		As at	
	30 June	31 December	31 December	31 December
	2007	2006	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening balance — Total equity at 1 January	329,614	311,567	91,451	303,782
Issue of new shares, net of expenses	437,860	66,150	122,464	94,814
Issue of shares on exercise of warrants	—	—	1,867	16,048
Issue of shares on conversion of convertible notes	350,000	—	201,690	7,040
Issue of shares under share option scheme	106,148	60,759	25,810	6,635
Equity-settled share-based payment	1,492	5,899	—	—
Realised on disposal of an associate	(8,198)	—	—	—
Profit (Loss) for the period/year	<u>135,981</u>	<u>(114,761)</u>	<u>(131,715)</u>	<u>(336,868)</u>
Closing balance	<u><u>1,352,897</u></u>	<u><u>329,614</u></u>	<u><u>311,567</u></u>	<u><u>91,451</u></u>

2 AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

Set out below is the auditors' report for the year ended 31 December 2004, which is the reproduction of pages 22 to 23 of the 2004 annual report of the Company.

Moores Rowland Mazars

摩斯倫·馬賽會計師事務所

34th Floor, The Lee Gardens,
33 Hysan Avenue,
Causeway Bay,
Hong Kong

香港銅鑼灣
希慎道33號
利園廣場34樓

To the members of

China United International Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 24 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

- (1) We had not been able to form a view in the previous year on the recoverability of loans receivable of HK\$15,362,000 as at 31 December 2003 and had qualified our audit report accordingly. Details of our qualification were more fully explained in the 2003 annual report.

The amount concerned has been fully provided for during the year of 2004. Any adjustments to the loans receivable balance as at 31 December 2003 would have consequential effect on the loss of the Group for the year ended 31 December 2004.

- (2) As at 31 December 2003, the net assets of the Group included interest in an associate of HK\$320,624,000 in respect of Hennabun Management International Limited (“HMI”) (formerly known as Hennabun Management Inc.). As the consolidated financial statements of HMI for the year ended 31 December 2003 were subject to audit qualifications, we had been unable to form a view as to whether the Group’s share of HMI’s net assets at 31 December 2003 was fairly stated. We had therefore qualified our auditors’ report for that year. Details of our qualification were more fully explained in the 2003 annual report. Any adjustments to the Group’s share of HMI’s net assets at 31 December 2003 would have consequential effect on the loss of the Group for the year ended 31 December 2004.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements in relation to the preparation of the financial statements on a going concern basis. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion the financial statements give a true and fair view, in all material respect, of the state of affairs of the Company and the Group as at 31 December 2004, and except for any adjustments that might have been found necessary in respect of the foregoing scope limitations, in our opinion the financial statements give a true and fair view, in all material respects, of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Opinion required under section 141(6) of the Hong Kong Companies Ordinance

As the Company is incorporated in Hong Kong, we are required to report under section 141(6) of the Hong Kong Companies Ordinance. Our opinion is as follows:

In respect alone of the limitation on our work relating to matters specified in the basis of opinion section, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Without further qualifying our opinion, we draw attention to the fact that because we issued a disclaimer of opinion on 22 April 2004 on the financial statements of the Group and the Company for the year ended 31 December 2003 because of the scope limitations as summarised in the basis of opinion section above, the comparative amounts shown in these financial statements may not be comparable with the amounts for the current year.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants

Hong Kong, 15 April 2005

3 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

Set out below is the audited consolidation financial statements of the Group for the year ended 31 December 2006, which is the reproduction of pages 26 to 69 of the 2006 annual report of the Company.

Consolidated Income Statement

Year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	6	295,508	124,477
Other income	7	12,694	8,605
Cost of investments held for trading sold		(293,316)	(133,475)
Depreciation expense		(1,155)	(1,307)
Employee benefits expense		(9,155)	(9,565)
Other operating expenses		(15,233)	(27,500)
Reversal of impairment loss on interest in an associate		—	75,036
Impairment loss on amount due from an associate		—	(75,000)
(Loss) Profit on disposal of interests in subsidiaries		(143)	5,925
Loss on disposal of convertible note issued by an associate	18(c)	(31,000)	—
Profit on disposal of an unlisted investment		—	20,528
Profit on deemed disposal of interest in an associate	18(a)(i)	8,429	1,406
Loss on deemed acquisition of interest in an associate		—	(13,331)
Share of loss of associates	18(e)	(79,010)	(99,351)
Finance costs	10	<u>(2,380)</u>	<u>(8,163)</u>
Loss before taxation	9	(114,761)	(131,715)
Taxation	12	<u>—</u>	<u>—</u>
Loss for the year	13	<u>(114,761)</u>	<u>(131,715)</u>
Loss attributable to equity holders		<u>(114,761)</u>	<u>(131,715)</u>
Loss per share — Basic	14	<u>(3.4 cents)</u>	<u>(6.4 cents)</u>

Consolidated Statement of Changes in Equity*Year ended 31 December 2006*

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening balance — Total equity at 1 January	311,567	91,451
Issue of new shares, net of expenses	66,150	122,464
Issue of shares on exercise of warrants	—	1,867
Issue of shares on conversion of convertible notes	—	201,690
Issue of shares under share option scheme	60,759	25,810
Equity-settled share-based payment	5,899	—
Loss for the year	<u>(114,761)</u>	<u>(131,715)</u>
Closing balance — Total equity at 31 December	<u>329,614</u>	<u>311,567</u>

Consolidated Balance Sheet*At 31 December 2006*

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	15	7,200	9,650
Property, plant and equipment	16	22,977	22,391
Interests in associates	18	98,118	238,549
Other financial asset	19	—	7,143
		<u>128,295</u>	<u>277,733</u>
Current assets			
Investments held for trading	20	118,818	13,626
Loans receivable	21	103,529	40,280
Other receivables		1,631	1,138
Cash and cash equivalents		<u>8,878</u>	<u>11,420</u>
		<u>232,856</u>	<u>66,464</u>
Current liabilities			
Other payables		8,242	14,231
Current portion of interest-bearing borrowings	22	<u>7,507</u>	<u>4,629</u>
		<u>15,749</u>	<u>18,860</u>
Net current assets		<u>217,107</u>	<u>47,604</u>
Total assets less current liabilities		<u>345,402</u>	<u>325,337</u>
Non-current liabilities			
Long-term interest-bearing borrowings	22	<u>15,788</u>	<u>13,770</u>
NET ASSETS		<u><u>329,614</u></u>	<u><u>311,567</u></u>
CAPITAL AND RESERVES			
Issued capital	23	350,649	303,209
Reserves	24	<u>(21,035)</u>	<u>8,358</u>
TOTAL EQUITY		<u><u>329,614</u></u>	<u><u>311,567</u></u>

Balance Sheet*At 31 December 2006*

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	17	<u>234,227</u>	<u>425,719</u>
Current assets			
Loans receivable	21	19,330	40,280
Other receivables		579	708
Cash and cash equivalents		<u>8,425</u>	<u>10,375</u>
		<u>28,334</u>	<u>51,363</u>
Current liabilities			
Other payables		1,495	1,490
Due to subsidiaries	17	16,775	125,764
Interest-bearing borrowings	22	<u>5,000</u>	<u>—</u>
		<u>23,270</u>	<u>127,254</u>
Net current assets (liabilities)		<u>5,064</u>	<u>(75,891)</u>
NET ASSETS		<u><u>239,291</u></u>	<u><u>349,828</u></u>
CAPITAL AND RESERVES			
Issued capital	23	350,649	303,209
Reserves	24	<u>(111,358)</u>	<u>46,619</u>
TOTAL EQUITY		<u><u>239,291</u></u>	<u><u>349,828</u></u>

Consolidated Cash Flow Statement*Year ended 31 December 2006*

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Loss before taxation		(114,761)	(131,715)
Depreciation expense		1,155	1,307
Reversal of impairment loss on interest in an associate		—	(75,036)
Impairment loss on the amount due from an associate		—	75,000
Increase in fair value of investment properties	15	(570)	(400)
Interest expenses on bank and other borrowings		2,380	3,595
Interest expenses on convertible notes		—	4,568
Interest income on convertible note issued by an associate		(4,680)	(7,124)
Dividend income from investments held for trading		(801)	—
Gain on disposal of property, plant and equipment		(291)	(119)
Loss on disposal of investment properties		490	237
Write back of provision for bad and doubtful debts		—	(5,050)
Profit on disposal of an unlisted investment		—	(20,528)
Profit on deemed disposal of interest in an associate		(8,429)	(1,406)
Loss on deemed acquisition of interest in an associate		—	13,331
Loss (profit) on disposal of interests in subsidiaries		143	(5,925)
Loss on disposal of convertible note issued by an associate		31,000	—
Equity-settled share-based payment		5,899	—
Share of loss of associates		79,010	99,351
Changes in working capital:			
Loans receivable		(63,249)	(57,844)
Other receivables		(493)	2,399
Investments held for trading		(105,192)	(10,724)
Other payables		<u>(6,163)</u>	<u>1,517</u>
Cash used in operations		(184,552)	(114,566)
Interest income received on convertible note issued by an associate		<u>4,680</u>	<u>2,958</u>
Net cash used in operating activities		<u>(179,872)</u>	<u>(111,608)</u>

