

**If you are in any doubt** about 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 Inner Mongolia Development (Holdings) Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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## 內蒙發展(控股)有限公司

### INNER MONGOLIA DEVELOPMENT (HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 279)

#### **1. PLACING OF NEW SHARES 2. REFRESHMENT OF THE ISSUE MANDATE**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**Menlo Capital Limited**

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A letter from the board of directors of Inner Mongolia Development (Holdings) Limited is set out on pages 5 to 21 of this circular. A letter from the independent board committee of Inner Mongolia Development (Holdings) Limited is set out on pages 22 to 23 of this circular. A letter from Menlo Capital Limited, the independent financial adviser, containing its opinion and advice to the independent board committee and the independent shareholders of Inner Mongolia Development (Holdings) Limited is set out on pages 24 to 40 of this circular.

A notice convening the extraordinary general meeting of Inner Mongolia Development (Holdings) Limited to be held at Function Room, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Monday, 6th March, 2006 at 9:30 a.m. is set out on pages 44 to 47 of this circular. Whether or not you are able to attend the extraordinary general meeting, you should complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar in Hong Kong, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof, should you so wish.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Announcement”	the announcement of the Company dated 2nd February, 2006
“Associates”	the meaning ascribed thereto in the Listing Rules
“Best Efforts Placing”	the placing of up to 750,000,000 Placing Shares pursuant to the Placing Agreement
“Board”	board of the Directors
“Company”	Inner Mongolia Development (Holdings) Limited
“Connected Person(s)”	the meaning ascribed thereto in the Listing Rules
“Convertible Notes Placing Agreement”	the placing agreement dated 13th June, 2005 between the Company and Uni-Alpha to place, on a best efforts basis, convertible notes of up to the principal amount of HK\$48,000,000
“December Placing Agreement”	the placing agreement dated 1st December, 2005 between the Company and Chung Nam Securities Limited to place, on an underwritten basis, 44,000,000 new Shares
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company convened at Function Room, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Monday, 6th March, 2006 at 9:30 a.m., a notice of which is set out on pages 44 to 47 of this circular, to approve the Underwritten Placing and the Best Efforts Placing and the refreshment of General Mandates
“First Placing Agreement”	the placing agreement dated 13th June, 2005 between the Company and Uni-Alpha to place, on an underwritten basis, the 20,000,000 new Shares
“General Mandates”	the Issue Mandate and Repurchase Mandate
“Get Nice”	Get Nice Investment Limited, a corporation deemed licensed to carry on business in types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance and asset management) under the SFO

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising Mr. Lam Ping Cheung, Mr. Lo Ming Chi, Charles and Mr. Chiu Siu Po, being the independent non-executive directors of the Company to advise the Independent Shareholders on the transactions under the Placing Agreement and the Underwriting Agreement and in relation to the renewal of the New Issue Mandate
“Independent Shareholders”	Shareholders other than Ms. Yau Shum Tek, Cindy, the Chairman of the Company and her Associates
“Issue Mandate”	the mandate proposed to be sought at the EGM to authorise the Directors to allot, issue and deal with Shares not exceeding 20% of the issued share capital of the Company on the date of EGM and to extend the issue mandate to include the Shares repurchased under the Repurchase Mandate
“July Circular”	the circular of the Company dated 4th July, 2005
“June Announcement”	the announcement of the Company dated 13th June, 2005
“Kingston”	Kingston Securities Limited, a corporation deemed licensed to carry on business in the following regulated activities: dealing in securities, advising on securities and corporate finance and asset management, under the SFO
“Latest Practicable Date”	15th February, 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Menlo Capital”	Menlo Capital Limited, a licensed corporation within the meaning of the SFO for carrying on type 6 regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“PRC”	the Peoples’ Republic of China

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## DEFINITIONS

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“Placing Agent”	Get Nice
“Placing Agreement”	the placing agreement dated 30th December, 2005 and supplemented by a supplemental agreement dated 15th February, 2006 between the Company and the Placing Agent to place, on a best efforts basis, the Placing Shares
“Placing Period”	the period between the day commencing from the date on which the Company has by resolution approved the Best Efforts Placing and 31st July, 2006 (both days inclusive)
“Placing Price”	HK\$0.20 per Placing Share
“Placing Shares”	up to 750,000,000 new Shares to be placed under the Placing Agreement
“Repurchase Mandate”	the mandate proposed to be sought at the EGM to authorise the Directors to exercise power of the Company repurchase Shares on the Stock Exchange up to 10% of the issued share capital of the Company on the date of the EGM
“Second Placing Agreement”	the placing agreement dated 13th June, 2005 between the Company and Uni-Alpha to place, on a best efforts basis, the 40,000,000 new Shares
“SFO”	the Securities and Futures Ordinance
“Share(s)”	ordinary shares of HK\$0.2 each in the issued share capital of the Company
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 13th June, 2005 between Goodnews Resources Limited and the Company in relation to the subscription of 35,000,000 new Shares
“Subscription Termination Agreement”	the termination agreement dated 1st February, 2006 between the Company and Goodnews Resources Limited in relation to the termination of the Subscription Agreement
“Substantial Shareholder”	the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

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## DEFINITIONS

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“Termination Agreement”	the termination agreement dated 6th January, 2006 between the Company and Uni-Alpha in relation to the termination of the Second Placing Agreement and the Convertible Notes Placing Agreement
“Uni-Alpha”	Uni-Alpha Securities Limited
“Underwriters”	Get Nice and Kingston
“Underwriting Agreement”	the placing agreement dated 30th December, 2005 and supplemented by a supplemental agreement dated 15th February, 2006 between the Company and the Underwriters to place, on an underwritten basis, the Underwritten Shares
“Underwritten Placing”	placing of the Underwritten Shares pursuant to the Underwriting Agreement
“Underwritten Share Price”	HK\$0.20 per Underwritten Share
“Underwritten Shares”	250,000,000 new Shares to be placed under the Underwriting Agreement
“%”	per cent.



內蒙發展(控股)有限公司  
INNER MONGOLIA DEVELOPMENT (HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 279)

*Executive Directors:*

Ms. Yau Shum Tek, Cindy (*Chairman*)  
Mr. Kwong Wai Tim, William (*Managing Director*)  
Mr. Lai Ming Wai  
Ms. Kwok Wai Ming

*Registered office:*

P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

*Independent Non-executive Directors:*

Mr. Lam Ping Cheung  
Mr. Lo Ming Chi, Charles  
Mr. Chiu Siu Po  
Mr. Gary Drew Douglas  
Ms. Hui Wai Man, Shirley

*Principal place of business  
in Hong Kong:*

Suite 1501,  
15/F., Great Eagle Centre  
23 Harbour Road, Wanchai  
Hong Kong

16th February, 2006

*To the Shareholders*

Dear Sir or Madam,

**1. PLACING OF NEW SHARES**  
**2. REFRESHMENT OF GENERAL MANDATES**

**INTRODUCTION**

On 30th December, 2005, the Company entered into the Underwriting Agreement with the Underwriters, pursuant to which the Company has conditionally agreed to place, through the Underwriters, the Underwritten Shares to independent investors at a price of HK\$0.20 per Share. The Underwritten Placing is fully underwritten by the Underwriters on a several basis.

On 30th December, 2005, the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Company has conditionally agreed to place, through the Placing Agent, up to 750,000,000 Placing Shares in up to five separate tranches to independent investors at a price of HK\$0.20 per Share, on a best efforts basis, during the Placing Period (or such other period as the parties

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## LETTER FROM THE BOARD

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may agree in writing). The Placing Agreement requires that the number of Placing Shares comprised in each tranche must be not less than 150,000,000 Placing Shares and the maximum number of Placing Shares for all tranches will not exceed 750,000,000 Placing Shares.

The Company also proposes to seek a refreshment of the General Mandates. Resolution will be proposed at the EGM to refresh the General Mandates.

### THE UNDERWRITTEN PLACING

The Underwriting Agreement contains the terms summarised below amongst others:

- Parties:**
- (1) The Company
  - (2) The Underwriters

**The Underwriting Agreement:** The Company has conditionally agreed to place, through the Underwriters, 250,000,000 Underwritten Shares underwritten basis to independent investors at a price of HK\$0.20 per Underwritten Share.

**Underwriters:** Get Nice and Kingston are the Underwriters for the Underwritten Placing.

The obligations and liability of the Underwriters under the Underwritten Agreement are several and not joint or joint and several. The underwriting commitment of each of the Underwriters is as follows:–

Get Nice	125,000,000 Underwritten Shares
Kingston	125,000,000 Underwritten Shares

The Underwriters will receive a placement commission of 2.25% on the gross proceeds of the Underwritten Shares underwritten by each Underwriter. To the best of the Director's knowledge, information and belief having made all reasonable enquiry, each of the Underwriters and their respective ultimate beneficial owners are third parties independent of the Company and Connected Persons of the Company.

**Places:** The Underwritten Shares are to be placed by each Underwriter to not less than six placees (which may be independent individuals, corporate and/or institutional investors) who are (and in the case of corporate and institutional investors whose ultimate beneficial owners are) third parties independent of the Company and Connected Persons of the Company. It is a term of each of the



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## LETTER FROM THE BOARD

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Underwriting Agreement and of the Placing Agreement that the Underwriters and the Placing Agent (as the case may be) shall offer or sell the Underwritten Shares and the Placing Shares to persons, who to the best of the knowledge and belief of such Underwriter and Placing Agent, are independent individual, professional or institutional investors who, together with their ultimate beneficial owners are independent of and not acting in concert with the Company and Connected Persons of the Company. On the basis that the Underwritten Shares are to be placed by each Underwriter to not less than six placees and the placees are different entities, the Company expects that no placee will become a Substantial Shareholder as a result of the Underwritten Placing. The Company will make an announcement as soon as it becomes aware that there is any Substantial Shareholder as a result of the Underwritten Placing.

### **Underwritten Share Price:**

The Underwritten Share Price is HK\$0.20 per Underwritten Share. This price represents (i) the closing price of HK\$0.2 per Share quoted on the Stock Exchange on 29th December, 2005, the trading day before the date of suspension of dealings in shares of the Company pending the issue of the Announcement; (ii) a discount of approximately 2.0% to the average closing price per Share of approximately HK\$0.204 per Share as quoted on the Stock Exchange for the last five trading days of the Shares ended on 29th December, 2005; (iii) a discount of approximately 62.1% to the average closing price per Share of approximately HK\$0.53 per Share as quoted on the Stock Exchange for the last 30 trading days of the Shares ended on 29th December, 2005; (iv) a discount of approximately 6% per Share to the closing price of HK\$0.212 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a discount of approximately 91.5% to the consolidated net assets per Share of the Group as at 30th September, 2005. The net placing price per Underwritten Share is approximately HK\$0.195. The expenses of the Underwritten Placing will be borne by the Company.

