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If you have sold or transferred all your shares in Wonson International Holdings Limited (“Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, the licensed securities dealer or registered institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.



WONSON INTERNATIONAL HOLDINGS LIMITED

和成國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00651)

**(1) PROPOSED OPEN OFFER OF NOT LESS THAN 1,804,199,302
OFFER SHARES AND NOT MORE THAN 2,012,780,004 OFFER SHARES
OF HK\$0.05 EACH AT THE SUBSCRIPTION PRICE
OF HK\$0.20 PER OFFER SHARE
ON THE BASIS OF TWO OFFER SHARES
FOR EVERY ONE SHARE HELD ON THE RECORD DATE
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

Financial adviser to the Company



KINGSTON CORPORATE FINANCE LIMITED

Underwriters to the Open Offer



KINGSTON SECURITIES LIMITED

LI MING

Independent Financial Adviser to the Independent Board Committees
and Independent Shareholders



廣發融資 (香港) 有限公司
GF Capital (Hong Kong) Limited

Terms used in this cover page have the same meanings as defined in this circular.

A letter of advice from GF Capital, to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 36 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 22 to 23 of this circular.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate the obligations of the Underwriters thereunder on the occurrence of certain events. These events are set out in the section headed “Termination of the Underwriting Agreement” in this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed.

A notice convening the SGM to be held at 10:00 a.m. on Wednesday, 30 December 2009 at Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong is set out on pages N-1 to N-2 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting to the office of the Company’s branch share registrar in Hong Kong, Tricor Abacus Limited, at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting in person should you so wish.

* for identification purpose only

14 December 2009

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EXPECTED TIMETABLE

The expected timetable for the Open Offer as set out below is indicative only and has been prepared on the assumption that the Open Offer will be approved by the Independent Shareholders at the SGM. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate:

Last day of dealings in the Shares on a cum-entitlement basis	Monday, 21 December 2009
Commencement of dealings in the Shares on an ex-entitlement basis	Tuesday, 22 December 2009
Latest time for lodging transfer of the Shares in order to be qualified for the Open Offer	4:30 p.m. on Wednesday, 23 December 2009
Register of members closes (both dates inclusive)	From Thursday, 24 December 2009 to Wednesday, 30 December 2009
Record Date	Wednesday, 30 December 2009
SGM	Wednesday, 30 December 2009
Announcement of the results of the SGM	Wednesday, 30 December 2009
Register of members re-opens	Thursday, 31 December 2009
Despatch of the Prospectus Documents	Thursday, 31 December 2009
Latest Acceptance Time	4:00 p.m. on Thursday, 14 January 2010
Underwriting Agreement becomes unconditional	4:00 p.m. on Monday, 18 January 2010
Announcement of results of the Open Offer	Wednesday, 20 January 2010
Certificates for the Offer Shares expected to be despatched on or before	Wednesday, 20 January 2010
Dealings in fully-paid Offer Shares expected to commence	Friday, 22 January 2010

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE

The Latest Acceptance Time will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or

- a “black” rainstorm warning
 - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead the Latest Acceptance Time will be extended to 5:00 p.m. on the same business day; or

 - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead the Latest Acceptance Time will be rescheduled to 4:00 p.m. on the following business day (other than Saturday) which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the Latest Acceptance Time does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected timetable” in this circular may be affected. An announcement will be made by the Company in such event.

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 16 November 2009 in relation to the Open Offer
“Application Form(s)”	the application form(s) to be issued in connection with the Open Offer
“associate(s)”	has the same meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Wonson International Holdings Limited (stock code: 00651), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“controlling shareholder(s)”	has the same meaning ascribed thereto in the Listing Rules
“Convertible Notes”	the convertible notes due 2011 in an aggregate outstanding principal amount of HK\$507,549,152 as at the date hereof issued by the Company, details and principal terms of which are set out in the circular of the Company dated 6 February 2008
“Director(s)”	director(s) of the Company
“Excluded Shareholder(s)”	Overseas Shareholder(s), whom the Directors, based on legal opinions provided by the legal advisers, consider it necessary or expedient not to offer the Open Offer to such Shareholders on account either of the legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory bodies or stock exchanges in those places
“GF Capital”	GF Capital (Hong Kong) Limited, a licensed corporation to carry on business in Type 6 (advising on corporate finance) regulated activities under the SFO
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board comprised of all the independent non-executive Directors, namely Mr. Zhang Xi Ping, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying, formed for advising the Independent Shareholders in relation to the Open Offer
“Independent Shareholders”	Shareholders other than the Directors (excluding independent non-executive Directors) and chief executive of the Company and their respective associates
“Kingston Securities”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the SFO
“Last Trading Day”	16 November 2009, being the date of the Underwriting Agreement, which is the last trading day on which the Shares were traded on the Stock Exchange immediately preceding the publication of the Announcement
“Latest Acceptance Date”	Thursday, 14 January 2010, or such other date as the Underwriters and the Company may agree, being the latest date for acceptance of, and payment for, the Offer Shares
“Latest Acceptance Time”	4:00 p.m. on Thursday, 14 January 2010, or such other date and/or time as the Underwriters and the Company may agree, being the latest time for acceptance of, and payment for, the Offer Shares
“Latest Practicable Date”	10 December 2009, being the latest practicable date prior to the printing of this circular of ascertaining certain information in this circular
“Latest Time for Termination”	4:00 p.m. on the second business day after the Latest Acceptance Time
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Li”	Li Ming, being an executive Director
“Mr. Li’s Undertaking”	the irrevocable undertaking given by Mr. Li in favour of the Company and Kingston Securities in respect of the Open Offer, further details of which are set out in the paragraph headed “Undertaking given by Mr. Li” in this circular