APPENDIX I**FINANCIAL AND OTHER INFORMATION**

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Dividend received from investments held for trading		801	—
Purchase of interest in an associate		(69,900)	(50,000)
Purchase of property, plant and equipment		(2,025)	(1,812)
Proceeds from disposal of property, plant and equipment		575	273
Proceeds from disposal of investment properties		2,530	2,443
Proceeds from disposal of subsidiaries	26	7,000	24,720
Proceeds from disposal of other securities		—	38,000
Proceeds from disposal of convertible note issued by an associate		100,000	—
Proceeds from disposal of interest in an associate		75,000	—
Redemption of convertible note issued by an associate		—	25,300
Net cash from investing activities		<u>113,981</u>	<u>38,924</u>
FINANCING ACTIVITIES			
Issue cost of shares for acquisition of interest in an associate		(100)	—
Issue of shares for cash		—	122,464
Issue of shares under share option scheme		60,759	25,810
Issue of shares on exercise of warrants		—	1,867
New bank loans raised		5,600	—
New other loans raised	22	45,000	77,000
Issue of convertible notes		—	98,000
Repayment of bank loans		(5,704)	(13,655)
Repayment of other loans	22	(40,000)	(173,080)
Redemption of convertible notes		—	(53,000)
Interest paid on bank and other borrowings		(2,206)	(11,087)
Interest paid on convertible notes		—	(878)
Net cash from financing activities		<u>63,349</u>	<u>73,441</u>
Net (decrease) increase in cash and cash equivalents		(2,542)	757
Cash and cash equivalents at beginning of year		<u>11,420</u>	<u>10,663</u>
Cash and cash equivalents at end of year		<u>8,878</u>	<u>11,420</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL INFORMATION

Willie International Holdings Limited is a public company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the current year are consistent with those of the previous year except the Group has adopted HKAS 39 and HKFRS 4 (Amendments) “Financial Guarantee Contracts”. The adoption of these amendments did not have significant effects on the financial statements of the Group and the Company.

At the date of authorisation of these financial statements, the Group has not early adopted the new/revised standards and interpretations issued by the HKICPA that are not yet effective for the current year. The Group has already commenced an assessment of impact of these new / revised standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and investments held for trading, which are measured at fair value as explained in the principal accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, less any impairment in the value of individual investments. When the Group's share of losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or guaranteed obligations in respect of the associate.

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill on acquisitions of subsidiaries is recognised as a separate asset. Goodwill on acquisitions of associates or jointly controlled entities is included in interests in associates or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in the consolidated income statement.

Investment properties

Investment properties are land and/or building which are held by owner or lessee under finance lease to earn rental income and/or for capital appreciation and are stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the income statement for the period in which they arise.

A property interest held under operating lease is classified and accounted for as investment property when the Group holds it to earn rental income and/or capital appreciation and applies the fair value model as above.

The fair value of investment properties is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued, or based on market value, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	4%
Leasehold improvements	10% — 20%
Furniture and fixtures	10% — 20%
Office equipment	33 $\frac{1}{3}$ %
Motor vehicles	25%

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments, and on a trade date basis.

Investments held for trading

Investments held for trading are measured at fair value at each reporting dates. Gains and losses arising from changes in fair value are included in the income statement for the period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

At each balance sheet date, the Group assesses whether there is objective evidence that loans and receivables are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

Convertible notes

On the issue of convertible notes, the proceeds are split into liability and equity components. The fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount, net of transaction costs, is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option and is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Payables and short-term borrowings

Payables and short-term borrowings are initially recognised at fair value, and are subsequently measured at amortised cost, using effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Proceeds from sale of investments held for trading are recognised on the transaction date when the relevant sale and purchase contract is entered into.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Rental income under operating leases is recognised when the properties are let out and on the straight-line basis over the lease terms.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Impairment

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment and investments in subsidiaries and associates have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Employee benefits*Defined contribution plans*

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Long service payment

The Group's net obligation in respect of long service payment under the Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefit.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

No deferred tax is provided for temporary differences arising from goodwill, the initial recognition of assets or liabilities in a transaction other than a business combination and that affecting neither accounting nor taxable profits, and investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Foreign currencies

Transactions involving foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

Share-based payment

The Company issues equity-settled share-based payments to eligible employees including directors of the Company and its subsidiaries, any other persons including consultants, advisors, agents, customers, suppliers etc. to subscribe for shares in the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effort of non market-based vesting conditions.

Related parties

A party is related to the Group if

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**Fair value estimation**

The Group uses the discounted cash flows valuation method together with impairment assessment, if required, to determine the carrying amount of loans receivable at the balance sheet date. This valuation requires the Group to make estimates about expected cash flows and discount rates, and hence they are subject to uncertainty.

Impairment of investments and receivables

The Group assesses annually if interests in subsidiaries, associates and loans receivable have suffered any impairment in accordance with HKAS 36 and follow the guidance of HKAS 39 in determining whether amounts due from those entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include debt and equity investments, other receivables and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Financial risk factors*Interest rate risk*

The Group's interest rates on its bank and other borrowings (included in current and non-current liabilities) are mainly the bank's prime rate plus certain percentage. The interest rates and terms of repayment have been disclosed in note 22.

Liquidity risk

The Group's liquidity risk is minimal in current year and is managed by matching the raising of loans or equity funding to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Price risk

The Group's investment held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's credit risk is primarily attributable to its money lending business as the Group has not established a separate department or any strict criteria to evaluate the credit worthiness of its borrowers. However, the directors evaluate each loan on a case to case basis and take into account of the extent of acquaintance with borrowers of the Group, the social status or reputation of borrowers and the recommendations from business partners of the Group. The exposures to the credit risks in relation to loans are monitored on an ongoing basis.

6. TURNOVER

Turnover recognised from the principal activities of the Group during the year including investment holding, trading of listed investments, property investment and provision of financial services are as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proceeds from sale of investments held for trading	283,735	112,293
Interest income	10,950	12,028
Dividend income	801	—
Rental income	<u>22</u>	<u>156</u>
	<u>295,508</u>	<u>124,477</u>

7. OTHER INCOME

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Write back of other payables	1,900	3,155
Write back of provision for bad and doubtful debts	—	5,050
Net unrealised holding gain on investments held for trading	10,017	—
Increase in fair value of investment properties	570	400
Others	<u>207</u>	<u>—</u>
	<u>12,694</u>	<u>8,605</u>

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segment is its primary reporting format and no geographical segment has been presented as the Group's operations and assets are located in Hong Kong for the years ended 31 December 2006 and 2005.

Business segments

Business segments of the Group comprise the following:

Trading of investments	:	Purchase and sale of securities
Provision of financial services	:	Provision of securities brokerage services, financial advisory services and loan financing
Property investment	:	Lease of properties for rentals
Investment holding	:	Holding investments for dividend income and capital appreciation

APPENDIX I**FINANCIAL AND OTHER INFORMATION**

The following tables show segment information for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Trading of investments	Provision of financial services	Property investment	Investment holding	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue						
Turnover	284,665	10,821	22	—	—	295,508
Other revenue	<u>10,017</u>	<u>—</u>	<u>570</u>	<u>—</u>	<u>2,107</u>	<u>12,694</u>
Total revenue	<u>294,682</u>	<u>10,821</u>	<u>592</u>	<u>—</u>	<u>2,107</u>	<u>308,202</u>
Segment results	1,359	10,655	(840)	(23,653)	1,822	(10,657)
Loss on disposal of interest in a subsidiary	—	—	—	—	—	(143)
Loss on disposal of convertible note issued by an associate	—	—	—	—	—	(31,000)
Profit on deemed disposal of interest in an associate	—	—	—	—	—	8,429
Share of loss of associates	656	(34,253)	—	(45,271)	(142)	(79,010)
Finance costs	—	—	—	—	—	(2,380)
Taxation	—	—	—	—	—	<u>—</u>
Loss for the year						<u>(114,761)</u>

APPENDIX I
FINANCIAL AND OTHER INFORMATION
Year ended 31 December 2005

	Trading of investments	Provision of financial services	Property investment	Investment holding	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue						
Turnover	112,293	12,028	156	—	—	124,477
Other revenue	—	5,050	400	2,540	615	8,605
Total revenue	<u>112,293</u>	<u>17,078</u>	<u>556</u>	<u>2,540</u>	<u>615</u>	<u>133,082</u>
Segment results	(37,954)	9,070	89	(2,026)	(7,944)	(38,765)
Reversal of impairment loss on interest in an associate	—	—	—	—	—	75,036
Impairment loss on amount due from an associate	—	—	—	—	—	(75,000)
Profit on deemed disposal of interest in an associate	—	—	—	—	—	1,406
Profit on disposal of interests in subsidiaries	—	—	—	—	—	5,925
Profit on disposal of an unlisted investment	20,528	—	—	—	—	20,528
Loss on deemed acquisition of interest in an associate	—	—	—	—	—	(13,331)
Share of loss of an associate	147	(4,743)	—	(94,605)	(150)	(99,351)
Finance costs	—	—	—	—	—	(8,163)
Taxation	—	—	—	—	—	—
Loss for the year						<u>(131,715)</u>

APPENDIX I**FINANCIAL AND OTHER INFORMATION****Assets and liabilities as at 31 December 2006**

	Trading of investments	Provision of financial services	Property investment	Investment holding	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets					
Segment assets	118,940	103,724	7,517	10,792	240,973
Interests in associates	—	—	—	98,118	98,118
Unallocated assets	—	—	—	—	<u>22,060</u>
Total assets					<u><u>361,151</u></u>
Liabilities					
Segment liabilities	6,071	—	270	11,062	17,403
Unallocated liabilities	—	—	—	—	<u>14,134</u>
Total liabilities					<u><u>31,537</u></u>