The Underwritten Share Price was agreed after arm's length negotiations.

### **Rights:**

The Underwritten Shares will on issue rank equally with the existing Shares.

### **Number of Underwritten Shares:**

250,000,000 new Shares are to be placed, representing approximately 90.23% of the existing issued share capital of the Company of 277,056,202 Shares and approximately 47.43% of the issued capital of the Company as enlarged by the Underwritten Shares. The Underwritten Placing is fully underwritten by the Underwriters on a several basis.

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## LETTER FROM THE BOARD

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**Conditions Precedent:**

The Underwritten Placing is conditional upon:–

- (i) the passing of the relevant resolution at the EGM by the Shareholders to approve the Underwriting Agreement and the issue of the Underwritten Shares pursuant to the Underwriting Agreement; and
- (ii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Underwritten Shares.

The Underwriting Agreement will lapse if the conditions set out above are not satisfied by 28th February, 2006 unless the parties agree otherwise in writing. The Company and the Underwriters have agreed to extend the long stop date for the satisfaction of the conditions under the Underwriting Agreement to 20th March, 2006.

Ms. Yau Shum Tek, Cindy, and her Associates will abstain from voting on the Underwritten Placing at the EGM.

**Force majeure:**

The Underwritten Placing is subject to termination on the occurrence of certain events at any time before 9:00 a.m. on the date of completion of the Underwriting Agreement, including:

- (a) any change in national, international, financial, exchange control, industrial, legal, regulatory, licensing, political, economic or market conditions in the People's Republic of China and Hong Kong which in reasonable opinion of Get Nice (on behalf of the Underwriters) would be materially adverse to the business or trading and financial position of the Company and/or its subsidiaries taken as a whole or is or would be materially adverse in the context of the Underwritten Placing; or
- (b) any breach of the warranties, representations and undertakings given by the Company in the Underwriting Agreement and such breach is considered by Get Nice (on behalf of the Underwriters) on reasonable grounds to be material in the context of the Underwritten Placing; or
- (c) any material change (whether or not forming part of a series of changes) in market conditions in Hong Kong which in the reasonable opinion of Get Nice (on behalf of the Underwriters) would materially and prejudicially affect the Underwritten Placing or makes it inadvisable or inexpedient for the Underwritten Placing to proceed.

The Directors are not aware of the occurrence of any of such events as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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**Completion:** The Underwritten Placing is to be completed on the third business day after satisfaction of the conditions or such other dates parties may agree. The Underwriting Agreement will lapse if the Conditions are not satisfied by 28th February, 2006 unless the parties agree otherwise in writing. The parties have agreed to extend the long stop date for fulfilment of the conditions to 20th March, 2006

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Underwritten Shares.

### THE BEST EFFORTS PLACING

The Placing Agreement contains the terms described below:

- Parties:**
- (1) The Company
  - (2) The Placing Agent. To the best of the Director's knowledge, information and belief having made all reasonable enquiry, the Placing Agent and its ultimate beneficial owner are third parties independent of the Company and Connected Persons of the Company

**The Placing Agreement:** The Company has conditionally agreed to place, through the Placing Agent, up to 750,000,000 Placing Shares in the share capital of the Company in up to five separate tranches on a best efforts basis, during the Placing Period (or such other period as the parties may agree in writing), to independent investors at a price of HK\$0.20 per Placing Share. The Placing Agreement requires that the number of Placing Shares comprised in each tranche must be not less than 150,000,000 Placing Shares and the maximum number of Placing Shares for all tranches must not exceed 750,000,000 Placing Shares.

**Placing Agent:** The Placing Agent will receive a placement commission of 2.25% on the gross proceeds of Placing Shares placed under the Placing Agreement.

**Placees:** Each tranche of Placing Shares is to be placed to not less than six placees (which may be independent individuals, corporate and/or institutional investors) who are (and in the case of corporate and institutional investors whose ultimate beneficial owners are) third parties independent of the Company and Connected Persons of the Company. It is a term of each of the Underwriting Agreement and of the Placing Agreement that the Underwriters and the Placing Agent (as the case may be) shall offer or sell the Underwritten Shares and the Placing Shares to persons, who to the best of the knowledge and belief of such Underwriter and Placing Agent, are

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## LETTER FROM THE BOARD

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independent individual, professional or institutional investors who, together with their ultimate beneficial owners are independent of and not acting in concert with the Company and Connected Persons of the Company. On the basis that each tranche of Placing Shares will be placed to more than six placees and the placees are different entities, the Company expects that no placee will become a Substantial Shareholder as a result of the Best Efforts Placing. The Company will make an announcement as soon as it becomes aware that there is any Substantial Shareholder as a result of the Best Efforts Placing. The Placing Agreement does not contain provisions that the placees for each tranche need to be different or that the placees will be different to those placees in the Underwritten Placing.

### **Placing Price:**

The Placing Price is HK\$0.20 per Placing Share. This price represents (i) the closing price of HK\$0.20 per Share quoted on the Stock Exchange on 29th December, 2005, the trading day before the date of suspension of dealings in shares of the Company; (ii) a discount of approximately 2.0% to the average closing price per Share of approximately HK\$0.204 per Share as quoted on the Stock Exchange for the last five trading days of the Shares ended on 29th December, 2005; (iii) a discount of approximately 62.1% to the average closing price per Share of approximately HK\$0.53 per Share as quoted on the Stock Exchange for the last 30 trading days of the Shares ended on 29th December, 2005; (iv) a discount of approximately 6% to the closing price of HK\$0.212 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a discount of approximately 91.5% to the consolidated net assets per Share of the Group as at 30th September, 2005. The net placing price is approximately HK\$0.195 per Placing Share. The expenses of the Best Efforts Placing will be borne by the Company. This price was agreed after arm's length negotiations.

### **Rights:**

The Placing Shares will on issue rank equally with the existing Shares.

### **Number of Placing shares:**

Assuming that the 750,000,000 Placing Shares are fully placed, they represent approximately 270.70% of the existing issued share capital of the Company of 277,056,202 Shares and approximately 73.02% of the issued capital of the Company as enlarged by the Placing Shares.

### **Conditions Precedent:**

The Best Efforts Placing is conditional upon the passing of a resolution at the EGM by the Shareholders to approve the Placing Agreement and the issue of the Placing Shares pursuant to the Placing Agreement.

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## LETTER FROM THE BOARD

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The Placing Agreement will lapse if the condition set out above is not satisfied by 28th February, 2006 unless the parties agree otherwise in writing. The Company and the Placing Agent have agreed to extend the long stop date for the satisfaction of this conditions under the Placing Agreement to 20th March, 2006.

In addition, completion of each tranche of Placing Shares will be conditional upon the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company does not reasonably object) listing of and permission to deal in the Placing Shares in respect of such tranche of Placing Shares (“Further Condition”). Further announcements will be made by the Company for the issue of each tranche of Placing Shares.

Ms. Yau Shum Tek, Cindy, the Chairman of the Company, and her Associates will abstain from voting on the Best Efforts Placing at the EGM.

**Completion:**

Each tranche of the Placing Shares is to be completed on the third business day after satisfaction of the Further Condition. The Placing Agreement will lapse if the conditions are not satisfied by the expiry of the Placing Period unless the parties agree otherwise in writing. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

Since the obligation of the Placing Agent under the Best Efforts Placing is not an underwriting commitment, there is no event of force majeure in the Placing Agreement.

The terms of the Underwriting Agreement and the Placing Agreement do not give places the right to be appointed to the board of directors as a result of completion of the Underwritten Placing and the Best Efforts Placing. However, the articles of association of the Company contain provisions to allow shareholders to requisition general meetings and in such meetings shareholders can put forward resolutions to appoint new directors.

Menlo Capital has been appointed as independent financial adviser to advise Independent Shareholders on the Underwritten Placing and on the Best Efforts Placing.

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## LETTER FROM THE BOARD

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### USE OF PROCEEDS

The estimated maximum net proceeds from the Underwritten Placing and the Best Efforts Placing of approximately HK\$194.7 million will be used for investments by the Company. The Underwritten Placing will provide secured proceeds of approximately HK\$48.7 million whilst the Best Efforts Placing provides only potential proceeds of up to approximately HK\$146 million. The Company has around the end December 2005 identified and is currently investigating a possible investment in a financial service group but has not yet decided whether to proceed with that investment and if the Company proceeds to make such investment, it is expected that a portion of the net proceeds will be used to fund such investment. This financial services group is involved in a full range of financial services in Hong Kong - including brokerage, futures trading, corporate finance and money lending. As negotiations are still underway, the actual proportion of net proceeds to be used is still not yet decided at present. The Company is currently only at a preliminary negotiation stage in respect of such investment and no agreements or arrangements have been made or entered into as at the Latest Practicable Date. Although the possible investment in the financial services group and the investment size has not been decided, the Directors are of the view that it is in the Company's interest to proceed with the Underwritten Placing and the Best Efforts Placing in order to provide the Company with readily available funds as and when the investment terms are finalised. At present, there is no expected date of agreement of the investment terms and there is no certainty terms will be finalised. A further announcement will be made by the Company in respect of this investment as and when appropriate. Any remaining proceeds will be used by the Company for other investment opportunities. No agreement has been entered into for other investment opportunities and there is no identified area as to where the proceeds are going to be invested.

The Company is engaged in the money lending business as one of its subsidiaries holds a money lender licence. In addition, the Company has experience in investment in a financial services group.

The size of the Company's proposed investment in the financial services group has not been determined and the Company may or may not have management rights in this proposed business. If considered appropriate after the investment has been finalised, the Company may consider hiring additional personnel with the appropriate expertise.

The Company is of the view that investment into the financial services sector is promising because the Company is not required to make heavy capital investment in fixed asset and equipment and can maintain the flexibility to expand its investment in the financial services business through increasing the capital commitment to the business as and when opportunities arise.

Depending on the results of the Best Efforts Placing and the outcome of the negotiation regarding the investment in the financial services group, the Company may consider further fund raising activities if considered appropriate at that time.

## LETTER FROM THE BOARD

### FURTHER INFORMATION IN RELATION TO THE UNDERWRITTEN PLACING AND THE BEST EFFORTS PLACING

Assuming that all the Underwritten Shares and the Placing Shares are fully subscribed, the aggregate of the Underwritten Shares and the Placing Shares represent and will represent approximately 360.94% of the Company's existing issued share capital and approximately 78.31% of the Company's issued share capital as enlarged by the issue of those shares.

The Underwritten Placing and the Best Efforts Placing are not inter conditional.