DEFINITIONS

“Offer Shares”	not less than 1,804,199,302 new Shares and not more than 2,012,780,004 new Shares to be issued and allotted under the Open Offer
“Open Offer”	the proposed offer for subscription of the Offer Shares at a price of HK\$0.20 per Offer Share by the Company to the Qualifying Shareholders on the basis of two Offer Shares for every Share held on the Record Date
“Overseas Shareholders”	Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date and whose addresses as shown on such register are outside Hong Kong
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the Application Form(s)
“Prospectus Posting Date”	the date of posting the Prospectus Documents to Qualifying Shareholders and the Prospectus to Excluded Shareholders for their information only
“Qualifying Shareholders”	Shareholders, other than the Excluded Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	Wednesday, 30 December 2009, or such other date as may be agreed between the Company and the Underwriters, being the date by reference to which entitlements to the Open Offer are to be determined
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held on 30 December 2009 at which resolutions will be proposed to consider, and, if thought fit, to approve the Open Offer
“Share(s)”	share(s) of HK\$0.05 each in the share capital of the Company
“Share Option(s)”	the option(s) to subscribe for Share(s) under the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 27 May 2002

DEFINITIONS

“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriters”	Kingston Securities and Mr. Li
“Underwriting Agreement”	the underwriting agreement dated 16 November 2009 entered into between the Company and the Underwriters in relation to the Open Offer
“Underwritten Shares”	being not less than 1,649,389,302 Offer Shares and not more than 1,857,970,004 Offer Shares, representing the total number of Offer Shares to be issued pursuant to the Open Offer other than the Offer Shares undertaken pursuant to Mr. Li’s Undertaking
“Untaken Shares”	any of the Underwritten Shares not taken up by the Qualifying Shareholders
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriters shall be entitled by notice in writing to the Company, served prior to 4:00 p.m. on 18 January 2010, to terminate the Underwriting Agreement if, prior to such time:

- (1) in the absolute opinion of any of the Underwriters, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any law or new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of any of the Underwriters, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature (whether or not ejusdem generic with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of any of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (c) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
 - (d) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (e) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, this circular or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or
- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of any of the Underwriters makes it inexpedient or inadvisable to proceed with the Open Offer; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (3) this circular or the Prospectus in connection with the Open Offer when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of any of the Underwriters is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer.

If the Underwriters give a notice of termination to the Company in accordance with the terms of the Underwriting Agreement, all obligations of the Underwriters under the Underwriting Agreement shall cease and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriters any reasonable legal fees and other reasonable out-of-pocket expenses incurred by the Underwriters, except that the 1.5% underwriting commission shall not be payable to the Underwriters if the Underwriting Agreement does not become unconditional or if it is terminated by the Underwriters pursuant to the Underwriting Agreement. If the Underwriters exercise their rights to terminate the Underwriting Agreement, the Open Offer will not proceed.

SUMMARY OF THE OPEN OFFER

The following information is derived from, and should be read in conjunction with, the full text of this circular.

Basis of the Open Offer:	two Offer Shares for every one Share held on the Record Date
Subscription price:	HK\$0.20 per Offer Share payable in full upon acceptance
Number of Shares in issue as at the Latest Practicable Date:	902,099,651 Shares
Number of Offer Shares:	Not less than 1,804,199,302 Offer Shares and not more than 2,012,780,004 Offer Shares
Enlarged Shares in issue immediately upon completion of the Open Offer:	Not less than 2,706,298,953 Shares and not more than 3,019,170,006 Shares
Amount to be raised by the Open Offer:	not less than approximately HK\$360.84 million and not more than HK\$402.56 million (before expenses)
Basis of entitlement:	Offer Shares will be allotted in the proportion of two Offer Shares for every one Share held by the Qualifying Shareholders on the Record Date. No Offer Shares will be offered to the Excluded Shareholders (if any) and will be taken up by the Underwriters. No arrangement for application for Offer Shares by Qualifying Shareholders in excess of their entitlements as described above.

LETTER FROM THE BOARD



WONSON INTERNATIONAL HOLDINGS LIMITED

和成國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00651)

Executive Directors:

Mr. Chau On Ta Yuen (*Chairman*)
Mr. Li Ming (*Deputy Chairman & CEO*)
Mr. Zhang Shi Hong
Mr. Wang San Long

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent Non-executive Directors:

Mr. Zhang Xi Ping
Ms. Xiang Siying
Mr. Hu Bai He
Ms. Xiang Ying

*Head Office and principal place of
business in Hong Kong*

Unit 1103, 11/F.
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

14 December 2009

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED OPEN OFFER OF NOT LESS THAN 1,804,199,302
OFFER SHARES AND NOT MORE THAN 2,012,780,004 OFFER SHARES
OF HK\$0.05 EACH AT THE SUBSCRIPTION PRICE
OF HK\$0.20 PER OFFER SHARE
ON THE BASIS OF TWO OFFER SHARES
FOR EVERY ONE SHARE HELD ON THE RECORD DATE
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

As announced by the Company in the Announcement, the Company proposed to raise not less than approximately HK\$360.84 million and not more than HK\$402.56 million, before expenses, by

* *for identification purpose only*

LETTER FROM THE BOARD

way of the Open Offer of not less than 1,804,199,302 Offer Shares and not more than 2,012,780,004 Offer Shares at a subscription price of HK\$0.20 per Offer Share in the proportion of two Offer Shares for every one Share held by the Qualifying Shareholders on the Record Date.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Open Offer. GF Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with information regarding the (i) details of the Open Offer; (ii) the recommendation of the Independent Board Committee in relation to the Open Offer; and (iii) a letter of advice from GF Capital to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, together with notice convening the SGM.