Assets and liabilities as at 31 December 2005

	Trading of investments	Provision of financial services	Property investment	Investment holding	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets					
Segment assets	13,626	40,280	9,964	20,587	84,457
Interests in associates	1,173	(23,896)	24,403	236,869	238,549
Unallocated assets	—	—	—	—	<u>21,191</u>
Total assets					<u><u>344,197</u></u>
Liabilities					
Segment liabilities	3,384	—	24	16,279	19,687
Unallocated liabilities	—	—	—	—	<u>12,943</u>
Total liabilities					<u><u>32,630</u></u>

APPENDIX I**FINANCIAL AND OTHER INFORMATION****Other segment information for the year ended 31 December 2006**

	Trading of investments	Provision of financial services	Property investment	Investment holding	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure	—	—	124	512	1,389	2,025
Depreciation expense	—	—	26	356	773	1,155
Impairment loss on goodwill arising from acquisition of interest in an associate (included in share of loss of associates)	—	—	—	34,742	—	34,742
Increase in fair value of investment properties	—	—	(570)	—	—	(570)

Other segment information for the year ended 31 December 2005

	Trading of investments	Provision of financial services	Property investment	Investment holding	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure	—	—	442	1,335	35	1,812
Depreciation expense	—	—	194	396	717	1,307
Reversal of impairment loss on interest in an associate	—	—	—	(75,036)	—	(75,036)
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	—	—	—	5,156	—	5,156
Impairment loss on the amount due from an an associate	—	—	—	75,000	—	75,000
Net unrealised holding loss on investments held for trading	16,694	—	—	—	—	16,694
Increase in fair value of investment properties	—	—	(400)	—	—	(400)

9. LOSS BEFORE TAXATION

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
This is stated after charging (crediting):		
Contributions to MPF Scheme	214	214
Impairment loss on goodwill arising from acquisition of interests in associates (included in share of loss of associates)	34,742	5,156
Auditors' remuneration	1,135	1,148
Operating lease charges:		
Equipment	72	59
Office premises	1,042	929
Loss on disposal of investment properties	490	237
Gain on disposal of property, plant and equipment	(291)	(119)
Equity-settled share-based payment	5,899	—
	<u>5,899</u>	<u>—</u>

10. FINANCE COSTS

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	975	2,369
Bank and other borrowings wholly repayable over five years	1,405	1,226
Convertible notes	—	4,568
	<u>2,380</u>	<u>8,163</u>

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The aggregate amount of emoluments received or receivable by the Company's directors are as follows:

2006	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors				
Chuang Yueheng, Henry	—	2,400	12	2,412
Lo Kan Sun	—	810	12	822
King Phillip	—	900	12	912
Wong Ying Seung, Asiong	—	336	12	348
Wang Lin	—	160	8	168
Non-executive directors				
Lau Da Yip	2	—	—	2
Independent non-executive directors				
Lam Ping Cheung	60	—	—	60
Lin Wai Yi	120	—	—	120
Liu Jian	110	—	—	110
Miu Frank H.	120	—	—	120
Nakajima, Toshiharu	24	—	—	24
Pang Shuen Wai, Nichols	—	—	—	—
Shum Ming Choy	50	—	—	50
Yau Yan Ming, Raymond	25	—	—	25
	<u>511</u>	<u>4,606</u>	<u>56</u>	<u>5,173</u>

APPENDIX I
FINANCIAL AND OTHER INFORMATION

2005	Directors' fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors				
Chuang Yueheng, Henry	—	2,400	12	2,412
Chung Wilson (redesignated to non-executive director on 15 September 2005)	—	357	9	366
Lo Kan Sun	—	810	12	822
King Phillip	—	592	9	601
Wong Wai Man, Raymond	—	269	8	277
Wong Ying Seung, Asiong	—	336	12	348
Non-executive directors				
Lau Da Yip	24	—	—	24
Chung Wilson	30	—	—	30
Independent non-executive directors				
Lam Ping Cheung	120	—	—	120
Lin Wai Yi	110	—	—	110
Miu Frank H.	120	—	—	120
Nakajima, Toshiharu	24	—	—	24
Ong Peter	—	—	—	—
Pang Shuen Wai, Nichols	—	—	—	—
	<u>428</u>	<u>4,764</u>	<u>62</u>	<u>5,254</u>

Employees' emoluments

The five highest paid employees of the Group during the year included three (2005: four) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2005: one) highest paid employees are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,071	756
Retirement scheme contributions	<u>21</u>	<u>12</u>
	<u>1,092</u>	<u>768</u>
	2006	2005
Nil to HK\$1,000,000	<u>2</u>	<u>1</u>

12. TAXATION

Hong Kong Profits Tax has not been provided as the companies of the Group either incurred a loss for taxation purposes or their estimated assessable profits for the year ended 31 December 2006 are wholly absorbed by unutilised tax losses brought forward from previous years (2005: Nil).

Details of unrecognised deferred taxation are set out in note 31 to the financial statements.

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reconciliation of tax expense		
Loss before taxation	<u>(114,761)</u>	<u>(131,715)</u>
Income tax at applicable tax rate of 17.5% (2005: 17.5%)	(20,083)	(23,050)
Non-deductible expenses	7,022	19,264
Tax exempt revenue	(2,557)	(18,157)
Unrecognised tax losses	2,017	4,571
Unrecognised temporary differences	(226)	(14)
Effect on share of loss of associates	<u>13,827</u>	<u>17,386</u>
Tax expense for the year	<u>—</u>	<u>—</u>

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5% (2005: 17.5%).

13. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$114,761,000 (2005: HK\$131,715,000), a loss of HK\$243,345,000 (2005: HK\$67,715,000) has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$114,761,000 (2005: HK\$131,715,000) and on the weighted average number of 3,369,436,000 shares (2005: 2,071,246,000 shares) in issue during the year.

No diluted loss per share is presented for the year of 2006 as the potential ordinary shares under the share option scheme have antidilutive effect. No diluted loss per share was presented for the year of 2005 as there were no potential ordinary shares in issue.

15. INVESTMENT PROPERTIES

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Fair value of investment properties		
At beginning of year	9,650	11,930
Disposals	(3,020)	(2,680)
Increase in fair value during the year	<u>570</u>	<u>400</u>
At balance sheet date	<u><u>7,200</u></u>	<u><u>9,650</u></u>

The carrying value of investment properties held by the Group at the balance sheet date comprised:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Land in Hong Kong:		
Long lease	4,500	6,850
Medium-term lease	<u>2,700</u>	<u>2,800</u>
	<u><u>7,200</u></u>	<u><u>9,650</u></u>

The Group's investment properties as at the balance sheet date have been revalued by Centaline Surveyors Limited, Chartered Surveyors, independent qualified professional valuers, on the market value basis, except that an investment property subsequently sold after the balance sheet date is carried at the sale proceed, which approximates its fair value at the balance sheet date.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reconciliation of carrying amount — year ended 31 December 2005						
At beginning of year	38,725	88	276	88	—	39,177
Additions	—	849	211	310	442	1,812
Disposals	(16,897)	—	(147)	(6)	(241)	(17,291)
Depreciation	(638)	(182)	(114)	(172)	(201)	(1,307)
At balance sheet date	<u>21,190</u>	<u>755</u>	<u>226</u>	<u>220</u>	<u>—</u>	<u>22,391</u>
Reconciliation of carrying amount — year ended 31 December 2006						
At beginning of year	21,190	755	226	220	—	22,391
Additions	—	1,005	831	189	—	2,025
Disposals	—	(247)	—	(37)	—	(284)
Depreciation	(659)	(199)	(163)	(134)	—	(1,155)
At balance sheet date	<u>20,531</u>	<u>1,314</u>	<u>894</u>	<u>238</u>	<u>—</u>	<u>22,977</u>
At 1 January 2006						
Cost	25,758	5,861	902	1,932	—	34,453
Accumulated depreciation and impairment losses	(4,568)	(5,106)	(676)	(1,712)	—	(12,062)
	<u>21,190</u>	<u>755</u>	<u>226</u>	<u>220</u>	<u>—</u>	<u>22,391</u>
At 31 December 2006						
Cost	25,758	6,577	1,733	2,084	—	36,152
Accumulated depreciation and impairment losses	(5,227)	(5,263)	(839)	(1,846)	—	(13,175)
	<u>20,531</u>	<u>1,314</u>	<u>894</u>	<u>238</u>	<u>—</u>	<u>22,977</u>

The leasehold land and buildings with a net book value of HK\$20,531,000 at the balance sheet date (2005: HK\$21,190,000) are held by the Group under medium-term lease in Hong Kong.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	51,055	952,534
Impairment loss	<u>(51,054)</u>	<u>(921,415)</u>
	<u>1</u>	<u>31,119</u>
Due from subsidiaries	438,929	492,700
Provision for doubtful debts	<u>(204,703)</u>	<u>(98,100)</u>
	<u>234,226</u>	<u>394,600</u>
	<u>234,227</u>	<u>425,719</u>

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

In the opinion of the directors, a complete list of the particulars of all subsidiaries will be of excessive length and therefore the table below lists the principal subsidiaries at the balance sheet date which materially affect the result or assets of the Group.

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital <i>(Note)</i>	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Cuve Asset Management Limited	British Virgin Islands	26,000 shares of US\$1	—	100	Investment holding
China United International Administrative Services Limited	Hong Kong	53,000 shares of HK\$100 each	100	—	Provision of administrative service
Embrace Assets Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Grand Wishes Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Golden Clip Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding
High Morale Investments Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
International Stamps & Coins Exchange Gallery Limited	Hong Kong	20,200 shares of HK\$1 each	—	100	Property investment
Pearl Decade Limited	British Virgin Islands	1 share of US\$1	100	—	Trading of investments
Smart Way Resources Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Radford Portfolio Management Limited	Hong Kong	10,000 shares of HK\$1 each	—	100	Property holding
Wellhand Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Willie Financing Limited	Hong Kong	1 share of HK\$1	100	—	Money lending
Winport Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding

All of the above subsidiaries operate principally in Hong Kong.