### CHANGES IN SHAREHOLDINGS IN THE COMPANY AS A RESULT OF THE UNDERWRITTEN PLACING AND THE BEST EFFORTS PLACING

The changes in the shareholdings in the Company as a result of the Underwritten Placing and the Best Efforts Placing (assuming that all the Placing Shares are fully placed) are illustrated in the table below (assuming that there are no other changes in the issued share capital of the Company):-

Name of shareholders	Shareholding as at the Latest Practicable Date before the Underwritten Placing and the Best Efforts Placing		Shareholding after the Underwritten Placing but before the Best Efforts Placing		Shareholding after the Underwritten Placing and the Best Efforts Placing	
	Number of Shares	Percentage	Number of Shares	Percentage	Number of Shares	Percentage
Pacific Rim Investment Management Enterprises Limited (Note 1)	26,730,000	9.65%	26,730,000	5.07%	26,730,000	2.09%
Public Shareholders	250,326,202	90.35%	250,326,202	47.50%	250,326,202	19.60%
Placees (Note 2)	-	-	250,000,000	47.43%	1,000,000,000	78.31%
<b>Total:</b>	<b>277,056,202</b>	<b>100%</b>	<b>527,056,202</b>	<b>100%</b>	<b>1,277,056,202</b>	<b>100%</b>

*Note 1:* Ms. Yau Shum Tek, Cindy, the Chairman of the Company, wholly owns and controls Red China Holdings Limited and Capital Sun Industries Limited. Capital Sun Industries Limited wholly owns Future Star Group Limited. Each of Red China Holdings Limited and Future Star Group Limited holds 50% of the issued share capital of Mainland Talent Developments Limited. Mainland Talent Developments Limited wholly owns Hastings Gold Limited which in turn wholly owns Pacific Rim Investment Management Enterprises Limited.

*Note 2:* It is a term of each of the Underwriting Agreement and of the Placing Agreement that the Underwriters and the Placing Agent (as the case may be) shall offer or sell the Underwritten Shares and the Placing Shares to persons, who to the best of the knowledge and belief of such Underwriter and Placing Agent, are independent individual, professional or institutional investors who, together with their ultimate beneficial owners are independent of and not acting in concert with the Company and Connected Persons of the Company. There is not expected to be a change in control of the Company as a result of the Underwriting Agreement and the Placing Agreement.

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## LETTER FROM THE BOARD

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### REASONS FOR THE UNDERWRITTEN PLACING AND THE BEST EFFORTS PLACING

The Company is engaged in the business of trading of goods, provision of finance, trading of securities, property holding and investment and investment activities.

The Company is of the view that the Underwritten Placing provides the Company an opportunity to secure estimated net proceeds of approximately HK\$48.7 million and the Best Efforts Placing provides the Company with an opportunity to secure maximum estimated net proceeds of approximately HK\$146 million. The Company considers that the entering into of the Underwriting Agreement and the Placing Agreement will raise further capital, broaden the shareholder and capital base of the Company while improving the financial position of the Company. Taking into account that the Company has identified a possible investment and is currently investigating the investment, the proceeds of the Underwriting Agreement and the Placing Agreement would be used to fund such investment if the investment proceeds. This funding will provide the Company with flexibility in its investment.

The Company discussed with the Underwriters regarding the plans to raise up to HK\$200 million and explored various fund raising methods including open offer and rights issue. However, the Underwriters and the Placing Agent were only prepared to proceed with the Underwritten Placing for 250 million shares at HK\$0.2 per Share (i.e. HK\$50 million) and the Best Efforts Placing for 750 million shares at HK\$0.20 per Share (i.e. up to HK\$150 million). The Underwriters are not prepared to proceed with an underwritten placing to raise HK\$200 million.

A placing is proposed, as opposed to an open offer or a rights issue, because the Directors believe that is the best available method for the Company in the current market environment. Following commercial negotiations, it is apparent to them that placing is more likely to be taken up bearing in mind the larger period for which open offers and rights issues are required to be kept open (i.e. under normal circumstances, a placing could be completed within 14 days from signing of the placing agreement and for placing requiring shareholders' approval in approximately one month after signing of the placing agreement, whereas in contrast, a rights issue and an open offer requires at least two to three months to complete after the execution of the relevant underwriting agreement for such rights issue or open offer (assuming that shareholders' approval are required and that the rights issue or the open offer (as the case may be) requires to be underwritten)) and require the preparation of a prospectus which is costly and time consuming. Although the Underwritten Share Price and the Placing Price are only HK\$0.20, the Company decided to proceed with the Underwritten Placing and the Best Efforts Placing because the Company is of the view it is desirable to issue the shares now to provide it with further liquidity. Although the Group has available cash resources of about HK\$15 million from the placing in December 2005, it considers it desirable to have significantly larger cash resources to take advantage of large investment opportunities as they arise. These prices were negotiated with the Underwriters and the Placing Agent.



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## LETTER FROM THE BOARD

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Regarding the timing of the Underwritten Placing and the Best Efforts Placing, at the time of execution of the Underwriting Agreement and the Placing Agreement, the Directors considered the following factors: (1) the trend of the interest rates; (2) interest and other cost burdens on the Company of alternative methods of financing; (3) the current stock market sentiment; (4) the current stock price; and (5) the availability of the underwriters and placing agents willing to engage in fund raising activities of this size.

- (1) The Directors are of the view that interest rates may increase further in the first quarter of 2006 and may be maintained at high levels for a period of time. It is in the interest of the Company and Shareholders to engage in equity fund raising when opportunities arise rather than arranging for debt financing.
- (2) Equity fund raising will not create any interest burden on the Company and can broaden the shareholder base of the Company.
- (3) The Directors consider that the current stock market sentiment is favourable for equity fund raising in terms of the Hang Seng Index level and daily turnover. However, there is no assurance that such favourable sentiment can sustain and how long it will sustain for.
- (4) The current stock price is the commercial basis for determination of the Underwritten Share Price and the Placing Price. Although it would be advantageous for the Company to carry on the Underwritten Placing and the Best Efforts Placing at a price higher than market price, in the commercial world and prevailing marketing practices, placing agents are very unlikely to agree to a placing price at a premium to market prices. It is the market, not the Company, that dictates the market price of its Shares. With the opportunity of having the Underwriters and the Placing Agent to engage in fund raising activities of this size, the Company decided to conduct a share placing when the Company's share price is HK\$0.2. Although the share placing price of HK\$0.2 is lower than the retrospective prices of the Shares in December, 2005 (above HK\$0.4 from 7-9 December, 2005 and above HK\$0.3 from 12-13 December, 2005), however, at those times, there were no decision to seek further cash resources. In any event, it is uncertain whether there would have been any placing agents willing or agreeable to conduct a placing of such size during the period when the Share prices were higher from 7-9 December, 2005 and 12-13 December, 2005.
- (5) The entering into of the Underwritten Placing and the Best Efforts Placing was a commercial decision taken by the Company in view of a market opportunity which has been offered by the Underwriters and the Placing Agent. This opportunity may or may not become available in future and there is no assurance as to whether the share price of the Company will increase or decrease in future. In addition, given that the favourable stock market sentiment may or may not be sustained and the availability of the Underwriters and Placing Agent willing to engage in fund raising activities of this size, the Company considers that it is in its interest to seize this opportunity to enter into the Underwritten Placing and Best Efforts Placing.

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## LETTER FROM THE BOARD

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Given the reasons set out above and in view of the termination of the Second Placing Agreement, the Convertible Notes Placing Agreement and the Subscription Agreement, at the time of entering into the Underwriting Agreement and the Placing Agreement, all the Directors considered that the terms of the Underwriting Agreement and the Placing Agreement and the transactions contemplated therein are fair and reasonable and the Underwritten Placing and the Best Efforts Placing are in the interest to the Company and Shareholders as a whole.

However, after having received the advice of the independent financial adviser, the independent non-executive Directors now consider that the Underwritten Agreement and the Placing Agreement and the transactions contemplated therein are not fair and reasonable so far as the Independent Shareholders are concerned despite the fact that the Underwritten Placing and the Best Efforts Placing will strengthen the financial position of the Group.

### FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company placed 300,000,000 new Shares at HK\$0.04 per Share (prior to the share consolidation which became effective on 5th August, 2005), as referred to in the Company's announcement dated 7th January, 2005. The net proceeds of the placing were approximately HK\$11.6 million. The proceeds were intended to be used and have been used for general working capital.

The Company placed 20,000,000 new Shares at HK\$0.54 per Share under the First Placing Agreement entered into between the Company and Uni-Alpha dated 13th June, 2005, as referred to in the June Announcement and July Circular. The net proceeds of the placing was approximately HK\$10.4 million. The proceeds were intended to be used as to HK\$5.2 million for investment and HK\$5.2 million for general working capital (which has been used as general working capital purposes). As at the date hereof, HK\$2 million has been used as a deposit in connection with the trading activities of iron ore which was disclosed in the June Announcement and July Circular as one of the possible investment opportunities being considered by the Company. The remaining HK\$3.2 million was earmarked for investments and this amount has been placed in a savings deposit by the Company.

As referred to in the June Announcement and the July Circular, the Company has also entered into (i) the Convertible Notes Placing Agreement dated 13th June, 2005 with Uni-Alpha to place, on a best efforts basis, convertible notes of up to the principal amount of HK\$48,000,000, (ii) the Second Placing Agreement dated 13th June, 2005 with Uni-Alpha to place, on a best efforts basis, up to 40,000,000 new Shares at HK\$0.54 per Share and (iii) the Subscription Agreement with Goodnews Resources Limited whereby Goodnews Resources Limited agreed to subscribe for 35,000,000 new Shares at HK\$0.58 per Share which agreements have not been completed yet. However, the Company has entered into termination agreement in relation to the Convertible Notes Placing Agreement, the Second Placing Agreement and the Subscription Agreement.

The Company placed 44,000,000 new shares at HK\$0.67 per Share as referred to in the Company's announcement dated 6th December, 2005. The net proceeds of the placing was approximately HK\$28,800,000. Approximately HK\$13.8 million of the net proceeds have been used in investment in securities and the remaining HK\$15 million has been placed in savings deposit and has not been utilised yet.

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## LETTER FROM THE BOARD

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The Company is constantly reviewing its existing business and possible new business opportunities. In the past six months, the Company has been investigating the investment opportunities referred in the June Announcement and the July Circular, being the manufacturing (including production of raw materials including metals), travel (including tourism operations) and trading (including trading of commodities such as metals and iron ores) sectors and investment opportunities in the PRC, especially in the Inner Mongolia region. However, the Company has since the end of December 2005 been investigating into a new investment opportunity in a financial services group. The Company has since decided that it is most likely that the investment in the financial services group will become more promising than the investment opportunities in the manufacturing, travel and trading sectors and in the PRC (especially in the Inner Mongolia region) and no longer intends to proceed with its previous investment plans, in particular, in view of the resources required to manage such investment opportunities which are likely to be in the PRC. Instead, the Company is of the view that possible investment in the financial services group is likely to be more promising and easier to manage from Hong Kong. Two of the Company's directors have relevant experience in the financial services sector. The Company may or may not have management rights in the proposed investment services group as that would depend on the size of the proposed investment. If the investment in the financial services group materialises, the Company presently intends to continue with its existing business but will continue to review its existing business and new business opportunities.