PROPOSED OPEN OFFER

Issue statistics

Basis of the Open Offer	:	Two Offer Shares for every one Share held on the Record Date
Number of Shares in issue as at the Latest Practicable Date	:	902,099,651 Shares
Number of Offer Shares	:	Not less than 1,804,199,302 Offer Shares and not more than 2,012,780,004 Offer Shares
Subscription price	:	HK\$0.20 per Offer Share
Number of Shares in issue immediately upon completion of the Open Offer	:	Not less than 2,706,298,953 Shares and not more than 3,019,170,006 Shares

As at the Latest Practicable Date, the Company has 34,380,000 outstanding Share Options and outstanding Convertible Notes which are convertible into 69,910,351 Shares. Save for the Share Options and Convertible Notes aforementioned, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

Pursuant to the Underwriting Agreement, the Company has undertaken that it shall not, without the prior consent of the Underwriters, issue any Shares or issue or grant any share options or other securities convertible into, exchangeable for or which carry rights to acquire Shares (other than the Offer Shares) from the date of the Underwriting Agreement until after the Latest Acceptance Time, being at 4:00 p.m. on Thursday, 14 January 2010.

LETTER FROM THE BOARD

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and not be an Excluded Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 23 December 2009.

The register of members of the Company will close from Thursday, 24 December 2009 to Wednesday, 30 December 2009 (both dates inclusive). No transfer of Shares will be registered during this book closure period.

The Company will send the Prospectus Documents to the Qualifying Shareholders only. For the Excluded Shareholders, the Company will send the Prospectus to them for their information only.

No Transfer of nil-paid entitlements and no application for excess Offer Shares

The invitation to apply for Offer Shares will not be transferable and there will be no trading in nil-paid entitlements on the Stock Exchange.

The Company decided that the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. Having considered that each Qualifying Shareholder will be given equal and fair opportunities to participate in the Company's future development by subscribing for his/her/its assured entitlements under the Open Offer, the Company decided not to put in additional effort and costs to administer the excess application procedures. Any Untaken Shares (exclude those to be taken up by Mr. Li pursuant to Mr. Li's Undertaking) will be underwritten by the Underwriters. In the view that the related administration costs would be lower, the Directors consider that the absence of application for excess Offer Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Subscription price

The subscription price for the Offer Shares is HK\$0.20 per Offer Share, payable in cash in full upon application. The subscription price represents:

- (i) a discount of approximately 46.67% to the closing price per Share of HK\$0.375 as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 45.65% to the average of the closing prices per Share of HK\$0.368 for the last 5 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (iii) a discount of approximately 44.60% to the average of the closing prices per Share of approximately HK\$0.361 for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iv) a discount of approximately 22.48% to the theoretical ex-entitlement price of approximately HK\$0.258 per Share calculated based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (v) a discount of approximately 28.57% to the closing price per Share of HK\$0.280 as quoted on the Stock Exchange as at the Latest Practicable Date.

The subscription price for the Offer Shares was determined after arm's length negotiations between the Company and the Underwriters with reference to the prevailing market condition. As the Offer Shares are offered to all Qualifying Shareholders, the Directors would like to set the subscription price at a level that would attract the Qualifying Shareholders to participate in the Open Offer. The Directors consider that the terms of the Open Offer, including the subscription price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares, when allotted, issued and fully paid, will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares. Dealings in the Offer Shares will be subject to payment of stamp duty in Hong Kong.

Certificates of the Offer Shares

Subject to the conditions of the Open Offer being fulfilled, share certificates for all fully-paid Offer Shares are expected to be posted by Wednesday, 20 January 2010 to those Shareholders who have validly applied and paid for Offer Shares at their own risk.

Application for listing of the Offer Shares

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the fully paid Offer Shares. Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty in Hong Kong, Stock Exchange trading fees, SFC transaction levy and other applicable fees and charges in Hong Kong.

Subject to the grant of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE BOARD

Fractional entitlements

No fractional entitlements or allotments are expected to arise as a result of the Open Offer.

Rights of Excluded Shareholders

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda. Based on the register of members of the Company as at the Latest Practicable Date, there were two Shareholders with registered addresses in the British Virgin Islands and the United States of America. Pursuant to the Listing Rules, the Board has made enquiries as to whether there is any legal restriction under the applicable securities legislation of the relevant jurisdiction or requirement of any relevant regulatory body or stock exchange with respect to the offer of Offer Shares to such Overseas Shareholders.

The Directors, after making enquiries pursuant to the Listing Rules, are of the view that (i) the Open Offer will be extended to the Overseas Shareholder with registered address in the British Virgin Islands as no local legal or regulatory compliance is required to be made in this jurisdiction and (ii) it would be necessary or expedient to exclude the Overseas Shareholder with registered address in the United States of America from the Open Offer due to the time and costs involved in complying with the relevant local legal or regulatory requirements. As such, the Overseas Shareholder with registered address in the United States of America is Excluded Shareholder. The Company has therefore arranged for the Prospectus, and not the Application Form, to be sent to the Excluded Shareholder for information only. However, so long as the Excluded Shareholder is Independent Shareholders, he/she is entitled to attend and vote at the SGM. The Offer Shares which would otherwise be allotted to the Excluded Shareholder under the Open Offer will be taken up by the Underwriters.