Note: No loan capital has been issued by any of the subsidiaries.

18. INTERESTS IN ASSOCIATES

	Note	2006 HK\$'000	2005 HK\$'000
Share of net assets	(a)	14,904	32,549
Goodwill	(b)	<u>83,214</u>	<u>—</u>
		<u>98,118</u>	<u>32,549</u>
Due from an associate — HMIL	(c)	<u>—</u>	<u>131,000</u>
Due from an associate — Found Macau Loan	(d)	<u>—</u>	<u>75,000</u>
		<u>98,118</u>	<u>238,549</u>

Notes:

(a) Details of the unlisted associates as at 31 December 2006 are as follows:

Name of associate	Place of incorporation	Particulars of issued ordinary and paid up capital held by the Group	Interest held	Principal activities
Hennabun Management International Limited (“HMIL”)	British Virgin Islands	309,633,334 shares of US\$0.01 each	35.55% (note i)	Investment holding
Amerinvest Coal Industry Holding Company Limited (“Amerinvest”)	British Virgin Islands	10,000 shares of US\$1 each	50% (note ii)	Investment holding

(i) During the year, the Group’s interest in HMIL was reduced from 49.87% to 35.55% because of HMIL’s issue of shares to third parties. As a result of the above change in shareholding in HMIL, profit on deemed disposal of HK\$8.4 million was recognised in the income statement.

(ii) On 12 January 2006, the Group entered into an agreement with a third party to acquire 25% interest in Amerinvest at a consideration of HK\$66.25 million which had been satisfied by the issue and allotment of 250,000,000 ordinary shares of HK\$0.1 each of the Company at a price of HK\$0.265 per share.

On 20 March 2006, the Company entered into an agreement with another third party to acquire a further 25% interest in Amerinvest at a consideration of HK\$69.9 million. On completion of the acquisitions in March 2006, Amerinvest was accounted for as an associate of the Group.

Amerinvest, through holding of 25% of the registered capital of West China Coking & Gas Company Limited (“West China Coking”), is an investment holding vehicle set up for the purpose of exploring and investing in coking and chemical projects in the mainland China.

(b) Details of fair value of Amerinvest acquired are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
Cash paid	69,900
Issue of new shares	<u>66,250</u>
Fair value of Amerinvest acquired	<u><u>136,150</u></u>
Goodwill on acquisition	117,956
Less: subsequent decrease in value	<u>(34,742)</u>
Recoverable amount of goodwill	<u><u>83,214</u></u>

Goodwill on acquisition is attributable to Amerinvest's investment in West China Coking.

The entire carrying amount of the interest in the associate together with the goodwill is tested for impairment by comparing the Group's share of the present value of the estimated future cash flows expected to be generated by the associate, with its corresponding carrying amount. The recoverable amount is determined by independent professional valuers, RHL Appraisal Limited, Certified Financial Analysts.

Details of the financial position of Amerinvest at the effective date of acquisition are as follows:

	Carrying value <i>HK\$'000</i>
Investment in West China Coking	34,411
Other receivables	1,947
Bank balances	2,068
Other payables	<u>(2,038)</u>
Net assets	<u>36,388</u>
Net assets acquired by the Group	18,194
Goodwill acquired	<u>117,956</u>
Fair value of Amerinvest acquired	<u>136,150</u>

- (c) On 21 April 2006, the Group entered into an agreement with a third party to dispose of HMIL's convertible note at the cash consideration of HK\$100 million. Accordingly, a loss of HK\$31 million on disposal of was recognised in the income statement.
- (d) On 13 January 2006, the Group entered into an agreement with a third party to dispose of the Group's 29.7% equity investment in Found Macau Investments International Limited together with a shareholder loan of HK\$150 million to Found Macau ("Found Macau Loan") at the cash consideration of HK\$75 million.

APPENDIX I**FINANCIAL AND OTHER INFORMATION**

- (e) Details of the consolidated operating results and financial positions of the associates, after adjusting for the fair value of assets acquired at the date of acquisition, are as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating results for the year ended 31 December 2006		
Turnover	<u>42,822</u>	<u>33,606</u>
Loss for the year	<u>(104,990)</u>	<u>(222,457)</u>
Loss for the year attributable to the Group	(44,268)	(94,195)
Impairment loss on goodwill arising from acquisition of interest in an associate	<u>(34,742)</u>	<u>(5,156)</u>
Share of loss of associates	<u>(79,010)</u>	<u>(99,351)</u>
Financial position at the balance sheet date		
Total non-current assets	130,852	94,909
Total current assets	372,445	348,266
Total current liabilities	(329,453)	(246,908)
Total non-current liabilities	<u>(131,000)</u>	<u>(131,000)</u>
Total equity	<u>42,844</u>	<u>65,267</u>
Amount attributable to the Group	<u>14,904</u>	<u>32,549</u>

19. OTHER FINANCIAL ASSET

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Option fee paid	<u>—</u>	<u>7,143</u>

During the year, a subsidiary holding the option was disposed of at a cash consideration of HK\$7 million leading to a loss on disposal of HK\$143,000 in the income statement.

20. INVESTMENTS HELD FOR TRADING

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Investments in Hong Kong			
Listed equity securities	(a)	110,118	13,626
Convertible note	(b)	<u>8,700</u>	<u>—</u>
		<u>118,818</u>	<u>13,626</u>

Notes:

- (a) The fair value of listed equity securities is based on quoted market prices in an active market at the balance sheet date.
- (b) The carrying amount of convertible note approximates its fair value at the balance sheet date.

21. LOANS RECEIVABLE

Loans granted to borrowers are repayable according to set repayment schedules. The balance comprises loans receivable from:

	The Group		The Company	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Third parties	89,470	40,280	19,330	40,280
A related company	<u>14,059</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balances due within one year included in current assets	<u>103,529</u>	<u>40,280</u>	<u>19,330</u>	<u>40,280</u>

	<i>Note</i>	The Group		The Company	
		2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Short term loans	(a)	19,330	40,280	19,330	40,280
Instalment loans	(b)	<u>84,199</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>103,529</u>	<u>40,280</u>	<u>19,330</u>	<u>40,280</u>

Notes:

- (a) Short term loans as at the balance sheet date are repayable within their maturity dates.
- (b) Instalment loans as at the balance sheet date are repayable in monthly instalments within one year.

All loans receivable carry effective interest rate ranging from prime rate to prime rate plus 2%.

22. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured bank loans (Note b)	18,295	18,399	—	—
Unsecured other loans (Note a & b)	5,000	—	5,000	—
	<u>23,295</u>	<u>18,399</u>	<u>5,000</u>	<u>—</u>

Maturities of the above borrowings are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	7,507	4,629	5,000	—
In the second year	2,727	2,201	—	—
In the third year	2,966	2,388	—	—
In the fourth year	3,226	2,590	—	—
In the fifth year	1,374	2,809	—	—
Over five years	5,495	3,782	—	—
	<u>23,295</u>	<u>18,399</u>	<u>5,000</u>	<u>—</u>

Notes:

(a) Movements in other loans are as follows:

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	—	96,080	—	96,080
Addition	45,000	77,000	45,000	77,000
Repayment	<u>(40,000)</u>	<u>(173,080)</u>	<u>(40,000)</u>	<u>(173,080)</u>
At balance sheet date	<u>5,000</u>	<u>—</u>	<u>5,000</u>	<u>—</u>

(b) Bank loans are variable rate borrowings which carried interest ranging from prime rate plus 0.5% to prime rate plus 1% for the year of 2006 and from prime rate to prime rate plus 1% for the year of 2005. Other loans carried interest ranging from prime rate to prime rate plus 1% for the year of 2006 and from prime rate to prime rate plus 2% and 2% per month for the year of 2005.

23. ISSUED CAPITAL

	2006 <i>HK\$</i>	2005 <i>HK\$</i>
Authorised:		
Ordinary shares of HK\$0.1 each	<u>2,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each	<u>350,649,499</u>	<u>303,208,635</u>

2005	Number of ordinary shares	Nominal value <i>HK\$</i>
Issued and fully paid:		
At beginning of year	1,369,389,054	136,938,906
Exercise of warrants	13,338,925	1,333,892
Conversion of convertible notes	800,000,000	80,000,000
Issuance of shares under share option scheme	137,358,374	13,735,837
Issuance of shares	<u>712,000,000</u>	<u>71,200,000</u>
At balance sheet date	<u>3,032,086,353</u>	<u>303,208,635</u>

2006	<i>Note</i>	Number of ordinary shares	Nominal value <i>HK\$</i>
Issued and fully paid:			
At beginning of year		3,032,086,353	303,208,635
Issuance of shares	(a)	250,000,000	25,000,000
Issuance of shares under share option scheme	(b)	<u>224,408,635</u>	<u>22,440,864</u>
At balance sheet date		<u>3,506,494,988</u>	<u>350,649,499</u>

Notes:

- (a) Pursuant to the sale and purchase agreement dated 12 January 2006, 250,000,000 ordinary shares of HK\$0.1 each of the Company were issued to acquire 25% equity interests in Amerinvest as set out in note 18(a)(ii).
- (b) Pursuant to the ordinary resolutions passed during the year, an aggregate of 224,408,635 new shares of HK\$0.1 each of the Company were issued to certain individuals under the share option scheme at the exercise price ranged from HK\$0.103 to HK\$0.431 each.

All the shares issued during the year rank pari passu in all respects with the then existing shares.