Hence, the remaining HK\$3.2 million placed on savings deposit raised from the First Placing Agreement and the HK\$15 million placed on savings deposit raised under the December Placing Agreement as well as the funds raised from the Underwritten Placing and the Best Efforts Placing will be used for the Company's possible investment in the financial services group (please refer to section 3 headed "Use of Proceeds" above) as well as other investment opportunities (which will not include investments in the manufacturing, travel and trading sectors as referred to in the June Announcement and July Circular), which have not been identified as at this stage.

## LETTER FROM THE BOARD

Set out below is the summary of fund raising activities in the past 12 months:–

Date of Agreement	Transaction	Net proceeds raised/to be raised	Completed	Intended use of proceeds	Actual use of proceeds
7th January, 2005	Placing of 300,000,000 new shares (prior to the share consolidation)	HK\$11.6 million	Yes	General working capital	General working capital
13th June, 2005	Placing of 20,000,000 new Shares under the First Placing Agreement	HK\$10.4 million	Yes	HK\$5.2 million for general working capital  HK\$5.2 million for investments (including trading of commodities such as metal and iron ore)	HK\$5.2 million – general working capital  HK\$2 million deposit for trading of commodities – iron ore HK\$3.2million – savings deposit
13th June, 2005	Placing of 40,000,000 new Shares under the Second Placing Agreement	up to HK\$20.9 million	No  The Second Placing Agreement is terminated on 6th January, 2006	HK\$10.45 million – investments  HK\$10.45 million – working capital	N/A
13th June, 2005	Subscription of 35,000,000 new Shares under the Subscription Agreement	HK\$20.2 million	No  The Subscription Agreement is terminated on 1st February, 2006	HK\$10.1 million – investments  HK\$10.1 million – working capital	N/A

## LETTER FROM THE BOARD

Date of Agreement	Transaction	Net proceeds raised/to be raised	Completed	Intended use of proceeds	Actual use of proceeds
13th June, 2005	Placing of HK\$48 million convertible notes under the Convertible Notes Placing Agreement	up to HK\$46.6 million	No  The Convertible Notes Placing Agreement is terminated on 6th January, 2006	HK\$23.3 million – investments  HK\$23.3 million – working capital	N/A
1st December, 2005	Placing of 44,000,000 new Shares under the December Placing Agreement	HK\$28.8 million	Yes	HK\$14.4 million – general working capital  HK\$14.4 million – investments	HK\$13.8 million investment in short term securities  HK\$15 million – savings deposit

Save as mentioned above, the Company has not engaged in any other fund raising activities in the past twelve months from the Latest Practicable Date.

### REFRESHMENT OF GENERAL MANDATES

The mandate granted to Directors to issue shares at the Company's annual general meeting held on 29th September, 2005 was close to fully utilised as a result of completion of the placing of 44,000,000 new Shares in December 2005 and has only 211,240 Shares remaining. The Company wishes to seek approval of Shareholders at the EGM to refresh the General Mandates in order to allow the flexibility for future business development and/or fund raising. Based on the issued share capital of the Company as at the date hereof of 277,056,202 Shares and assuming there is no change in the issued share capital until the date of the EGM, the Issue Mandate will allow the Director to issue and allot up to 55,411,240 new Shares. However, the Company does not have any immediate plans for any new issue of Shares at present. Pursuant to the Listing Rules, the Directors and their Associates shall abstain from voting in favour of the relevant resolutions in relation to refreshment of the Issue Mandate at the EGM.

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## LETTER FROM THE BOARD

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At the EGM, resolutions will be proposed to:-

- (1) refresh the general and unconditional mandate authorising the Directors to exercise all powers of the Company to issue new Shares amounting to up to 20% of the issued share capital of the Company on the date of the EGM;
- (2) refresh the general and unconditional mandate authorising the Directors to exercise all powers of the Company to repurchase Shares on the Stock Exchange up to a maximum of 10% of the issued share capital of the Company on the date of the EGM; and
- (3) by a separate ordinary resolution, extend the general and unconditional mandate so that the Directors be given a general mandate to issue further Shares equal to the Shares repurchased under the repurchase mandate referred to in (2) above.

In accordance with Rule 13.39(4) of the Listing Rules, the ordinary resolution proposed to approve the Issue Mandate at the EGM will be put to vote by way of a poll.

As at the Latest Practicable Date, the Company did not have a “controlling shareholder” (as such term is defined in the Listing Rules) and an aggregate of 26,730,000 Shares (representing approximately 9.65% of the existing issued share capital of the Company) are held by the Directors (excluding independent non-executive Directors) of the Company and their respective Associates. The Directors and their Associates will abstain from voting in favour of resolutions to refresh the Issue Mandate at the EGM. In accordance with the Listing Rules, Menlo Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the refreshment of the Issue Mandate.

Notwithstanding the secured net proceeds of approximately HK\$48.7 million for the Underwritten Placing and potential proceeds of approximately HK\$146 million under the Best Efforts Placing, the Company still wishes to maintain the flexibility for future business development and fund raising opportunities hence considers it in the interest of the Company to take advantage of the EGM to be convened to approve the Underwritten Placing and the Best Efforts Placing together with the refreshment of the General Mandate although there are no plans at present to issue any new Shares other than the Underwritten Shares and the Placing Shares.

### **GENERAL**

All the executive Directors consider that the terms of the Underwriting Agreement, the Placing Agreement and the refreshment of Issue Mandate are fair and reasonable and the entering into of the Underwriting Agreement, the Placing Agreement and the refreshment of Issue Mandate are in the interests of the Company and the shareholders of the Company as a whole.

As stated in the section “REASONS FOR THE UNDERWRITTEN PLACING AND THE BEST EFFORTS PLACING”, the independent non-executive Directors consider that the terms of the Underwriting Agreement and the Placing Agreement are not fair and reasonable and the entering into of the Underwriting Agreement and the Placing Agreement are not in the interests of the Company and the shareholders of the Company as a whole. The independent non-executive Directors consider that the refreshment of the Issue Mandate is fair and reasonable and the refreshment of the Issue Mandate is in the interests of the Company and the shareholders of the Company as a whole.

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## LETTER FROM THE BOARD

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### EXTRAORDINARY GENERAL MEETING

Notice of the EGM is set out on pages 44 to 47 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you should complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar in Hong Kong, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof, should you so wish.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 22 to 23 of this circular which contains its recommendation to the Independent Shareholders in respect of the resolution to approve the Underwriting Agreement, the Placing Agreement and the Issue Mandate.

The advice of Menlo Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Underwriting Agreement, the Placing Agreement and the refreshment of the Issue Mandate are fair and reasonable and the Underwriting Agreement Agent, the Placing Agreement and the refreshment of the Issue Mandate are in the interest of the Company and its Shareholders as a whole are set out on pages 24 to 40 of this circular.

### DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Underwriting Agreement and the Placing Agreement will be available for inspection at the offices of the Company at Suite 1501, 15/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong during normal business hours on any business day from 16th February, 2006 until 6th March, 2006.

By order of the Board  
**Inner Mongolia Development (Holdings) Limited**  
**Yau Shum Tek, Cindy**  
*Chairman*



內蒙發展(控股)有限公司  
INNER MONGOLIA DEVELOPMENT (HOLDINGS) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 279)

16th February, 2006

*To the Independent Shareholders*

Dear Sir or Madam,

**1. PLACING OF NEW SHARES**  
**2. REFRESHMENT OF THE ISSUE MANDATE**

We refer to the circular of the Company to the Shareholders dated 16th February, 2006 (the “Circular”), of which this letter forms part. Terms defined herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Independent Board Committee has been established to give a recommendation to the Independent Shareholders in respect of the Underwriting Agreement, the Placing Agreement and the Issue Mandate. Menlo Capital Limited has been appointed as the independent financial advisor to advise us and Independent Shareholders in connection with the Subscription Agreement and the proposed refreshment of Issue Mandate. Details of its advice, together with the principal factors and reasons taken into account in arriving at such advice, are set out in their letter on pages 24 to 40 of the Circular.

Your attention is also drawn to the “Letter from the Board” on pages 5 to 21 of the Circular and the additional information set out in the appendix to the Circular.

Having taken into account the terms of the Underwriting Agreement and the Placing Agreement, the interests of the Independent Shareholders and the advice of Menlo Capital Limited, We consider that the terms of the Underwriting Agreement and the Placing Agreement are not fair and reasonable so far as the Independent Shareholders are concerned and the Underwriting Agreement and the Placing Agreement are not in the interest of the Company and its shareholder as a whole. Accordingly, we recommend the Independent Shareholders to vote against the resolution to be proposed at the EGM to approve the Underwriting Agreement and the Placing Agreement.



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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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Having taken into account the interests of the Independent Shareholders and the advice of Menlo Capital Limited in relation to the refreshment of the Issue Mandate, we consider that the refreshment of the Issue Mandate is in the interests of the Shareholders and is fair and reasonable so far as the Shareholders are concerned and the refreshment of the Issue Mandates is in the Interest of the Company and its shareholders as a whole. Accordingly, we recommend that Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the refreshment of the Issue Mandate.

Yours faithfully,

For and on behalf of

The Independent Board Committee

**Mr. Lam Ping Cheung, Mr. Lo Ming Chi, Charles, Mr. Chiu Siu Po**

*Independent Non-executive Directors*

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## LETTER FROM MENLO CAPITAL LIMITED

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*The following is the text of a letter from Menlo Capital in connection with the advice to the Independent Board Committee and Independent Shareholders on the Underwritten Placing, the Best Efforts Placing and the refreshment of the Issue Mandate which has been prepared for the purpose of inclusion in this circular:*



Unit 06, 1st Floor  
Beautiful Group Tower  
77 Connaught Road Central  
Hong Kong

16th February, 2006

*To the Independent Board Committee and  
the Independent Shareholders of  
Inner Mongolia Development (Holdings) Limited*

Dear Sirs,

### **1. THE UNDERWRITTEN PLACING AND THE BEST EFFORTS PLACING; 2. THE REFRESHMENT OF THE ISSUE MANDATE**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Underwritten Placing, the Best Efforts Placing and the refreshment of the Issue Mandate are fair and reasonable and the Underwritten Placing, the Best Efforts Placing and the refreshment of the Issue Mandate are in the interest of the Company and the Shareholders as a whole, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular of the Company dated 16th February, 2006 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

On 30th December, 2005, the Company entered into the Underwriting Agreement with the Underwriters, pursuant to which the Company has conditionally agreed to place, through the Underwriters, the Underwritten Shares to independent investors at a price of HK\$0.20 per Share. The Underwritten Placing is fully underwritten by the Underwriters on a several basis.