UNDERWRITING ARRANGEMENTS

Undertaking given by Mr. Li

As at the Latest Practicable Date, Mr. Li was beneficially owner of 77,405,000 Shares, of which 64,695,000 Shares were directly held by him and 12,710,000 Shares were indirectly held by his wholly-owned company, Lead Dragon Limited, representing approximately 8.58% of the existing issued share capital of the Company. Pursuant to the Open Offer, Mr. Li will be entitled to subscribe for a maximum of 154,810,000 Offer Shares. Mr. Li has irrevocably undertaken to the Company and Kingston Securities, among other matters, that: (i) the Shares beneficially owned by him will remain registered in the same name or be registered in the name of its nominees from the date of the Mr. Li's Undertaking up to the close of business of the Record Date; (ii) he will subscribe or procure the subscription in full for his entitlement under the Open Offer pursuant to the terms of the Open Offer; and (iii) he will not and will procure that (so far as applicable and reasonably possible) company(ies) controlled by him will not during the period from immediately after the execution of the Underwriting Agreement and prior to or on the date the Underwriting Agreement becoming unconditional, dispose of or transfer the beneficial interests in any of the Shares beneficially owned by him.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

- Date : 16 November 2009
- Underwriters : Kingston Securities and Mr. Li
- Number of Offer Shares underwritten : The Underwriters have agreed to fully underwrite all the Untaken Shares, being not less than 1,649,389,302 Offer Shares and not more than 1,857,970,004 Offer Shares pursuant to underwritten by the Underwriting Agreement in the following manner:
- (i) Mr. Li shall subscribe for or procure subscription for the first of such number up to 270,635,000 Untaken Shares; and
 - (ii) Kingston Securities shall subscribe for or procure subscription for all remaining Untaken Shares.
- Commission : 1.5% of the aggregate subscription price of the maximum number of the Underwritten Shares

Mr. Li does not engage any underwriting business save for the Open Offer. As Mr. Li is an executive Director, he is a connected person of the Company (as defined in the Listing Rules). The entering into of the Underwriting Agreement between the Company and Mr. Li constitutes a connected transaction for the Company under the Listing Rules. Pursuant to Rule 14A.31(3)(c) of the Listing Rules, provided that Rule 7.26A(2) of the Listing Rules has been complied with, the Underwriting Agreement will be exempted from the reporting, announcement and independent shareholders approval requirements. Pursuant to Rule 7.26A(2) of the Listing Rules, since no excess application for the Offer Shares is available, approval shall be obtained from the Independent Shareholders in respect of the absence of such arrangement and the Underwriting Agreement which serve as the alternative arrangement in respect of the Offer Shares untaken by the Shareholders under the Open Offer and any Shareholders who have a material interest in the relevant resolution shall abstain from voting.

To the best of the Directors' knowledge and information, Kingston Securities and its ultimate beneficial owners are independent third parties and are not connected with the Company and its connected person (as defined in the Listing Rules).

Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to subscribe or procure subscription for the Offer Shares which have not been taken up. Accordingly, the Open Offer is fully underwritten. The Directors are of the opinion that the terms of the Underwriting Agreement and the amount of commission given to the Underwriters are fair as compared to the market practice and commercially reasonable as agreed between the Company and the Underwriters.

LETTER FROM THE BOARD

Conditions of the Open Offer

The Open Offer is conditional on, among other things, each of the following conditions being fulfilled:

- (i) the Company despatching this circular to the Shareholders containing, among other matters, details of the Open Offer together with proxy form and notice of SGM;
- (ii) the passing of a resolution by the Independent Shareholders at the SGM to approve the Open Offer;
- (iii) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares (in their fully-paid forms);
- (iv) the filing and registration of all documents relating to the Open Offer, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance;
- (v) the filing of the Prospectus Documents with the Registrar of Companies in Bermuda;
- (vi) the posting of the Prospectus Documents to Qualifying Shareholders by the Prospectus Posting Date;
- (vii) compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement; and
- (viii) compliance with and performance of all obligations and undertakings of Mr. Li under Mr. Li's Undertaking.

Neither of the Company nor the Underwriters may waive the conditions (i) to (vi) and (viii) above. Kingston Securities may waive the condition (vii) in whole or in part by written notice to the Company.

If the above conditions are not satisfied and/or waived in whole or in part by the Underwriters by the Latest Time for Termination or such later date or dates as the Underwriters may agree with the Company in writing, the Underwriting Agreement shall terminate and no party will have any claim against any other party for costs, damages, compensation or otherwise (save in respect of any reasonable legal fees or other reasonable out-of-pocket expenses, if any, of the Underwriters, or the indemnity given to the Underwriters and any rights or obligations which may accrue under the Underwriting Agreement prior to such termination).

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

The Underwriters shall be entitled by notice in writing to the Company, served prior to 4:00 p.m. on 18 January 2010, to terminate the Underwriting Agreement if, prior to such time:

- (1) in the absolute opinion of any of the Underwriters, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any law or new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of any of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature (whether or not ejusdem generic with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of any of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (c) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
 - (d) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (e) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, this circular or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or
- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of any of the Underwriters makes it inexpedient or inadvisable to proceed with the Open Offer; or

LETTER FROM THE BOARD

- (3) this circular or the Prospectus in connection with the Open Offer when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of any of the Underwriters is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer.

If the Underwriters give a notice of termination to the Company in accordance with the terms of the Underwriting Agreement, all obligations of the Underwriters under the Underwriting Agreement shall cease and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriters any reasonable legal fees and other reasonable out-of-pocket expenses incurred by the Underwriters, except that the 1.5% underwriting commission described above shall not be payable to the Underwriters if the Underwriting Agreement does not become unconditional or if it is terminated by the Underwriters pursuant to the Underwriting Agreement. If the Underwriters exercise their right to terminate the Underwriting Agreement, the Open Offer will not proceed.