24. RESERVES

Group	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Convertible		Total <i>HK\$'000</i>
				notes — equity portion <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	
At 1 January 2005	24,485	18,273	—	—	(88,246)	(45,488)
Equity portion of convertible notes issued	—	—	—	55,725	—	55,725
Exercise of warrants	533	—	—	—	—	533
Share issued under share option scheme	12,074	—	—	—	—	12,074
Shares issued at premium, net of issuing expenses	51,264	—	—	—	—	51,264
Conversion of convertible notes	121,690	—	—	(55,725)	—	65,965
Loss for the year	—	—	—	—	(131,715)	(131,715)
At 31 December 2005	<u>210,046</u>	<u>18,273</u>	<u>—</u>	<u>—</u>	<u>(219,961)</u>	<u>8,358</u>

Group	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Convertible		Total <i>HK\$'000</i>
				notes — equity portion <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	
At 1 January 2006	210,046	18,273	—	—	(219,961)	8,358
Equity-settled share-based payment	—	—	5,899	—	—	5,899
Share issued under share option scheme	40,071	—	(1,752)	—	—	38,319
Shares issued at premium, net of issuing expenses	41,150	—	—	—	—	41,150
Surrender of share option	—	—	(832)	—	832	—
Loss for the year	—	—	—	—	(114,761)	(114,761)
At 31 December 2006	<u>291,267</u>	<u>18,273</u>	<u>3,315</u>	<u>—</u>	<u>(333,890)</u>	<u>(21,035)</u>

APPENDIX I
FINANCIAL AND OTHER INFORMATION

Included in the reserves of the Group as at 31 December 2006 were accumulated losses of associate attributable to the Group amounting to HK\$698,540,000 (2005: HK\$627,959,000).

Company	Share premium HK\$'000	Share option reserve HK\$'000	Convertible	Accumulated losses HK\$'000	Total HK\$'000
			notes — equity portion HK\$'000		
At 1 January 2005	24,485	—	—	(95,712)	(71,227)
Exercise of warrants	533	—	—	—	533
Equity portion of convertible notes issued	—	—	55,725	—	55,725
Share issued under share option scheme	12,074	—	—	—	12,074
Shares issued at premium, net of issuing expenses	51,264	—	—	—	51,264
Conversion of convertible notes	121,690	—	(55,725)	—	65,965
Loss for the year	—	—	—	(67,715)	(67,715)
At 31 December 2005	<u>210,046</u>	<u>—</u>	<u>—</u>	<u>(163,427)</u>	<u>46,619</u>

Company	Share premium HK\$'000	Share option reserve HK\$'000	Convertible	Accumulated losses HK\$'000	Total HK\$'000
			notes — equity portion HK\$'000		
At 1 January 2006	210,046	—	—	(163,427)	46,619
Equity-settled share-based payment	—	5,899	—	—	5,899
Share issued under share option scheme	40,071	(1,752)	—	—	38,319
Shares issued at premium, net of issuing expenses	41,150	—	—	—	41,150
Surrender of share option	—	(832)	—	832	—
Loss for the year	—	—	—	(243,345)	(243,345)
At 31 December 2006	<u>291,267</u>	<u>3,315</u>	<u>—</u>	<u>(405,940)</u>	<u>(111,358)</u>

The application of the Company's share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

At the balance sheet date, the Company has no reserves available for distribution to the shareholders.

25. SHARE OPTION SCHEME

Pursuant to the Group Reorganisation during 2002, a share option scheme ("New Scheme") of the Company was approved on 20 November 2002 by the shareholders of the Company and became effective on 3 January 2003. The New Scheme is valid and effective for a period of ten years. The board of directors of the Company may grant options to eligible employees including directors of the Company and its subsidiaries and any other persons including consultants, advisors, agents, customers, suppliers, etc. to subscribe for shares in the Company. The purpose of the New Scheme is to provide incentives to award the participants who have made contributions to the Group.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12 months period is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. Options granted to any director, chief executive or substantial shareholder of the Company or any of their respective associates in excess of 0.1% of the Company's share capital in issue and having an aggregate value in excess of HK\$5 million must be subject to prior approval by the Company's shareholders.

An amount of HK\$1 is payable on the grant of an option. Options may be exercised no later than ten years from the date of grant of the share option or the expiry date of the New Scheme, if earlier. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares on the date of grant.

(a) Movement in share option scheme during the year ended 31 December 2006:

Name of category of participant	Date of grant	As at	Granted	Exercised	Cancelled	As at	Exercise price HK\$	Share price at the date of grant HK\$ (Note i)	Share price at the date of exercise HK\$ (Note ii)
		1 January 2006	during the year	during the year	during the year	31 December 2006			
Employees									
in aggregate	20 January 2006	—	69,408,635	69,408,635	—	—	0.330	0.335	0.335
	22 February 2006	—	25,000,000	25,000,000	—	—	0.360	0.350	0.385
	10 March 2006	—	65,000,000	—	65,000,000	—	0.431	0.435	N/A
	29 November 2006	—	209,000,000	40,000,000	—	169,000,000	0.103	0.100	0.101
Other in aggregate	10 March 2006	—	60,000,000	45,000,000	15,000,000	—	0.431	0.435	0.435
	9 August 2006	—	15,000,000	15,000,000	—	—	0.150	0.150	0.148
	29 November 2006	—	118,000,000	30,000,000	—	88,000,000	0.103	0.100	0.101

Notes:

- (i) The share price at the date of grant is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.
- (ii) The share price at the date of exercise is the weighted average closing price of the shares immediately before the dates on which the options were exercised.
- (iii) On 13 February 2007, 257,000,000 share options outstanding as at the balance sheet date which represented approximately 7.33% of the issued share capital of the Company, were exercised to subscribe for 257,000,000 ordinary shares in the Company at HK\$26,471,000.

(b) **Fair value of share options and assumptions**

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes pricing mode. The inputs into the model were as follows:

Average share price	HK\$0.103 — HK\$0.431
Weighted average exercise price	HK\$0.103 — HK\$0.431
Expected volatility	45.02% — 78.47%
Expected life	1 — 76 days
Risk free rate	2.5% — 2.75%

The expected volatility is based on the historic volatility of share prices of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate.

26. DISPOSAL OF A SUBSIDIARY

	2006
	<i>HK\$'000</i>
Other financial asset	7,143
Loss on disposal	<u>(143)</u>
Total consideration	<u><u>7,000</u></u>

27. MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions during the years of 2006 and 2005 have been disclosed in note 18 and 23 respectively.

28. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment, which are payable as follows:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,434	846
In the second to fifth year inclusive	<u>476</u>	<u>947</u>
	<u><u>1,910</u></u>	<u><u>1,793</u></u>

29. FINANCIAL GUARANTEE CONTRACT

At the balance sheet date, the Company had corporate guarantees of HK\$20,400,000 (2005: HK\$38,000,000) and HK\$30,000,000 (2005: HK\$30,000,000) for banking facilities granted to its subsidiaries and an associate respectively, which were utilised by its subsidiaries and an associate to the extent of HK\$18,300,000 (2005: HK\$18,399,000) and HK\$24,500,000 (2005: HK\$21,425,000) respectively. The directors assessed the overall exposure of the corporate guarantees granted by the Company and considered that the fair value of such corporate guarantees is immaterial in the financial statements of the Group and the Company.

30. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to secure general banking facilities granted to the Group:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Leasehold land and buildings	20,531	21,190
Investment properties	<u>7,200</u>	<u>9,650</u>
	<u>27,731</u>	<u>30,840</u>

31. DEFERRED TAXATION**Unrecognised deferred tax assets**

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Deductible temporary differences	8,438	1,692
Tax losses	<u>194,730</u>	<u>178,895</u>
At balance sheet date	<u>203,168</u>	<u>180,587</u>

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation. Deferred tax assets of HK\$35,554,000 (2005: HK\$31,603,000) have not been recognised in respect of these items due to uncertainty of their recoverability.

32. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, there are other related party transactions entered into by the Group during the year, details of which are set out below:

- (a) A property of the Group with net book value of HK\$20,531,000 (2005: HK\$21,190,000) is occupied by a brother of a director of the Company free of rental. The director's brother is a director of certain companies within the HMIL Group.

- (b) Details of the securities margin loans granted by the HMIL Group to the executive directors of the Company are as follows:

Name of director	Granted by	Balance at 31 December 2006 <i>HK\$'000</i>	Balance at 1 January 2006 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>	Maturity	Interest rate per annum
King, Phillip - margin loan	HMIL Group	2,365	264	2,365	N/A	8%-10%
Wong Ying Seung, Asiong - margin loan	HMIL Group	<u>8,127</u>	<u>6,011</u>	18,428	N/A	5%-10%
		<u>10,492</u>	<u>6,275</u>			

There was neither any interest due but unpaid nor any provision made against these loans at 31 December 2006.

- (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	5,117	5,606
Contributions to MPF Scheme	<u>56</u>	<u>78</u>
	<u>5,173</u>	<u>5,684</u>

The remuneration of directors and key executives is reviewed by the Remuneration Committee having regard to the performance of individuals and markets trends.

- (d) During the year, the Group granted an unsecured short term loan of HK\$15 million (2005: Nil) to a subsidiary of HMIL. The Group subsequently received settlement of HK\$1 million and changed the contract term of the outstanding balance of HK\$14 million to an unsecured instalment loan.

33. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in the financial statements, the following post balance sheet events were conducted:

- (a) Pursuant to the Placing Agreement dated 5 December 2006, the Company agreed to conditionally issue two years new convertible notes up to principal amounts of HK\$150,000,000 to third parties. The new convertible notes are non-interest bearing and can be converted into the HK\$0.1 per share in whole or any part (in an amount or integral multiples of HK\$1,000,000) at any time following the date of issue until 7 days prior to (and excluding) the maturing date of the new convertible notes.