On 30th December, 2005, the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Company has conditionally agreed to place, through the Placing Agent, up to 750,000,000 Placing Shares in up to five separate tranches to independent investors at a price of HK\$0.20 per Share, on a best efforts basis, during the Placing Period (or such other period as the parties may agree in writing).

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## LETTER FROM MENLO CAPITAL LIMITED

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The Company also proposes to seek a refreshment of the Issue Mandate to authorise the Directors to allot, issue and deal with Shares not exceeding 20% of the issued share capital of the Company on the date of EGM and to extend the issue mandate to include the Shares repurchased under the Repurchase Mandate.

Menlo Capital is not beneficially interested in the shares capital of the Group and does not have any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group and is independent under the Listing Rules.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors or management of the Company, for which the Directors are solely responsible, are true and accurate at the time they were made and are accurate at the date of this letter.

We consider that we have been provided with sufficient information to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge and belief there are no other facts or representations the omission of which would make any statement in the Circular misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

### **PRINCIPAL FACTORS TAKEN INTO ACCOUNT**

In arriving at our advice to the Independent Board Committee and the Independent Shareholders in respect of the Underwritten Placing, the Best Efforts Placing and the refreshment of the Issue Mandate, we have taken the following principal factors and reasons into consideration:

#### **1. THE UNDERWRITTEN PLACING AND THE BEST EFFORTS PLACING**

The Company has on 30th December, 2005 entered into the Underwriting Agreement and the Placing Agreement. We are appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Underwriting Agreement and the Placing Agreement. Therefore, we mainly focus on the reasons, the use of proceeds, the terms and the effect on shareholding interests of the Independent Shareholders of the Underwriting Agreement and the Placing Agreement.

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## LETTER FROM MENLO CAPITAL LIMITED

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### **I. Reasons for the Underwritten Placing and the Best Efforts Placing**

The Company is engaged in the business of trading of goods, provision of finance, trading of securities, property holding and investment and investment activities.

The Directors are of the view that the Underwritten Placing provides the Company an opportunity to secure estimated net proceeds of approximately HK\$48.7 million and the Best Efforts Placing provides the Company with an opportunity to secure maximum estimated net proceeds of approximately HK\$146 million. The Directors consider that the entering into of the Underwriting Agreement and the Placing Agreement will raise further capital and broaden the shareholder and capital base of the Company while improving the financial position of the Company. Taking into account that the Company has identified a possible investment and is currently investigating the investment, the proceeds of the Underwriting Agreement and the Placing Agreement may be used to fund such investment if the investment proceeds. This funding will provide the Company with flexibility in its investment.

The Company discussed with the Underwriters regarding the plans to raise up to HK\$200 million and explored various fund raising methods including open offer and rights issue. However, the Underwriters and the Placing Agent were only prepared to proceed with the Underwritten Placing for 250 million shares at HK\$0.2 per Share (i.e. HK\$50 million) and the Best Efforts Placing for 750 million shares at HK\$0.2 per Share (i.e. up to HK\$150 million). The Underwriters were not prepared to proceed with an underwritten placing to raise HK\$200 million.

A placing is proposed, as opposed to an open offer or a rights issue, because the Directors, at the time of entering into the Underwriting Agreement and the Placing Agreement, believe that is the best available method for the Company in the current market environment. Following commercial negotiations, it is apparent to them that a placing is more likely to be taken up bearing in mind the longer period for which open offers and rights issues are required to be kept open (i.e. under normal circumstances, a placing could be completed within 14 days from signing of the placing agreement and for placing requiring shareholders' approval, approximately one month after signing of the placing agreement whereas, in contrast, a rights issue and an open offer requires at least two to three months to complete after the execution of the relevant underwriting agreement for such rights issue or open offer (assuming that shareholders' approval is required and that the rights issue or the open offer (as the case may be) requires to be underwritten)) and require the preparation of a prospectus which is costly and time consuming. Although the Underwritten Share Price and the Placing Price are only HK\$0.20 per Share, the Company decided to proceed with the Underwritten Placing and the Best Efforts Placing because the Company is of the view it is desirable to issue the shares now to provide it with further liquidity. Although the Group has available cash resources of about HK\$15 million from the placing in December 2005, it considers it desirable to have significantly larger cash resources to take advantage of large investment opportunities as they arise. These prices were negotiated with the Underwriters and the Placing Agent.

Regarding the timing of the Underwritten Placing and the Best Efforts Placing, at the time of execution of the Underwriting Agreement and the Placing Agreement:

- (1) The Directors are of the view that interest rates may increase further in the first quarter of 2006 and may be maintained at high levels for a period of time. It is in the interest of the Company and Shareholders to engage in equity fund raising when opportunities arise rather than arranging for debt financing.

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## LETTER FROM MENLO CAPITAL LIMITED

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- (2) Equity fund raising will not create any interest burden on the Company and can broaden the shareholder base of the Company.
- (3) The Directors consider that the current stock market sentiment is favourable for equity fund raising in terms of the Hang Seng Index level and daily turnover. However, there is no assurance that such favourable sentiment can sustain and how long it will sustain for.
- (4) The current stock price is the commercial basis for determination of the Underwritten Share Price and the Placing Price. Although it would be advantageous for the Company to carry on the Underwritten Placing and the Best Efforts Placing at a price higher than the market price, in the commercial world and prevailing marketing practices, placing agents are very unlikely to agree to a placing price at a premium to market prices. It is the market, not the Company, that dictates the market price of its Shares.
- (5) The entering into of the Underwritten Placing and the Best Efforts Placing was a commercial decision taken by the Company in view of a market opportunity which has been offered by the Underwriters and the Placing Agent. This opportunity may or may not become available in future and there is no assurance as to whether the share price of the Company will increase or decrease in future. In addition, given that the favourable stock market sentiment may or may not be sustained and the availability of the Underwriters and Placing Agent willing to engage in fund raising activities of this size, the Company considers that it is in its interest to seize this opportunity to enter into the Underwritten Placing and the Best Efforts Placing.

Given the reasons set out above and in view of the termination of the Second Placing Agreement, the Convertible Notes Placing Agreement and the Subscription Agreement, at the time of entering into the Underwriting Agreement and the Placing Agreement, the Directors consider that the Underwriting Agreement and the Placing Agreement and the transactions contemplated therein are fair and reasonable and the Underwritten Placing and the Best Efforts Placing are in the interest the Company and Shareholders as a whole.

We are of the view that for any fund raising exercise carried out by the Company, it is reasonable to consider the following factors, including: (1) the trend of the interest rates; (2) interest and other cost burdens on the Company of alternative methods of financing; (3) the current stock market sentiment; (4) the current stock price; and (5) the availability of the underwriters and placing agents willing to engage in fund raising activities of this size, in fund raising when an issuer is in urgent need of funding.

From the perspective of the underwriters and/or placing agents for any fund raising exercises, share price is one of the major considerations for them to engage in such activities. A lower share price of a company may be one of the incentives for the underwriters and/or placing agents and hence create a higher chance for that company to secure fund raising opportunity. As the placing price of the Underwritten Placing and the Best Efforts Placing of HK\$0.20 is the lowest of the prices of the Shares recorded in 2005, we believe it may be a good opportunity for the Company to secure the Underwritten Placing and the Best Efforts Placing. However, we consider that there is no requirement for immediate fund raising as there is no indication of immediate conclusion of the possible investment, as mentioned above. Accordingly, we believe that the time taken to complete any methods of fund raising should not be the prime concern of the Company in evaluating that method of fund raising. The Directors may consider the rights issue or the open offer which allow the existing Shareholders to have the chance of sharing more the benefit of the possible investment in the future as well as to maintain the shareholding ratio in the Company despite that they would take longer time for completion.

### II. USE OF PROCEEDS

The estimated maximum net proceeds from the Underwritten Placing and the Best Efforts Placing of approximately HK\$194.7 million will be used for investments by the Company. The Underwritten Placing will provide secured proceeds of approximately HK\$48.7 million whilst the Best Efforts Placing only provides potential proceeds of up to approximately HK\$146 million.

The Directors advised that the Company has identified a possible investment in a financial service group but has not yet decided whether to proceed with that investment and if the Company proceeds to make such investment, it is expected that a portion of the net proceeds will be used to fund such investment. This financial services group is involved in a full range of financial services in Hong Kong - including brokerage, futures trading, corporate finance and money lending. As negotiations are still underway, the actual proportion of net proceeds to be used is still not yet decided at present. The Company is currently only at a preliminary negotiation stage in respect of such investment and no agreements or arrangements have been made or entered into as at the Latest Practicable Date. Although the possible investment in the financial services group and the investment size have not been decided, the Directors at the time of entering into the Underwriting Agreement and the Placing Agreement, are of the view that it is in the Company's interest to proceed with the Underwritten Placing and the Best Efforts Placing in order to provide the Company with readily available funds as and when the investment terms are finalised. At present, there is no expected date of agreement of the investment terms and there is no certainty terms will be finalised. A further announcement will be made by the Company in respect of this investment as and when appropriate. Any remaining proceeds will be used by the Company for other investment opportunities. No agreement has been entered into for other investment opportunities and there is no identified area as to where the proceeds are going to be invested.

The size of the Company's proposed investment in the financial services group has not been determined and the Company may or may not have management rights in this proposed business. If considered appropriate after the investment has been finalised, the Company may consider hiring additional personnel with the appropriate expertise.

As mentioned in the Board Letter, the Company is engaged in the money lending business and has experience in investment in financial services group. The Company is of the view that investment into the financial services sector is promising because the Company is not required to make heavy capital investment in fixed assets and equipment and can maintain the flexibility to expand its investment in the financial services business through increasing the capital commitment to the business as and when opportunities arise.

While the investment in financial services group (which provides a full range of financial services including brokerage, futures trading, corporate finance and money lending in Hong Kong) may help the Group to diversify its business scope and enhance the earning base of the Group which in turn may be in line with the strategy of the Group, we are of the view that the business scope of such financial services group is not within the Company's existing scope of business other than that of money lending. Moreover, we have no reasons to justify any immediate need for the net proceeds from the Underwritten Placing and the Best Efforts Placing as the Company is currently only at a preliminary negotiation stage in respect of such investment and no agreements or arrangements have been made or entered into as at the Latest Practicable Date. In the event that the possible investment in the financial services group does not materialized, it is uncertain whether the proceeds will be used for other business or investments which are in line with the existing principal business of the Group.