WARNING OF THE RISKS OF DEALING IN THE SHARES

The Open Offer is conditional upon, among other things, the fulfillment of the conditions set out below under the section headed “Conditions of the Open Offer” above. In addition, the Underwriters are entitled under the Underwriting Agreement to terminate the Underwriting Agreement on the occurrence of certain events, including but not limited to force majeure, as described above. Accordingly, the Open Offer may or may not proceed.

Any dealing in the Shares from the date of the Announcement up to the date on which all the conditions of the Open Offer are fulfilled will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares are advised to consult their own professional advisers.

Shareholders should note that, based on the expected timetable, the Shares will be dealt in on an ex-entitlement basis commencing from Tuesday, 22 December 2009 and that dealing in Shares will take place even though the conditions under the Underwriting Agreement remain unfulfilled. Any Shareholder or other person dealing in the Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be at 4:00 p.m. on Monday, 18 January 2010) will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed.

LETTER FROM THE BOARD

POSSIBLE ADJUSTMENTS TO THE SHARE OPTIONS AND THE CONVERTIBLE NOTES

The Open Offer may lead to adjustments to the exercise price and/or the number of Shares to be issued upon exercise of the Share Options and the Convertible Notes. Further announcement will be made by the Company regarding adjustments to be made (if any) pursuant to the terms of the Share Option Scheme and the Convertible Notes in due course.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS OF THE COMPANY

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the date of the Announcement and up to the Latest Practicable Date:

Nature of transaction	Date of initial announcement	Net proceeds	Intended use of net proceeds as announced	Actual use of net proceeds
Placing of new Shares	20 August 2009	Approximately HK\$63.43 million	Repayment of debts and general working capital of the Group	HK\$28.3 million was utilised as intended and the remaining balance was retained as general working capital of the Group at the banks of the Group
Placing of new Shares	21 May 2009	Approximately HK\$43.0 million	Repayment of debts and general working capital of the Group	Fully utilised as intended

LETTER FROM THE BOARD

CHANGES IN SHAREHOLDING STRUCTURE

The changes in the shareholding structure of the Company arising from the Open Offer are set out below for illustration purpose only:

- (i) assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Open Offer			
	No. of Shares	%	Assuming all Qualifying Shareholders take up the Offer Shares in full		Assuming no Qualifying Shareholder (other than Mr. Li) takes up the Offer Shares (<i>Note 2</i>)	
			No. of shares	%	No. of shares	%
Mr. Li (<i>Note 1</i>)	77,405,000	8.58	232,215,000	8.58	502,850,000	18.58
Public						
Kingston Securities	—	—	—	—	1,378,754,302	50.95
Public Shareholders	<u>824,694,651</u>	<u>91.42</u>	<u>2,474,083,953</u>	<u>91.42</u>	<u>824,694,651</u>	<u>30.47</u>
	<u><u>902,099,651</u></u>	<u><u>100.00</u></u>	<u><u>2,706,298,953</u></u>	<u><u>100.00</u></u>	<u><u>2,706,298,953</u></u>	<u><u>100.00</u></u>

LETTER FROM THE BOARD

- (ii) assuming the exercise of the outstanding Share Options and convertible rights attached to the Convertible Notes in full on or before the Record Date:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Open Offer			
	No. of Shares	%	Assuming all Qualifying Shareholders take up the Offer Shares in full		Assuming no Qualifying Shareholder (other than Mr. Li) takes up the Offer Shares (Note 2)	
	No. of Shares	%	No. of shares	%	No. of shares	%
Mr. Li (Note 1)	77,405,000	8.58	232,215,000	7.69	502,850,000	16.66
Chau On Ta Yuen (Note 3)	—	—	9,000,000	0.30	3,000,000	0.10
Zhang Shi Hong (Note 3)	—	—	3,000,000	0.10	1,000,000	0.03
Wang San Long (Note 3)	—	—	7,800,000	0.26	2,600,000	0.09
Public						
Kingston Securities	—	—	—	—	1,587,335,004	52.57
Public Shareholders	<u>824,694,651</u>	<u>91.42</u>	<u>2,767,155,006</u>	<u>91.65</u>	<u>922,385,002</u>	<u>30.55</u>
	<u>902,099,651</u>	<u>100.00</u>	<u>3,019,170,006</u>	<u>100.00</u>	<u>3,019,170,006</u>	<u>100.00</u>

Notes:

- Mr. Li, an executive Director, was beneficial owner of 77,405,000 Shares, of which 64,695,000 Shares were directly held by him and 12,710,000 Shares were indirectly held by Lead Dragon Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Li.
- This scenario is for illustrative purpose only and will never occur. Pursuant to the Underwriting Agreement, in the event of the Underwriters being called upon to subscribe for or procure subscribers to subscribe for any of the Untaken Shares:
 - Mr. Li shall subscribe for or procure subscription for the first of such number up to 270,635,000 Untaken Shares;
 - Kingston Securities shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 9.9% of the voting rights of the Company upon the completion of the Open Offer; and
 - Kingston Securities shall use all reasonable endeavours to ensure that each of the subscribers of the Untaken Shares procured by it (i) shall be third party independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected with the Directors or chief executive of the Company or substantial shareholders of the Company or their respective associates; and (ii) shall not, together with any party acting in concert (within the meaning of the Takeovers Code) with it, hold 10.0% or more of the voting rights of the Company upon completion of the Open Offer.
- Mr. Chau On Ta Yuen, Mr. Zhang Shi Hong and Mr. Wang San Long are executive Directors who have 3,000,000 Share Options, 1,000,000 Share Options and 2,600,000 Share Options respectively as at the Latest Practicable Date.