On 21 and 22 February 2007, the new convertible notes with principal amount of \$150,000,000 were converted into 1,500,000,000 ordinary share of HK\$0.1 each of the Company.

- (b) On 6 February 2007, the Group's shareholding of HMIL was diluted from 35.55% to 16.18% after a shareholder of HMIL had the conversion notes converted into 873,333,000 ordinary shares of HMIL.
- (c) Pursuant to the Placing Agreement dated 26 February 2007, the Company agreed to conditionally place 684,000,000 ordinary shares of HK\$0.10 each of the Company on a fully underwritten basis to independent investors at a price of HK\$0.12 per share.

On 6 March 2007, an aggregate of 684,000,000 new ordinary shares of HK\$0.1 each of the Company were issued to third parties at cash subscription price of HK\$0.12 per share.

- (d) Pursuant to the Placing Agreement dated 12 March 2007, the Company agreed to conditionally issue two years new convertible notes with principal amounts of HK\$200,000,000 to third parties. The new convertible notes are non-interest bearing and can be converted into the ordinary shares of the Company at a conversion price of HK\$0.1 per share in whole or any part (in an amount or integral multiples of HK\$1,000,000) at any time following the date of issue until 7 days prior to (and excluding) the maturing date of the new convertible notes.

On 18 April 2007, the new convertible notes with principal amount of HK\$70,000,000 were converted into 700,000,000 ordinary shares of HK\$0.1 each of the Company.

- (e) Pursuant to the Placing Agreement dated 27 March 2007, the Company agreed to conditionally place 1,189,000,000 ordinary shares of HK\$0.10 each of the Company on a fully underwritten basis to independent investors at a price of HK\$0.11 per share.

On 4 April 2007, an aggregate of 1,189,000,000 new ordinary shares of HK\$0.1 each of the Company were issued to third parties at cash subscription price of HK\$0.11 per share.

- (f) Pursuant to the agreement dated 11 April 2007, the Group agreed to dispose of 150,000,000 shares of HMIL to a third party at a consideration of HK\$5 million. After this disposal transaction, the Company's shareholding of HMIL was further decreased to 8.34%.
- (g) On 12 April 2007, the Company through its wholly-owned subsidiary, Trade Well Investments Limited, entered into an agreement with a third party to acquire a property at House 6, Somerset Path, The Royal Oaks, 8 Kam Tsin South Road, Sheung Shui at a consideration of HK\$57.8 million.

34. COMPARATIVE FIGURES

Certain comparative figures regarding segment information and reconciliation of tax expenses have been restated to conform with the current year's presentation.

4 Indebtedness

At the close of business on 31 October 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the total indebtedness of the Group amounted to approximately HK\$172.8 million, representing bank borrowings secured by certain land and building and investment properties of the Group.

The Group has pledged all its investments held for trading to secure margin financing facilities obtained from regulated securities dealers.

The Company also has given a corporate guarantee to the extent of HK\$30 million for banking facilities granted to a third party, which was utilised to the extent of HK\$19.5 million as at 31 October 2007.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 October 2007, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

5 Material Adverse Change

The Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 December 2006, the date to which the latest audited financial statements of the Company were made up.

6 Working Capital

The Directors are of the opinion that, after taking into account the present financial resources, the borrowings and the estimated net proceeds from the Rights Issue, in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements in at least the next twelve months following the date of this circular.

UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an unaudited pro forma statement of consolidated net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Capital Reorganization and the Rights Issue as if it had been undertaken and completed on 30 June 2007. This statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group on the completion of the Capital Reorganization and the Rights Issue.

	Unaudited consolidated net tangible assets of the Group attributable to the Shareholders as at 30 June 2007 <i>(Note iii)</i> <i>HK\$'000</i>	Estimated net proceeds from the Rights Issue <i>(Note iv)</i> <i>HK\$'000</i>	Unaudited pro forma consolidated net tangible assets of the Group attributable to the Shareholders after the Rights Issue <i>HK\$'000</i>	Unaudited consolidated net tangible assets per Share as at 30 June 2007 <i>(Note v)</i> <i>HK\$</i>	Unaudited pro forma consolidated net tangible assets per Adjusted Share after the Capital Reorganization and the Rights Issue <i>(Note vi)</i> <i>HK\$</i>
Rights Issue of 1,517,931,298 Rights Shares <i>(Note i)</i>	1,352,897	323,381	1,676,278	0.12	0.55
Rights Issue of 2,273,310,686 Rights Shares <i>(Note ii)</i>	1,352,897	485,410	1,838,307	0.12	0.40

Notes:

- (i) The Rights Issue of 1,517,931,298 Rights Shares is based on 1,517,931,298 Adjusted Shares in issue upon the Capital Reorganization becoming effective.
- (ii) The Rights Issue of 2,273,310,686 Rights Shares is based on 2,273,310,686 Adjusted Shares, representing the total of 1,517,931,298 Adjusted Shares in issue upon the Capital Reorganization becoming effective, 151,793,129 Adjusted Shares which may be issued and allotted to the holder of options granted pursuant to the Share Option Scheme on or before the Record Date, 300,000,000 Adjusted Shares which may be issued and allotted to the Warrantheolders on or before the Record Date and 303,586,259 Adjusted Shares which may be issued and allotted to allottees pursuant to the General Mandates on or before the Record Date.
- (iii) The unaudited consolidated net tangible assets of the Group attributable to the Shareholders as at 30 June 2007 is derived from the 2007 interim report of the Company.

- (iv) The estimated net proceeds from the Rights Issue is based on 1,517,931,298 or 2,273,310,686 Rights Shares to be issued at the Subscription Price of HK\$0.22 per Rights Share, after deduction of the estimated related expenses of approximately HK\$10,564,000 and HK\$14,718,000 respectively.
- (v) The calculation of the unaudited consolidated net tangible assets per Share is based on 11,677,312,988 Shares in issue as at 30 June 2007.
- (vi) The calculation of the unaudited pro forma consolidated net tangible assets per Adjusted Share after the Capital Reorganization and the Rights Issue is based on (a) 3,035,862,596 shares which represent the 1,517,931,298 Adjusted Shares in issue upon the Capital Reorganization becoming effective and 1,517,931,298 Rights Shares expected to be issued on the completion of the Capital Reorganization and the Rights Issue, or (b) 4,546,621,372 shares which represent 2,273,310,686 Adjusted Shares and 2,273,310,686 Rights Shares expected to be issued on the completion of the Capital Reorganization and the Rights Issue.



MAZARS CPA LIMITED
馬賽會計師事務所有限公司
34th Floor, The Lee Gardens,
33 Hysan Avenue, Causeway Bay, Hong Kong
香港銅鑼灣希慎道33號利園廣場34樓

5 December 2007

The Directors
Willie International Holdings Limited
32nd Floor, China United Centre
28 Marble Road
North Point
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Willie International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 90 to 91 under the heading of unaudited pro forma statement of consolidated net tangible assets of the Group in Appendix II of the Company’s circular dated 5 December 2007 (the “Circular”) in connection with the proposed capital reorganization (the “Capital Reorganization”) and the proposed rights issue (the “Rights Issue”) of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company (the “Directors”) for illustrative purposes only to provide information about how the Capital Reorganization and the Rights Issue might have affected the financial information of the Group as at 30 June 2007. The basis of preparation of the pro forma financial information is set out on pages 90 to 91 to the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

OPINION

In our opinion:

- a. the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Mazars CPA Limited
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the (i) Latest Practicable Date; (ii) immediately after the repurchase of the eight Shares becoming effective; (iii) immediately following the Capital Reorganization becoming effective; and (iv) immediately following the completion of the Rights Issue and the Underwriting Agreement becoming unconditional are set out below:

(i) As at the Latest Practicable Date

<i>Authorized</i>	<i>HK\$</i>
<u>50,000,000,000</u> Shares	<u>5,000,000,000.00</u>
<i>Issued and fully paid:</i>	<i>HK\$</i>
<u>15,179,312,988</u> Shares	<u>1,517,931,298.80</u>

(ii) Immediately after the repurchase of the eight Shares becoming effective

<i>Authorized</i>	<i>HK\$</i>
<u>50,000,000,000</u> Shares	<u>5,000,000,000.00</u>
<i>Issued and fully paid:</i>	<i>HK\$</i>
<u>15,179,312,980</u> Shares	<u>1,517,931,298.00</u>

(iii) Immediately following the Capital Reorganization becoming effective

Assuming no options under the Share Option Scheme will be granted, no Warrants will be exercised and no Shares will be issued under the Issue Mandate on or before the Record Date:

<i>Authorized</i>	<i>HK\$</i>
<u>5,000,000,000</u> Adjusted Shares	<u>500,000,000.00</u>
<i>Issued and fully paid:</i>	<i>HK\$</i>
<u>1,517,931,298</u> Adjusted Shares	<u>151,793,129.80</u>

(iv) **Immediately following the completion of the Rights Issue and Underwriting Agreement becoming effective**

Assuming no options will be granted under the Share Option Scheme, no Warrants will be exercised and no Shares will be issued under the Issue Mandate on or before the Record Date:-

<i>Authorized</i>	<i>HK\$</i>
<u>5,000,000,000</u> Shares	<u>500,000,000.00</u>
<i>Issued and fully paid:</i>	
1,517,931,298 Adjusted Shares then in issue following the Capital Reorganization becoming effective	151,793,129.80
1,517,931,298 Adjusted Shares to be issued pursuant to the Rights Issue	151,793,129.80
<u>3,035,862,596</u> Adjusted Shares upon completion of the Rights Issue	<u>303,586,259.60</u>

Assuming the options under the Share Option Scheme will be granted and exercised, all subscription rights attaching to the Warrants will be exercised and the Shares under the Issue Mandate will be issued in full on or before the Record Date:

<i>Authorized</i>	<i>HK\$</i>
<u>5,000,000,000</u> Adjusted Shares	<u>500,000,000.00</u>
<i>Issued and fully paid:</i>	
	<i>HK\$</i>
1,517,931,298 Adjusted Shares then in issue	151,793,129.80
151,793,129 Adjusted Shares to be issued pursuant to the Share Option Scheme	15,179,312.90
300,000,000 Adjusted Shares to be issued upon full exercise of the subscription rights attaching to the Warrants	30,000,000.00
303,586,259 Adjusted Shares to be issued in full pursuant to the Issue Mandate	30,358,625.90
2,273,310,686 Adjusted Shares to be issued pursuant to the Rights Issue	227,331,068.60
<u>4,546,621,372</u> Adjusted Shares upon completion of the Rights Issue	<u>454,662,137.20</u>

All of the Adjusted Shares in issue rank pari passu in all respects with each other.