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## LETTER FROM MENLO CAPITAL LIMITED

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### III. TERMS OF THE UNDERWRITING OF NEW SHARES

#### 1.A. the Underwritten Placing

The Underwriting Agreement contains the terms described below:

**Parties:** (1) The Company

(2) The Underwriters

**The Underwriting Agreement:** The Company conditionally agrees to place, through the Underwriters, 250,000,000 Underwritten Shares in the share capital of the Company on a fully underwritten basis to independent investors at a price of HK\$0.20 per Underwritten Share.

**Underwriters:** Get Nice and Kingston are the Underwriters for the Underwritten Placing.

The obligations and liability of the Underwriters under the Underwritten Agreement are several and not joint or joint and several. The underwriting commitment of each of the Underwriters is as follows:-

Get Nice 125,000,000 Underwritten Shares

Kingston 125,000,000 Underwritten Shares

**Places:** The Underwritten Shares are to be placed by each Underwriter to not less than six placees who are third parties independent of the Company and Connected Persons of the Company. On the basis that the Underwritten Shares are to be placed by each Underwriter to not less than six placees and the placees are different entities, the Company expects that no placee will become a Substantial Shareholder as a result of the Underwritten Placing.

**Underwritten Share Price:** The Underwritten Share Price is HK\$0.20 per Underwritten Share, this price represents (i) the closing price of HK\$0.2 per Share quoted on the Stock Exchange on 29th December, 2005, the trading day before the date of suspension of dealings in shares of the Company; (ii) a discount of approximately 2.0% to the average closing price per Share of approximately HK\$0.204 per Share as quoted on the Stock Exchange for the last five trading days of the Shares ended on 29th December, 2005; (iii) a discount of approximately 62.1% to the average closing price per Share of approximately HK\$0.53 per Share as quoted on the Stock Exchange for the last 30 trading days of the Shares ended on 29th December,

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## LETTER FROM MENLO CAPITAL LIMITED

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2005; (iv) a discount of approximately 6% to the closing price of HK\$0.212 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a discount of approximately 91.5% to the consolidated net assets per Share of the Group as at 30th September, 2005. The net placing price per Underwritten Share is approximately HK\$0.195. The expenses of the Underwritten Placing will be borne by the Company.

**Rights:** The Underwritten Shares will on issue rank equally with the Shares.

**Number of Underwritten Shares:** 250,000,000 new Shares are to be placed, representing approximately 90.23% of the existing issued share capital of the Company of 277,056,202 Shares and approximately 47.43% of the issued capital of the Company as enlarged by the Underwritten Shares. The Underwritten Placing is fully underwritten by the Underwriters on a several basis.

**Conditions Precedent:** The Underwriting is conditional upon:–

- (i) the passing of the relevant resolution at the EGM by the Independent Shareholders to approve the Underwriting Agreement and the issue of the Underwritten Shares pursuant to the Underwriting Agreement; and
- (ii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Underwritten Shares.

The Underwriting Agreement will lapse if the conditions set out above are not satisfied by 28th February, 2006 unless the parties agree otherwise in writing.

**Force Majeure:** The Underwritten Placing is subject to termination on the occurrence of certain events at any time before 9:00 a.m. on the date of completion of the Underwriting Agreement, including:

- (a) any change in national, international, financial, exchange control, industrial, legal, regulatory, licensing, political, economic or market conditions in the People's Republic of China and Hong Kong which in reasonable opinion of Get Nice (on behalf of the Underwriters) would be materially adverse to the business or trading and financial position of the Company and/or its subsidiaries taken as a whole or is or would be materially adverse in the context of the Underwritten Placing; or



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## LETTER FROM MENLO CAPITAL LIMITED

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- (b) any breach of the warranties, representations and undertakings given by the Company in the Underwriting Agreement and such breach is considered by Get Nice (on behalf of the Underwriters) on reasonable grounds to be material in the context of the Underwritten Placing; or
- (c) any material change (whether or not forming part of a series of changes) in market conditions in Hong Kong which in the reasonable opinion of Get Nice (on behalf of the Underwriters) would materially and prejudicially affect the Underwritten Placing or makes it inadvisable or inexpedient for the Underwritten Placing to proceed.

The Directors are not aware of the occurrence of any of such events as at the date of this circular.

### **Completion:**

The Underwritten Placing is to be completed on the third business day after satisfaction of the conditions or such other dates parties may agree. The Underwriting Agreement will lapse if the Conditions are not satisfied by 28th February, 2006 unless the parties agree otherwise in writing. The Company and the Underwriters have agreed to extend the long stop date for the satisfaction of the conditions under the Underwriting Agreement to 20th March, 2006.

### **1.B. the Best Efforts Placing**

The Placing Agreement contains the terms described below:

#### **Parties:**

- (1) The Company
- (2) The Placing Agent. To the best of the Director's knowledge, information and belief having made all reasonable enquiry, the Placing Agent and its ultimate beneficial owner are third parties independent of the Company and Connected Persons of the Company

#### **The Placing Agreement:**

The Company has conditionally agreed to place, through the Placing Agent, up to 750,000,000 Placing Shares in the share capital of the Company in up to five separate tranches on a best efforts basis, during the Placing Period (or such other period as the parties may agree in writing), to independent investors at a price of HK\$0.20 per Placing Share. The Placing Agreement requires that the number of Placing Shares comprised in each tranche must be not less than 150,000,000 Placing Shares and the maximum number of Placing Shares for all tranches must not exceed 750,000,000 Placing Shares.

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## LETTER FROM MENLO CAPITAL LIMITED

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- Placing Agent:** The Placing Agent will receive a placement commission of 2.25% on the gross proceeds of Placing Shares placed under the Placing Agreement.
- Places:** For each tranche of Placing Shares, they are to be placed to not less than six placees who are third parties independent of the Company and Connected Persons of the Company. On the basis that each tranche of Placing Shares will be placed to more than six placees and the placees are different entities, the Company expects that no placee will become a Substantial Shareholder as a result of the Best Efforts Placing.
- Placing Price:** The Placing Price is HK\$0.20 per Placing Share, this price represents (i) the closing price of HK\$0.20 per Share quoted on the Stock Exchange on 29th December, 2005, the trading day before the date of suspension of dealings in shares of the Company; (ii) a discount of approximately 2.0% to the average closing price per Share of approximately HK\$0.204 per Share as quoted on the Stock Exchange for the last five trading days of the Shares ended on 29th December, 2005; (iii) a discount of approximately 62.1% to the average closing price per Share of approximately HK\$0.53 per Share as quoted on the Stock Exchange for the last 30 trading days of the Shares ended on 29th December, 2005; (iv) a discount of approximately 6% to the closing price of HK\$0.212 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a discount of approximately 91.5% to the consolidated net assets per Share of the Group as at 30th September, 2005. The net placing price is approximately HK\$0.195 per Placing Share. The expenses of the Best Efforts Placing will be borne by the Company.
- Rights:** The Placing Shares will on issue rank equally with the Shares.
- Number of Placing Shares:** Assuming that the 750,000,000 Placing Shares are fully placed, they represent approximately 270.70% of the existing issued share capital of the Company of 277,056,202 Shares and approximately 73.02% of the issued capital of the Company as enlarged by the Placing Shares.
- Conditions Precedent:** The Best Efforts Placing is conditional upon the passing of a resolution at the EGM by the Independent Shareholders to approve the Placing Agreement and the issue of the Placing Shares pursuant to the Placing Agreement.

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## LETTER FROM MENLO CAPITAL LIMITED

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The Placing Agreement will lapse if the condition set out above is not satisfied by 28th February, 2006 unless the parties agree otherwise in writing. The Company and the Placing Agent have agreed to extend the long stop date for the satisfaction of the conditions under the Placing Agreement to 20th March, 2006.

In addition, completion of each tranche of Placing Shares will be conditional upon the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company does not reasonably object) listing of and permission to deal in the Placing Shares in respect of such tranche of Placing Shares (“Further Condition”). Further announcement will be made by the Company for the issue of each tranche of Placing Shares.

**Completion:**

Each tranche of the Placing Shares is to be completed on the third business day after satisfaction of the Further Condition. The Placing Agreement will lapse if the conditions are not satisfied by the expiry of the Placing Period unless the parties agree otherwise in writing. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

Since the obligation of the Placing Agent under the Best Efforts Placing is not an underwritten commitment, there is no event of force majeure in the Placing Agreement.

The terms of the Underwriting Agreement and the Placing Agreement do not give the placees the right to be appointed to the board of directors as a result of completion of the Underwritten Placing and the Best Efforts Placing.

We have reviewed the terms of the Comparables (as defined herein) in the section “The Underwritten Share Price and the Placing Price” below. We are of the view that the terms of both the Underwriting Agreement and the Placing Agreement summarized in the sub-sections “Conditions Precedent”, “Force Majeure” and “Completion” are normal and standard as compared with the Comparables. The fairness and reasonableness of Underwritten Share Price and the Placing Price are analysed in the section “The Underwritten Share Price and the Placing Price” below.

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## LETTER FROM MENLO CAPITAL LIMITED

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### IV. THE UNDERWRITTEN SHARE PRICE AND THE PLACING PRICE

The Underwritten Share Price and the Placing Price represent:

	<b>Underwritten Share Price and Placing Price</b>
(i) the closing price of the Shares quoted on the Stock Exchange on 29th December, 2005, the trading day before the date of suspension of dealings in shares of the Company pending the issue of the Announcement.	HK\$0.20
(ii) a (discount) to the average closing price of approximately HK\$0.204 per Share quoted on the Stock Exchange for the last five trading days of the Shares ended on 29th December, 2005.	Approximately (2.0%)
(iii) a (discount) to the average closing price of approximately HK\$0.53 per Share quoted on the Stock Exchange for the last 30 trading days of the Shares ended on 29th December, 2005.	Approximately (62.1%)
(iv) a (discount) to the consolidated net assets per Share of the Group as at 30th September, 2005.	Approximately (91.5%)

In order to assess the fairness and reasonableness of the Underwritten Share Price and the Placing Price, we have also looked into the recent transactions announced by the listed companies on the Stock Exchange on the web-site of the Stock Exchange in the last 3 calendar months immediately prior to the release of the Announcement and, to the best of our knowledge, have identified totally 16 such transactions (the "Comparables") involving the issues of new shares in placings denominated in Hong Kong dollars conducted by the main board listed companies in Hong Kong. Set out below is a summary key terms of the Comparables.