LETTER FROM THE BOARD

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Company was incorporated in Bermuda with limited liability. The principal business activities are shipbuilding-related business, metals trading and investments in securities.

The Directors are of the view that the Open Offer would strengthen the financial position of the Group and enable the Group to expand its capital base. In addition, the Open Offer allows the Qualifying Shareholders to maintain their respective proportional shareholdings in the Company and to participate in the future growth and development of the Company. The Directors believe that the Open Offer is in the interests of the Company and the Shareholders as a whole.

The Directors have considered other fund raising methods such as bank borrowing, placement of new Shares and rights issue. In view of interest-bearing nature of the bank borrowing and the dilution effects on the shareholding of the Company in respect of the placement of new Shares, the Directors consider that the Open Offer, which does not require time for trading of nil-paid rights shares and will not incur additional costs in respect of the trading of nil-paid rights, not only allows the Qualifying Shareholders to maintain their respective shareholdings, but is more time and cost effective and in the interests of the Company and the Shareholders as a whole.

The estimated net proceeds of the Open Offer will be not less than approximately HK\$353.9 million and not more than approximately HK\$395.6 million, of which HK\$250.0 million will be used for repayment of debts and the remaining balance will be used for general working capital purposes. The estimated net expenses of approximately HK\$6.9 million in relation to the Open Offer, including, among others, financial, legal and other professional advisory fee, underwriting commission, printing and translation expenses will be borne by the Company.

All times stated above are Hong Kong times. Dates stated in the timetable are for indicative purpose only and may be extended or varied. Any changes to the expected timetable for the Open Offer will be announced by the Company as and when appropriate.

SGM

The SGM will be held at 10:00 a.m. on Wednesday, 30 December 2009 at Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, the notice of which is set out on pages N-1 to N-2 of this circular, to consider and, if thought fit, approve the Open Offer.

In compliance with the Listing Rules, all the resolutions to be proposed at the SGM will be voted by way of a poll.

You will find enclosed a form of proxy for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting to the office of the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish and in such event, the proxy shall be deemed to be revoked.

LETTER FROM THE BOARD

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional on approval by the Independent Shareholders at the SGM and any controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer. As at the Latest Practicable Date, there is no Controlling Shareholder. Accordingly, the Directors (excluding the independent non-executive Directors) including Mr. Li, who is an executive Director, will abstain from voting in favour of the resolutions relating to the Open Offer at the SGM. To the best of the Directors' knowledge and information, as at the Latest Practicable Date, save for the Share Options disclosed above, none of the Directors (excluding Mr. Li and the independent non-executive Directors), the chief executive of the Company and their respective associates is interested in any Shares of the Company.

The entering into of the Underwriting Agreement between the Company and Mr. Li constitutes a connected transaction for the Company under the Listing Rules. Pursuant to Rule 14A.31(3)(c) of the Listing Rules, provided that Rule 7.26A(2) of the Listing Rules has been complied with, the Underwriting Agreement will be exempted from the reporting, announcement and independent shareholders approval requirements. Pursuant to Rule 7.26A(2) of the Listing Rules, since no excess application for the Offer Shares is available, approval shall be obtained from the Independent Shareholders in respect of the absence of such arrangement and the Underwriting Agreement which serve as the alternative arrangement in respect of the untaken Offer Shares under the Open Offer and any Shareholders who have a material interest in the relevant resolution shall abstain from voting.

RECOMMENDATION

The Directors believe that the terms of the Open Offer are fair and reasonable and are in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders and Shareholders (as the case may be) to vote in favour of the relevant resolutions to be proposed at the SGM. You are advised to read carefully the letter from the Independent Board Committee regarding the Open Offer on pages 22 to 23 of this circular. The Independent Board Committee, having taken into account the advice of GF Capital, the text of which is set out on pages 24 to 36 of this circular, considers that (i) the Open Offer and the Underwriting Agreement are on normal commercial terms; (ii) the terms of the Open Offer and the Underwriting Agreement, and the absence of excess application for Offer Shares are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Open Offer is in the interests of the Company and the Shareholders as a whole.

FURTHER INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

By order of the Board
Wonson International Holdings Limited
CHAU ON TA YUEN
Chairman

LETTER FROM INDEPENDENT BOARD COMMITTEE

The following is the full text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent Shareholders in relation to the Open Offer:



WONSON INTERNATIONAL HOLDINGS LIMITED

和成國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00651)

14 December 2009

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF NOT LESS THAN 1,804,199,302
OFFER SHARES AND NOT MORE THAN 2,012,780,004 OFFER SHARES
OF HK\$0.05 EACH AT THE SUBSCRIPTION PRICE
OF HK\$0.20 PER OFFER SHARE
ON THE BASIS OF TWO OFFER SHARES
FOR EVERY ONE SHARE HELD ON THE RECORD DATE**

We refer to the “Letter from the Board” set out in the circular dated 14 December 2009 (“Circular”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Open Offer and to advise the Independent Shareholders as to the fairness and reasonableness of the Open Offer and to recommend whether or not the Independent Shareholders should vote for the resolution to be proposed at the SGM to approve the Open Offer. GF Capital has been appointed to advise the Independent Board Committee in relation to the terms of the Open Offer.