No part of the share capital or any other security of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company has no conversion rights or other similar rights which are convertible or exchangeable into the Shares, and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option.

3. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered office and head office of the Company	32/F, China United Centre 28 Marble Road North Point Hong Kong
Authorized representatives	Mr. Lo Kan Sun Ms. Chan Mee Sze 32/F, China United Centre 28 Marble Road North Point Hong Kong
Company secretary	Ms. Chan Mee Sze (associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators)
Qualified accountant	Ms. Lee Kwan Ching (fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants)
Underwriter	Chung Nam Securities Limited 31/F, China United Centre 28 Marble Road North Point Hong Kong
Legal adviser	Tung & Co. 19th Floor, 8 Wyndham Street Central Hong Kong

Auditors	Mazars CPA Limited 34/F, The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
Hong Kong share registrar and transfer office	Computershare Hong Kong Investors Services Limited Shops 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal bankers	Chong Hing Bank Limited G/F, Chong Hing Bank Centre 24 Des Voeux Road Central Hong Kong The Bank of East Asia Limited 10 Des Voeux Road Central Hong Kong The Hong Kong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

4. DISCLOSURE OF INTERESTS

(i) Interests of Directors and chief executive

As at the Latest Practicable Date, as far as the Company is aware, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(ii) Interests of substantial shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the Shareholder (other than a Director and the chief executive of the Company) who had an interest or short position in the Shares and underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group were as follows:

Name of Shareholder	Number of Shares	Capacity	Approximate percentage of interest
Unity Investments Holdings Limited	850,000,000	beneficial owner	5.60%

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any party (other than a Director and the chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

(iii) Directors' interests in assets/contracts and other interests

None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of or leased to or which are proposed to be acquired or disposed of or leased to any member of the Group, since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

There is no contract or arrangement entered into by any member of the Group subsisting as at the date of the circular in which a Director is materially interested and which is significant in relation to the business of the Group as a whole.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with the Company or any member of the Group which would not be terminable by the Group within one year without payment of compensation other than statutory compensation.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competed or might compete with the businesses of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change to the financial or trading positions of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

- (1) On 12 January 2006, China Capital Advisors Corporation, Smart Way Resources Limited, an indirectly wholly owned subsidiary of the Company, and the Company entered into a conditional agreement in relation to the acquisition by Smart Way Resources Limited of a 25% interest in Amerinvest Coal Industry Holding Company Limited from China Capital Advisors Corporation at a consideration of HK\$66,250,000;
- (2) On 13 January 2006 and 28 February 2006, Alpha Aim International Limited and Au Yeung Kai Chor entered into a conditional agreement and a deed of assignment of a shareholder's loan for the disposal of the shares in and shareholder's loan extended to Found Macau Investments International Limited at a total consideration of HK\$75 million;
- (3) On 20 March 2006, Honour Era Group Limited, Smart Way Resources Limited, an indirectly wholly owned subsidiary of the Company, the Company and Mr. Li Wai Lung entered into an agreement in relation to the acquisition by Smart Way Resources Limited of a 25% interest in Amerinvest Coal Industry Holdings Company Limited from Honour Era Group Limited at a consideration of HK\$69,900,000;
- (4) On 10 April 2006, the Company and Freeman China Limited entered into a conditional agreement in relation to the disposal of the share in Leapfly Limited at a consideration of HK\$7 million;
- (5) On 21 April 2006, Yearwise Finance Limited, a wholly owned subsidiary of the Company, Equity Spin Investments Limited, the Company and Inner Mongolia Development (Holdings) Limited entered into a conditional agreement for the disposal by Yearwise Finance Limited of a convertible note issued by Hennabun Management International Limited to Equity Spin Investments Limited at a consideration of HK\$100 million;
- (6) On 5 December 2006, the Company and Get Nice Investment Limited entered into a placing agreement in relation to the placing of HK\$150 million convertible notes;
- (7) On 26 February 2007, the Company and Get Nice Investment Limited entered into a placing agreement in relation to the placing of 684,000,000 new Shares of the Company at HK\$0.12 per Share;

- (8) On 12 March 2007, the Company and the Underwriter entered into a placing agreement in relation to the placing of HK\$200 million convertible notes;
- (9) On 27 March 2007, the Company and Get Nice Investment Limited entered into a placing agreement in relation to the placing of 1,189,000,000 new Shares of the Company at HK\$0.11 per Share;
- (10) On 11 April 2007, Grand Wishes Limited and Ms. Lo Oi Kwok, Sheree entered into an agreement in relation to the disposal of 150,000,000 shares of Hennabun Management International Limited at a consideration of HK\$5 million;
- (11) On 12 April 2007, Trade Well Investments Limited, an indirectly wholly owned subsidiary of the Company, and Mackey Limited entered into a sale and purchase agreement for the acquisition by Trade Well Investments Limited of a property known as House No. 6, Somerset Path, The Royal Oaks, 8 Kam Tsin South Road, Sheung Shui, New Territories from Mackey Limited at a consideration of HK\$57,800,000;
- (12) On 12 April 2007, Portstar Investments Limited and Hong Kong Cyberport (Ancillary Development) Limited entered into a memorandum for the acquisition of a property known as Flat A, 39/F, Tower 5, Bel-Air No. 8, Bel-Air on the Peak, Island South at a consideration of HK\$17,680,000;
- (13) On 12 April 2007, Winsy Investments Limited and Hong Kong Cyberport (Ancillary Development) Limited entered into a memorandum for the acquisition of a property known as Flat A, 40/F, Tower 5, Bel-Air No. 8, Bel-Air on the Peak, Island South at a consideration of HK\$17,680,000;
- (14) On 23 April 2007, Cordoba Homes Limited and Ms. Lo Ki Yan Karen entered into a sale and purchase agreement for the acquisition of a 10.21 carat, colour D and flawless diamond at a consideration of HK\$10 million;
- (15) On 24 April 2007, Grand Wishes Limited and Ms. Tong So Yuet entered into an agreement for the disposal of 159,633,334 shares in Hennabun Management International Limited at a consideration of HK\$1 million;
- (16) On 4 May 2007, More Rich Investments Limited and E-Garden Properties Limited entered into a sale and purchase agreement for the acquisition of one share of Clear Point Limited at a consideration of HK\$998,755 and a deed of assignment of debt for the transfer of a loan owed by Clear Point Limited to E-Garden Properties Limited at a consideration of HK\$1,001,245 (the principal assets of Clear Point Limited is three car parking spaces at China United Centre, 28 Marble Road, North Point);
- (17) On 4 May 2007, More Rich Investments Limited, E-Garden Properties Limited and Righteam Limited entered into a sales and purchase agreement for the acquisition by More Rich Investments Limited of 1,000 shares of Million Regal Investment Limited at a consideration of HK\$1 and a deed of assignment of debt for the transfer of a loan owed by Million Regal Investments Limited to E-Garden Properties Limited at a consideration of HK\$1;

- (18) On 14 May 2007, Wealth Elegant Investments Limited and Caricom Limited entered into a sale and purchase agreement for the acquisition by Wealth Elegant Investments Limited of a property known as 26/F, China United Centre, 28 Marble Road, North Point, Hong Kong at a consideration of HK\$40,800,000;
- (19) On 14 May 2007, Hexham Enterprises Limited, Charming Profit Investments Limited, and Heritage International Holdings Limited entered into an agreement for the purchase by Hexham Enterprises Limited of 1 share in Top Trinity Assets Limited and a shareholder's loan extended to Top Trinity Assets Limited and Bestford Properties Limited at a consideration of HK\$20,828,069.11;
- (20) On 22 May 2007, Million Regal Investment Limited and First Luck Investment Limited entered into an agreement for the acquisition by Million Regal Investment Limited of certain car parking spaces at China United Centre, 28 Marble Road, North Point at a consideration of HK\$42,000,000;
- (21) On 29 May 2007, Pearl Decade Limited and Radford Capital Investment Limited entered into a subscription agreement for the subscription by Pearl Decade Limited of 284,078,810 shares in Radford Capital Investment Limited at HK\$0.120 per share;
- (22) On 6 June 2007, Thousand More Investments Limited and Mr. Leung Chi Wah entered into an agreement for the sale by Leung Chi Wah of one share in and a shareholder's loan extended to Longtop Enterprises Limited at a consideration of HK\$2,234,821;
- (23) On 6 June 2007, the Company, Get Nice Investment Limited and the Underwriter entered into a placing agreement in respect of an issue of 1,946,218,000 new Shares of the Company at HK\$0.126 per Share under the general mandate granted by the Shareholders at its annual general meeting held on 30 May 2007;
- (24) On 15 June 2007, Cordoba Homes Limited, a directly wholly owned subsidiary of the Company, and Hero City Trading Limited entered into an agreement for the acquisition by Cordoba Homes Limited of the entire equity interest in and a shareholder's loan extended to Apex Novel Limited from Hero City Trading Limited at HK\$88,000,000. The principal assets of Apex Novel Limited is a property known as Unit 1, Sunshine Villa, No. 48 Mount Kellett Road, The Peak, Hong Kong;
- (25) On 28 June 2007, Richful Zone International Limited, an indirectly wholly owned subsidiary of the Company, and Harvest Source Holdings Limited entered into an agreement for the sale by Harvest Source Holdings Limited of the entire equity interest in and a shareholder's loan extended to Allied Loyal International Investments Limited to Richful Zone International Limited at a consideration of HK\$136 million. The principal assets of Allied Loyal International Investments Limited comprise 50% of the forestry lands use rights (林地使用權) and forestry trees entitlement (林木使用權) of the forests granted by 雲南省普洱市翠雲區人民政府 in Simao District (思茅區), Puer City (普洱市), Yunnan Province, the PRC;