## LETTER FROM MENLO CAPITAL LIMITED

Name of the issuer (Stock code)	Announcement date	Premium/ (Discounts) to the closing share price immediately prior to the release of the relevant announcement	Premium/ (Discounts) to the average closing share price for the last five trading days immediately prior to the release of the relevant announcement	Premium/ (Discounts) to the latest consolidated net assets per share of the issuer
Baoye Group Company Ltd (2355)	3/11/2005	(7.62)%	(8.66)%	Not applicable
Radford Capital Investment Ltd (0901)	18/11/2005	(6.25)%	(5.66)%	(65.6)%
Willie International Holdings Ltd (0273)	21/11/2005	(10)%	(7.98)%	Not applicable
China Gas Holdings Ltd (0384)	29/11/2005	(10.23)%	(10.90)%	Not applicable
Harbin Power Equipment Co Ltd (1133)	30/11/2005	(2.73)%	(2.41)%	Not applicable
The Company	06/12/2005	(4.29)%	(7.46)%	Not applicable
Unity Investments Holdings Ltd (0913)	07/12/2005	(5.41)%	(10.71)%	(33.33)%
Tidetime Sun (Group) Ltd (0307)	08/12/2005	Nil	2.78%	(10.53)%
Starbow Holdings Ltd (0397)	09/12/2005	(12.77)%	(5.53)%	Not applicable
New World Development Co Ltd (0017)	12/12/2005	(10.85)%	(2.21)%	(34.88)%
Foxconn International Holdings Ltd (2038)	15/12/2005	Nil	9.65%	Not applicable
Sky Hawk Computer Group Holdings Ltd (1129)	22/12/2005	(19.71)%	(19.71)%	Not applicable
Vision Grande Group Holdings Ltd (2300)	23/12/2005 (note)	(20.8)%	(17.2)%	247.1%
Vision Grande Group Holdings Ltd (2300)	23/12/2005 (note)	(52.8)%	(50.7)%	106.6%
Yanion International Ltd (0082)	13/01/2006	(16.1)%	(17.3)%	Not applicable
Wing Shing International Holdings Ltd (0850)	01/02/2006	(17.5)%	(18.32)%	Not applicable
<b>Average</b>		<b>(12.32)%</b>	<b>(10.77)%</b>	<b>34.9%</b>
<b>Mean</b>		<b>(10.54)%</b>	<b>(8.32)%</b>	<b>(21.93)%</b>
<b>The Company</b>	<b>02/02/2006</b>	<b>Nil</b>	<b>(2.0)%</b>	<b>(91.5)%</b>

*Note:* There were two transactions announced in the announcement of Vision Grande Group Holdings Ltd dated 23rd December, 2005.

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## LETTER FROM MENLO CAPITAL LIMITED

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As can be seen from the above table, we note that (i) the premium/discounts to the closing share prices immediately prior to the release of the relevant announcement of the Comparables ranged from nil discount to a discount of 52.8% (the “First Comparable Range”) with an average discount of 12.32% and the mean discount of 10.54%; (ii) the premium/discounts to the average closing share prices for the last five trading days immediately prior to the release of the relevant announcement of the Comparables ranged from a premium of 9.65% to a discount of 50.7% (the “Second Comparable Range”) with an average at a discount of 10.77% and the mean at a discount of 8.32%; and (iii) the premium/discounts to the latest consolidated net assets per share of the Comparables ranged from a premium of 247.1% to a discount of 65.6% (the “Third Comparable Range”) with an average at a premium of 34.9% and the mean at a discount of 21.93%.

The Underwritten Share Price and the Placing Price, being the closing price of the Share quoted on the Stock Exchange on 29th December, 2005, the last trading day immediately prior to the release of the Announcement is within the First Comparable Range and is without discount as compared with the average discount of the First Comparable Range of 12.32% and the mean at a discount of 10.54%.

The Underwritten Share Price and the Placing Price, a 2.0% discount to average closing price of approximately HK\$0.204 per Share quoted on the Stock Exchange for the last five trading days of the Shares ended on 29th December, 2005, is within the Second Comparable Range and carries a discount far below the average discount of the Second Comparable Range of 10.77% and the mean at a discount of 8.32%.

However, we would like to point out that there was a substantial drop in the Share price of the Company in December 2005 with the closing price of the Shares quoted on the Stock Exchange on 29th December, 2005 being the lowest closing prices of the Shares quoted on the Stock Exchange in the then latest 12 calendar months.

Furthermore, the Underwritten Share Price and the Placing Price, a 91.5% discount to the consolidated net assets per Share of the Group as at 30th September, 2005, exceeds the Third Comparable Range and is far from the average premium of 34.9% and the mean discount of 21.93%.

Among the 16 Comparables, 5 transactions required independent shareholders’ and/or shareholders’ approval. There was no apparent correlation between the prices fixing and the requirement of independent shareholders’/shareholders’ approval for this 5 transactions or the other 11 transactions.

The Underwritten Share Price and the Placing Price seem fair and reasonable when compared with the First Comparable Range and the Second Comparable Range. We are of the view that the Underwritten Share Price and the Placing Price being a discount to 91.5% is far from the Third Comparable Range in term of average, mean and full range. Based on the above and given the substantial drop in the Share price in December 2005 and that the Shares are trading at the price level far below the consolidated net assets per Share, we consider that on the whole, the Underwritten Share Price and the Placing Price are not fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM MENLO CAPITAL LIMITED

### V. THE EFFECT ON SHAREHOLDING INTERESTS OF THE SHAREHOLDERS

Name of Shareholders	Shareholding before the Underwritten Placing and the Best Efforts Placing		Shareholding after the Underwritten Placing but before the Best Efforts Placing		Shareholding after the Underwritten Placing and the Best Efforts Placing	
Pacific Rim Investment Management Enterprises Limited (Note 1)	26,730,000	9.65%	26,730,000	5.07%	26,730,000	2.09%
Public Shareholders	250,326,202	90.35%	250,326,202	47.50%	250,326,202	19.60%
Placees	—	—	250,000,000	47.43%	1,000,000,000	78.31%
Total	<u>277,056,202</u>	<u>100%</u>	<u>527,056,202</u>	<u>100%</u>	<u>1,277,056,202</u>	<u>100%</u>

*Note 1:* Ms. Yau Shum Tek, Cindy, the Chairman of the Company, wholly owns and controls Red China Holdings Limited and Capital Sun Industries Limited. Capital Sun Industries Limited wholly owns Future Star Group Limited. Each of Red China Holdings Limited and Future Star Group Limited holds 50% of the issued share capital of Mainland Talent Developments Limited. Mainland Talent Developments Limited wholly owns Hastings Gold Limited which in turn wholly owns Pacific Rim Investment Management Enterprises Limited.

*Note 2:* It is a term of each of the Underwriting Agreement and of the Placing Agreement that the Underwriters and the Placing Agent (as the case may be) shall offer or sell the Underwritten Shares and the Placing Shares to persons, who to the best of the knowledge and belief of such Underwriter and Placing Agent, are independent individual, professional or institutional investors who, together with their ultimate beneficial owners are independent of and not acting in concert with the Company and Connected Persons of the Company. There is not expected to be a change in control of the Company as a result of the Underwriting Agreement and the Placing Agreement.

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## LETTER FROM MENLO CAPITAL LIMITED

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As can be seen from the above table, the shareholding in the Company held by the existing public Shareholders before the Underwritten Placing and the Best Efforts Placing will be decreased from 90.35% to 47.50% after the Underwritten Placing but before the Best Efforts Placing and further to 19.60% after the Underwritten Placing and the Best Efforts Placing.

The estimated maximum net proceeds from the Underwritten Placing and the Best Efforts Placing of approximately HK\$194.7 million will be used for investments by the Company. The Underwritten Placing will provide secured proceeds of approximately HK\$48.7 million whilst the Best Efforts Placing provides potential proceeds of up to approximately HK\$146 million.

As we believe that there is no urgent need for the Company to raise funds, we consider that the financial benefits derived by the Company from the Underwritten Placing and the Best Efforts Placing which include, among other things (i) the increase in net assets and cash position of the Group; (ii) the enhancement of the equity base of the Group; and (iii) an improvement in the gearing ratio of the Group does not fully justify the substantial dilution of the shareholding in the Company held by the Shareholders. Accordingly, we are of the view that such dilution is not in the interests of the Shareholders.

### OPINION

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

#### **I. the factors in favour of Underwritten Placing and the Best Efforts Placing:**

1. the proceeds from the Underwritten Placing and the Best Efforts Placing will provide the Company with flexibility in its investment;
2. the proceeds from the Underwritten Placing and the Best Efforts Placing will strengthen the financial position of the Group;
3. the terms of the Underwriting Agreement and the Placing Agreement are on normal commercial terms; and
4. the possible utilization of the proceeds for investment in the financial services group which is in line with the strategy of Group;

#### **II. the factors not in favour of Underwritten Placing and the Best Efforts Placing:**

1. no immediate need of the proceeds from the Underwritten Placing and the Best Efforts Placing;
2. the substantial dilution of shareholding ratio of existing public Shareholders by a maximum of 70.75% from the existing 90.35% to 19.60% after the completion of the Underwritten Placing and the Best Efforts Placing in full;



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## LETTER FROM MENLO CAPITAL LIMITED

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3. the Underwritten Share Price and the Placing Price, a 91.5% discount to the consolidated net assets per Share of the Group as at 30th September, 2005; and
4. a substantial drop in the Share price of the Company in December 2005 with the closing price of the Shares quoted on the Stock Exchange on 29th December, 2005 being the lowest closing prices of the Shares quoted on the Stock Exchange in the then latest 12 calendar months.

we consider that the terms of Underwritten Placing and the Best Efforts Placing are not fair and reasonable and the Underwritten Placing and the Best Efforts Placing are not in the best interests of the Company and the Shareholders as a whole for the time being.

### **2. THE REFRESHMENT OF ISSUE MANDATE**

The mandate granted to Directors to issue shares at the Company's annual general meeting held on 29th September, 2005 was close to fully utilised as a result of completion of the placing of 44,000,000 new Shares in December 2005 and has only 211,240 Shares remaining. The Company wishes to seek approval of Shareholders at the EGM to refresh the General Mandates in order to allow the flexibility for future business development and/or fund raising. Based on the issued share capital of the Company as at the date hereof of 277,056,202 Shares and assuming there is no change in the issued share capital until the date of the EGM, the Issue Mandate will allow the Directors to issue and allot up to 55,411,240 new Shares. However, the Company does not have any immediate plans for any new issue of Shares at present. Pursuant to the Listing Rules, the Directors and their Associates shall abstain from voting in favour of the relevant resolutions in relation to refreshment of the Issue Mandate at the EGM.

At the EGM, resolutions will be proposed to:-

- (1) refresh the general and unconditional mandate authorising the Directors to exercise all powers of the Company to issue new Shares up to 20% of the issued share capital of the Company on the date of the EGM;
- (2) refresh the general and unconditional mandate authorising the Directors to exercise all powers of the Company to repurchase Shares on the Stock Exchange up to a maximum of 10% of the issued share capital of the Company on the date of the EGM; and
- (3) by a separate ordinary resolution, extend the general and unconditional mandate so that the Directors be given a general mandate to issue further Shares equal to the Shares repurchased under the repurchase mandate referred to in (2) above.