We wish to draw your attention to the letter from GF Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Open Offer as set out in the Circular. We also draw your attention to the Letter from the Board.

* for identification purpose only

LETTER FROM INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors and reasons considered by and the opinion of GF Capital as stated in its letter of advice, we consider (i) the Open Offer and the Underwriting Agreement are on normal commercial terms; (ii) the terms of the Open Offer and the Underwriting Agreement, and the absence of excess application for Offer Shares are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Open Offer is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution approving the Open Offer to be proposed at the SGM.

Yours faithfully,

Independent Board Committee

Mr. Zhang Xi Ping	Ms. Xiang Siying	Mr. Hu Bai He	Ms. Xiang Ying
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

LETTER FROM GF CAPITAL

The following is the text of a letter of advice from GF Capital, which has been prepared for the purpose of incorporation into this circular, setting out its opinion to the Independent Board Committee and the Independent Shareholders in connection with the Open Offer.



Rooms 2301-5 & 2313, COSCO Tower
183 Queen's Road Central, Hong Kong

*To the Independent Board Committee
and the Independent Shareholders*

14 December 2009

Dear Sirs,

**PROPOSED OPEN OFFER OF
NOT LESS THAN 1,804,199,302 OFFER SHARES
AND NOT MORE THAN 2,012,780,004 OFFER SHARES
OF HK\$0.05 EACH AT THE SUBSCRIPTION PRICE OF
HK\$0.20 PER OFFER SHARE
ON THE BASIS OF TWO OFFER SHARES
FOR EVERY ONE SHARE HELD ON THE RECORD DATE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, particulars of which are set out in the section headed "Letter from the Board" (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 14 December 2009 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 16 November 2009, the Company announced its proposal to raise not less than approximately HK\$360.84 million and not more than approximately HK\$402.56 million, before expenses, by way of an open offer by issuing not less than 1,804,199,302 Offer Shares and not more than 2,012,780,004 Offer Shares at a subscription price of HK\$0.20 ("**Subscription Price**") per Offer Share on the basis of two Offer Shares for every one Share held by the Qualifying Shareholders on the Record Date. Pursuant to the Open Offer, Mr. Li will be entitled to subscribe for a maximum of 154,810,000 Offer Shares. Mr. Li has irrevocably undertaken to the Company and Kingston Securities, among other matters, that: (i) the Shares beneficially owned by him will remain registered in the same name or be registered in the name of its nominees from the date of the Mr. Li's Undertaking up to the close of

LETTER FROM GF CAPITAL

business of the Record Date; (ii) he will subscribe or procure the subscription in full for his entitlement under the Open Offer pursuant to the terms of the Open Offer; and (iii) he will not and will procure that (so far as applicable and reasonably possible) company(ies) controlled by him will not during the period from immediately after the execution of the Underwriting Agreement and prior to or on the date the Underwriting Agreement becoming unconditional, dispose of or transfer the beneficial interests in any of the Shares beneficially owned by him.

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional on approval by Independent Shareholders at the SGM and any Controlling Shareholders and their associates or, where there are no Controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer. As at the Latest Practicable Date, there is no Controlling Shareholder. Accordingly, the Directors (excluding the independent non-executive Directors) including Mr. Li, who is an executive Director, will abstain from voting in favour of the resolutions relating to the Open Offer at the SGM.

The entering into of the Underwriting Agreement between the Company and Mr. Li constitutes a connected transaction for the Company under the Listing Rules. Pursuant to Rule 14A.31(3)(c) of the Listing Rules, provided that Rule 7.26A(2) of the Listing Rules has been complied with, the Underwriting Agreement will be exempted from the reporting, announcement and independent shareholders approval requirements. Pursuant to Rule 7.26A(2) of the Listing Rules, since no excess application for the Offer Shares is available, approval shall be obtained from the Independent Shareholders in respect of the absence of such arrangement and the Underwriting Agreement which serve as the alternative arrangement in respect of the Untaken Shares under the Open Offer and any Shareholders who have a material interest in the relevant resolution shall abstain from voting.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Zhang Xi Ping, Ms. Xiang Siying, Mr. Hu Bai He and Ms. Xiang Ying has been established to advise and make recommendations to the Independent Shareholders in connection with the Open Offer.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer and the Underwriting Agreement and the absence of excess application for Offer Shares are fair and reasonable so far as the Independent Shareholders are concerned; and whether the Open Offer is in the interests of the Company and the Shareholders as a whole, and to make recommendation to the Independent Board Committee to advise the Independent Shareholders and to advise the Independent Shareholders on how to vote in relation to the resolution(s) in respect of the Open Offer.

LETTER FROM GF CAPITAL

BASIS OF OUR OPINION

In formulating our opinion, we have relied solely on the statements, information, opinions and representations for matters relating to the Company contained in the Circular and the information and representations provided to us by the Company, its representatives and/or the Directors for which they are solely and wholly responsible. We have assumed that all such statements, information, opinions and representations for matters relating to the Company contained or referred to in the Circular or otherwise provided or made or given by the Company, its representatives and/or the Directors and for which they are solely responsible were true, accurate and complete at the time they were made and given and continue to be true, accurate and complete at the date of the Circular. We have assumed that all statements of belief, opinion and representations for matters relating to the Company made or provided by the Directors and/or the representatives of the Company contained in the Circular were reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of such information and the information contained in the Circular to provide a reasonable basis of our opinion.