- (26) On 5 July 2007, the Company and the Underwriter entered into a placing agreement in respect of an issue of 2,335,000,000 new Shares of the Company at HK\$0.111 per Share under the issue mandate granted by the Shareholders of the Company at the extraordinary general meeting held on 4 July 2007;
- (27) On 3 August 2007, the Company and the Underwriter entered into a conditional placing and underwriting agreement in respect of a private placing of 3,000,000,000 Warrants in registered form to selected independent institutional and private investors;
- (28) On 3 September 2007, Smart Way Resources Limited, an indirectly wholly owned subsidiary of the Company, China Capital Advisors Corporation, CCEC Ltd., Wang Sing and the Company entered into a sale and purchase agreement for the disposal by Smart Way Resources Limited and China Capital Advisors Corporation in respect of 50% interest in Amerinvest Coal Industry Holding Company Limited to CCEC Ltd. at a consideration of US\$12,190,032.50;
- (29) On 29 October 2007, Unity Investments Holdings Limited and Pearl Decade Limited, a wholly owned subsidiary of the Company entered into a subscription agreement in respect of the subscription of 410,118,799 shares of Unity Investments Holdings Limited by Pearl Decade Limited at a price of HK\$0.11 per share; and
- (30) the Underwriting Agreement.

10. PROFESSIONAL QUALIFICATIONS AND CONSENTS

- (a) The followings are the qualifications of Vinco and Mazars CPA Limited (“Mazars”), both of which have given their reports, opinions or advices, as the case may be, contained in this circular

Name	Qualification
Vinco	a corporation licensed under the SFO to perform type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Mazars CPA Limited	Certified Public Accountants, Hong Kong

- (b) As at the Latest Practicable Date, neither Vinco nor Mazars had any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, neither Vinco nor Mazars had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

- (d) Vinco and Mazars have given and have not withdrawn their written consents to the issue of this circular with inclusion of their letters and the references to their names included herein in the form and context in which they respectively appear.
- (e) the letter and recommendation from Vinco and the letter and report from Mazars are given as of the date of this circular for incorporation herein.

11. GENERAL

- (a) The company secretary of the Company is Ms. Chan Mee Sze, being an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (b) The qualified accountant of the Company is Ms. Lee Kwan Ching, being a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (c) The registered office of the Company is situate at 32/F., China United Centre, 28 Marble Road, North Point, Hong Kong.
- (d) The Company's share registrar is Computershare Hong Kong Investor Services Limited, Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

12. EXPENSES

The expenses in connection with the Rights Issue, including the underwriting commission, printing, registration, translation, legal and accounting fees, are estimated to be approximately HK\$11 million on the basis of 1,517,931,298 Rights Shares to be issued or HK\$15 million on the basis of 2,273,310,686 Rights Shares to be issued, and will be payable by the Company.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company at 32/F, China United Centre, 28 Marble Road, North Point, Hong Kong from the date of this circular up to and including 19 December 2007:

- (a) Memorandum and articles of association of the Company;
- (b) the annual reports of the Group for the two financial years ended 31 December 2005 and 31 December 2006 and the interim report of the Company for the six months ended 30 June 2007;

- (c) a copy of each circular issued by the Company dated 27 April 2007, 25 June 2007, 11 July 2007 and 14 September 2007 respectively;
- (d) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 28 of this circular;
- (e) the letter issued by Vinco, the text of which is set out on pages 29 to 42 of this circular;
- (f) the written consents of Vinco and Mazars referred to in paragraph 10 of this appendix;
- (g) the Underwriting Agreement; and
- (h) all material contracts referred to in paragraph 9 headed under “Material Contracts” in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Willie International Holdings Limited

威利國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

(Warrant Code: 614)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Willie International Holdings Limited (the “Company”) will be held at 30/F, China United Centre, 28 Marble Road, North Point, Hong Kong at 9:00 a.m. on 28 December, 2007 for the purpose of considering and, if thought fit, passing the following resolutions, the first one of which will be proposed as a Special Resolution and the remainder will be proposed as Ordinary Resolution:-

SPECIAL RESOLUTION

1. “**THAT**

- (a) every ten (10) issued and unissued ordinary shares of HK\$0.10 each in the capital of the Company be consolidated into one (1) issued or unissued share of HK\$1.00 (the “**Consolidated Shares**”);
- (b) subject to and forthwith upon such consolidation taking effect, the authorized capital of the Company be reduced from HK\$5,000,000,000 divided into 5,000,000,000 Consolidated Shares of HK\$1.00 each to HK\$500,000,000 divided into 5,000,000,000 ordinary shares of HK\$0.10 each and that such reduction be effected by cancelling paid up capital to the extent of HK\$0.90 on each of the Consolidated Share in issue and by reducing the nominal value of all the issued and unissued Consolidated Shares in the capital of the Company from HK\$1.00 to HK\$0.10 per Consolidated Share (the “**Adjusted Shares**”);
- (c) subject to and forthwith upon such reduction of capital taking effect, the Company shall transfer the credit arising in its books of account as a result of the reduction to the share premium account of the Company; and
- (d) all fractions of the Adjusted Shares to which holders of the ordinary shares of HK\$0.10 each in the capital of the Company would otherwise be entitled be aggregated and sold for the benefit of the Company and that for such purpose, a person nominated by the Company be appointed to transfer the shares sold to the purchaser or purchasers thereof and to do all such acts and execute all such documents including without limitation the instruments of transfer on behalf of such holders as may be necessary to effect the transfers.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

ORDINARY RESOLUTION

2. “**THAT** subject to and conditional upon (i) the reduction of capital referred to in the Special Resolution numbered 1 set out in the Notice convening this Meeting becoming effective; (ii) the delivery to the Stock Exchange and the registration by the Registrar of Companies of all documents relating to the Rights Issue (as defined below); (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of, and permission to deal in, the Rights Shares (as defined below) in their nil-paid and fully-paid-forms; and (iv) the underwriting agreement dated 12 November 2007 made between Chung Nam Securities Limited and the Company and as amended by a supplemental letter dated 16 November 2007 between the same parties (together, the “**Underwriting Agreement**”), a copy of which has been produced to this Meeting marked “A” and signed by the Chairman of this Meeting for the purpose of identification, becoming unconditional and not being terminated in accordance with its terms:
- (a) the issue by way of rights (the “**Rights Issue**”) of not less than 1,517,931,298 new ordinary shares of HK\$0.10 each in the capital of the Company (the “**Rights Shares**”) and not more than 2,273,310,686 Rights Shares to those holders (the “**Shareholders**”) of shares of the Company whose names appear on the register of members of the Company at the close of business on 28 December 2007, other than Excluded Overseas Shareholders (as defined in the circular despatched to the shareholders of the Company dated 5 December 2007 (the “**Circular**”) and containing the Notice convening this Meeting, a copy of which has been produced to this Meeting marked “B” and signed by the Chairman of this Meeting for the purpose of identification), in the proportion of one Rights Share for every Adjusted Share held at the subscription price of HK\$0.22 per Rights Share and on the terms and conditions set out in the Circular, be and is hereby approved;
 - (b) the Directors be and are hereby authorized to allot and issue the Rights Shares in the manner aforesaid pursuant to and in connection with the Rights Issue provided that no Rights Share shall be offered or provisionally allotted or issued to the Excluded Overseas Shareholders, such Rights Shares together with any Rights Shares provisionally allotted but not accepted shall be offered for application under forms of application for excess Rights Shares; and
 - (c) the Directors be and are hereby authorized to do all such acts and things and execute all such documents which in their opinion may be deemed necessary, desirable or expedient for the purpose of carrying out or giving effect to any or all of the transactions contemplated in this Resolution.”

By Order of the Board
Willie International Holdings Limited
Chan Mee Sze
Company Secretary

Hong Kong, 5 December, 2007

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) A proxy form to be used for the Meeting is enclosed.
- (2) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint more than one person as his proxy or proxies to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company.
- (3) To be valid, the proxy form must be in writing under the hand of the appointer or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized.
- (4) The proxy form and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at office of the Company's share registrar, **Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong**, not less than 48 hours before the time for holding the Meeting, and in default the proxy form shall not be treated as valid. The lodging of the proxy form with the Company's share registrar will not preclude a shareholder from attending and voting at the Meeting if he so desires. In the event of a shareholder who has lodged a proxy form attending the Meeting, his proxy form shall be deemed to have been revoked.
- (5) Where there are joint holders of any share, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.