As at the Latest Practicable Date, the Company did not have a "controlling shareholder" (as such term is defined in the Listing Rules) and an aggregate of 26,730,000 Shares (representing approximately 9.65% of the existing issued share capital of the Company) were held by the Directors (excluding independent non-executive Directors) of the Company and their respective Associates. The Directors and their Associates will abstain from voting in favour of resolutions to refresh the Issue Mandate at the EGM.

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## LETTER FROM MENLO CAPITAL LIMITED

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Notwithstanding the secured net proceeds of approximately HK\$48.7 million for the Underwritten Placing and potential proceeds of approximately HK\$146 million under the Best Efforts Placing, the Company still wishes to maintain the flexibility for future business development and fund raising opportunities hence considers it in the interest of the Company to take advantage of the EGM to be convened to approve the Underwritten Placing and the Best Efforts Placing together with the refreshment of the General Mandate although there are no plans at present to issue any new Shares other than the Underwritten Shares and the Placing Shares.

We consider that the approval by the Independent Shareholders to issue further securities not exceeding 20% of the issued share capital of the Company will allow the Company to maintain the flexibility for future business development and fund raising opportunities which is in the interests of the Company and the Shareholders as a whole. However, there is not plan at present to issue any new Shares.

### RECOMMENDATION

Taking into consideration of the above principal factors, we are of the view that the terms of the Underwritten Placing and the Best Efforts Placing are not fair and reasonable and the Underwritten Placing and the Best Efforts Placing are not in the best interests of the Independent Shareholders are concerned despite the fact that the Underwritten Placing and the Best Efforts Placing will strengthen the financial position of the Group. We recommend the Independent Board Committee to advise the Independent Shareholders to vote against the resolution to approve the Underwritten Placing and the Best Efforts Placing. Having said that, Shareholders who believe the immediate cash flow into the Group that will available for the possible investment in the financial services group and for other investments in the future, could choose to vote for the resolution to approve the Underwritten Placing and the Best Efforts Placing.

We are of the opinion that the terms of the refreshment of the Issue Mandate are fair and reasonable and the refreshment of the Issue Mandate is in the interests of the Shareholders and the Company as a whole are concerned. 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 refreshment of Issue Mandate.

Yours faithfully,  
For and on behalf of  
**Menlo Capital Limited**  
**Michael Leung**  
*Director*

*This section includes an explanatory statement required by the Stock Exchange to be presented to Shareholders concerning the Repurchase Mandate.*

## **1. STOCK EXCHANGE RULES FOR REPURCHASES OF SHARES**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their shares on the Stock Exchange subject to certain restrictions

The Listing Rules provide that all proposed repurchases of shares by a company with a primary listing on the Stock Exchange must be approved by shareholders in advance by an ordinary resolution, either by way of a general mandate or, by a specific approval of a particular transaction and that the shares to be repurchased must be fully paid up.

## **2. FUNDING OF REPURCHASES**

Any repurchase will be made out of funds which are legally available for the purpose in accordance with the Memorandum and Articles of Association of the Company and the laws of the Cayman Islands. As compared with the financial position of the Company as at 31st March, 2005 (being the date of its latest audited accounts), the Directors consider that there will not be a material adverse impact on the working capital and on the gearing position of the Company in the event that the proposed repurchases were to be carried out in full during the proposed repurchase period.

The Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital of the Company or the gearing ratio which in the opinion of the Directors are from time to time appropriate for the Company.

## **3. SHARE CAPITAL**

As at the Latest Practicable Date, the issued share capital of the Company comprise 277,056,202 Shares.

Subject to the passing of the relevant ordinary resolution to approve the general mandates to issue and repurchase Shares and on the basis that no further Shares are issued or repurchased between the Latest Practicable Date and the date of the EGM, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 27,705,620 Shares.

## **4. REASONS FOR REPURCHASES**

The Directors believe that it is in the best interests of the Company and the Shareholders to have a general authority from the Shareholders to enable the Directors to repurchase Shares on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

## 5. UNDERTAKING OF THE DIRECTORS

The Directors have undertaken to the Stock Exchange to exercise the Repurchase Mandate in accordance with the Listing Rules, the applicable laws of the Cayman Islands and in accordance with the Memorandum and Articles of Association of the Company.

## 6. EFFECT OF THE TAKEOVERS CODE

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a shareholder or group of shareholders acting in concert, depending on the level of increase of the shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. As at the Latest Practicable Date, Ms. Yau Shum Tek, Cindy was deemed to be interested in approximately 9.65% of the issued share capital of the Company. In the event that the Directors should exercise in full the power to repurchase Shares which is proposed to be granted pursuant to the resolution, the interests of Ms. Yau Shum Tek, Cindy together with her associates in the Company would be increased to approximately 10.70% of the issued share capital of the Company and the number of Shares held by the public would not fall below 25%. The Directors believe that such increase would not give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code. Save as aforesaid and as at the Latest Practicable Date, the Directors were not aware of any consequence which the exercise in full of the Repurchase Mandate would have under the Takeovers Code.

## 7. DIRECTORS, THEIR ASSOCIATES AND CONNECTED PERSONS

None of the Directors nor, to the best of the knowledge and belief of the Directors, having made all reasonable enquiries, any of their respective associates has any present intention, in the event that the proposed Repurchase Mandate is approved by the Shareholders, to sell Shares to the Company. No connected person of the Company has notified the Company that he/she/it has a present intention to sell Shares to the Company nor has he/she/it undertaken not to sell any of the Shares held by him/her/it to the Company in the event that the Company is authorised to make repurchases of Shares.

## 8. SHARE REPURCHASE MADE BY THE COMPANY

No repurchase of Shares has been made by the Company in the six months (whether on the Stock Exchange or, otherwise) ended on the Latest Practicable Date.

## 9. SHARE PRICE

The highest and lowest prices at which the Shares were traded on the Stock Exchange in each of the previous twelve months were as follows:

	Shares	
	Highest HK\$	Lowest HK\$
January 2005	1.08	0.74
February 2005	0.78	0.70
March 2005	0.78	0.58
April 2005	0.74	0.58
May 2005	0.70	0.56
June 2005	0.60	0.44
July 2005	0.50	0.32
August 2005	0.75	0.40
September 2005	0.89	0.66
October 2005	0.78	0.64
November 2005	0.78	0.65
December 2005	0.71	0.196
January 2006 ( <i>Note 2</i> )	N/A	N/A
February 2006 (up to the Latest Practicable Date)	0.26	0.21

*Note 1:* All the above highest and lowest prices have been adjusted for the consolidation of every twenty (20) shares of HK\$0.01 each in the issued and unissued ordinary share capital of the Company into one (1) share of HK\$0.20 each effective on 5th August, 2005.

*Note 2:* The trading of Shares was suspended from 30th December, 2005 to 3rd February 2006.



內蒙發展(控股)有限公司  
INNER MONGOLIA DEVELOPMENT (HOLDINGS) LIMITED  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 279)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Inner Mongolia Development (Holdings) Limited will be held at Function Room, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Monday, 6th March, 2006 at 9:30 a.m. for the following purposes of considering and, if thought fit, passing, with or without modification, the following resolutions:

**ORDINARY RESOLUTIONS**

1. **“THAT** the terms of the underwriting agreement dated 30th December, 2005 (the “Underwriting Agreement”) entered into between Inner Mongolia Development (Holdings) Limited (the “Company”) and Get Nice Investment Limited and Kingston Securities Limited (the “Underwriters”) (a copy of which has been produced to the meeting and marked “A” and signed for the purpose of identification by the Chairman of the meeting) in relation to the placing of 250,000,000 new shares of HK\$0.20 each (the “Underwritten Shares”), on a fully underwritten basis to independent investors at a price of HK\$0.20 per Underwritten Share be and is hereby approved and the issue and allotment of the Underwritten Shares be and is hereby approved and the Company be and are hereby authorised to issue the Underwritten Shares and to sign or execute such other documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary or desirable for the purposes of giving effect to the Underwriting Agreement.”
2. **“THAT** the terms of the placing agreement dated 30th December, 2005 (the “Placing Agreement”) entered into between the Company and Kingston Securities Limited (the “Placing Agent”) (a copy of which has been produced to the meeting and marked “B” and signed for the purpose of identification by the Chairman of the meeting) in relation to the placing of up to 750,000,000 new shares of HK\$0.20 each (the “Placing Shares”) in up to five separate tranches with each tranche of Placing Shares to be not less than 150,000,000 Placing Shares, on a best efforts basis to independent investors at a price of HK\$0.20 per Placing Share be and is hereby approved and that the issue and allotment of the Placing Shares be and is hereby approved and the directors of the Company be and is hereby authorised to issue the Placing Shares and to sign or execute such other documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he or she considers necessary or desirable for the purposes of giving effect to the Placing Agreement.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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3. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the Directors be and are hereby authorised during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers during or after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or, otherwise) by the Directors pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or pursuant to the exercise of any options granted under the share option scheme adopted by the Company or an issue of shares upon the exercise of subscription rights attached to the warrants which might be issued by the Company or an issue of shares in lieu of the whole or part of a dividend on shares or any scrip dividend scheme or similar arrangement in accordance with the Articles of Association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the time of passing this resolution; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or the applicable laws of the Cayman Islands to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other, arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange).”

4. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase issued shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange, be and is hereby, generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to repurchase its shares at a price determined by the Directors;
- (c) the aggregate nominal amount of share capital of the Company repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the time of passing this resolution; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or the applicable laws of the Cayman Islands to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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(e) the general mandate to repurchase Shares granted to the Directors pursuant to resolution No. 4B as set out in the notice of the annual general meeting of the Company held on 29th September, 2005 be and is hereby revoked.”

5. “**THAT** conditional upon the passing of the ordinary resolutions numbered 3 and 4 in the notice convening the meeting of the Company dated 16th February, 2006, the aggregate nominal amount of the share capital of the Company repurchased by the Company pursuant to and in accordance with the said resolution numbered 4 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with the said resolution numbered 3 set out in the notice of the meeting of the Company dated 16th February, 2006.”

By Order of the Board  
**Inner Mongolia Development (Holdings) Limited**  
**Yau Shum Tek, Cindy**  
*Chairman*

Hong Kong, 16th February, 2006

*Notes:*

1. To be valid, the instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney authorised in writing or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
2. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy duly appointed pursuant to the articles of association of the Company is entitled to vote on a show of hands at the meeting. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
3. The instrument appointing a proxy 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 the Company’s share registrar in Hong Kong, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong not less than 48 hours before the time for holding the meeting or the adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
4. Where there are joint registered holders of any share, any one of such persons 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 said persons 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.