We consider that we have reviewed sufficient information which enables us to reach an informed view and to provide us with a reasonable basis for our opinion. We have no reason to suspect that any material facts or information which is known to the Company, its representatives and the Directors have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information, facts, and representations provided, or the reasonableness of the opinions and representations expressed by the Company, its representatives and the Directors. We have not, however, carried out any independent verification on the information provided to us by the Company, its representatives and the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Company and the prospects of the Company.

We have not considered the tax consequences on the Independent Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or exercising any right attached thereto or otherwise since these are particular to their individual circumstances. Independent Shareholders who are in any doubt as to their tax position, or who are subject to overseas tax or Hong Kong taxation on securities dealing, should consult their own professional advisers without delay.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background and reasons for the Open Offer

Information on the Group

The principal business activities of the Group are shipbuilding-related business, metals trading and investments in securities.

LETTER FROM GF CAPITAL

Based on the information set out in the annual report for the year ended 31 December 2008 and the interim report for the six months ended 30 June 2009 (“**2009 Interim Report**”), the key financial information of the Group is summarized as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2009	2008	2008	2007
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	600,438	428,991	1,191,596	5,203
Loss before tax	(93,944)	(94,625)	(474,990)	(54,626)
Loss after tax	(101,469)	(100,152)	(468,996)	(54,626)
			As at 30 June 2009	As at 31 December 2008
			<i>(Unaudited)</i>	<i>(Audited)</i>
			<i>HK\$'000</i>	<i>HK\$'000</i>
Net current assets			230,596	206,125
Net assets			2,299,560	2,293,409
Bank balances and cash (Unpledged)			175,769	158,155
Bank borrowings (due within one year)			411,364	113,637
Bank borrowings (due after one year)			250,000	227,273
Total bank borrowings			661,364	340,910
Deferred consideration			186,723	173,447
			For the six months ended 30 June 2009	For the year ended 31 December 2008
			<i>(Unaudited)</i>	<i>(Audited)</i>
			<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities			43,599	322,366
Net cash used in investing activities			(364,109)	(208,458)
Net cash from (used in) financing activities			342,645	(52,195)
Net increase in cash and cash equivalents			22,135	61,713

LETTER FROM GF CAPITAL

We noted from the published financial statements of the Group that despite revenue increased for the six-month period ended 30 June 2009 as compared with the corresponding period in 2008 which is primarily attributable to the contribution from shipbuilding business acquired in April 2008, the Group recorded consecutive net losses for the last two financial years. For the six-months period ended 30 June 2009, loss after tax was approximately HK\$101.47 million. Notwithstanding the losses recorded, the Group generated positive operating cashflows of approximately HK\$322.37 million for the year ended 31 December 2008 and approximately HK\$43.60 million for the six months ended 30 June 2009.

According to the Company, before the international financial crisis in September 2008, the PRC's shipbuilding industry has maintained rapid growth for six years in terms of tonnage of vessels completed and the orders for vessels in hand. After that, the industry faced a grim situation but has shown signs of recovery since June 2009. The industry seems to recover gradually from its bottom but it is not clear whether the recovery will be sustained.

As at 30 June 2009, the Group had total bank borrowings of approximately HK\$661.36 million, up by approximately HK\$320.45 million as compared with that as at 31 December 2008. According to the management of the Company, the additional bank borrowings were mainly used for (i) financing the investment in property, plant and equipment of the Group; and (ii) pledging cash as collaterals to obtain trade financing from banks. The amount of property, plant and equipment (net of depreciation) as at 30 June 2009 increased by approximately HK\$59.79 million and the amount of pledged bank deposits as at 30 June 2009 increased by approximately HK\$232.76 million as compared with the respective figures as at 31 December 2008. Among the bank borrowings as at 30 June 2009, approximately HK\$411.36 million was due within one year. As discussed with the management of the Company, the Company intends to roll-over the bank borrowings when they fall due. According to 2009 Interim Report, as at 30 June 2009, HK\$409.41 million of bank deposit, HK\$36.06 million of prepaid lease payments and HK\$784.41 million of property, plant and equipment were pledged to banks for banking facilities granted by banks to the Group. Having considered the Group's credit history and the amount of cash and other collaterals pledged with the banks, the management of the Company is confident that the bank borrowings can be rolled over when they fall due. As a usual practice, according to the management of the Company, the Group usually repays the bank borrowings when they fall due before such bank borrowings can be rolled over by the banks shortly afterwards.

The carrying amount of deferred consideration as at 30 June 2009 was approximately HK\$186.72 million (given an imputed interest rate of 16.25% per annum) and the undiscounted amount of which was HK\$200.00 million. The amount is interest free and repayable no later than 31 January 2010 and represents the deferred consideration payable for the acquisition of INPAX Group in year 2008.

As at 30 June 2009, the amount of net current assets and amount of bank balances and cash was only approximately HK\$230.60 million and approximately HK\$175.77 million. Taking into consideration the amount of net proceeds of approximately HK\$63.43 million raised by the Company through placement of shares in August 2009 and the possible net cash inflow from operating activities of the Group (in view of the positive operating cashflows generated by the Group for the year ended 31 December 2008 and the six months ended 30 June 2009), it is likely

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that the Group still needs additional funding to settle the deferred consideration of principal amount of HK\$200.0 million, repay the bank borrowings when they fall due and before they can be rolled over by banks, service its existing interest bearing debts and for general working capital purposes. As discussed with the management of the Company, since the recovery of the industry of the Group and the financial markets may not be sustainable; and the Group has a relatively high level of gearing comprising substantially short term bank borrowings, it is cautious for the Group to raise capital reasonably surplus to its immediate needs and strengthen its equity capital base in order to prepare for any unfavorable changes in the operating and economic environments. Therefore, we consider that it is commercially justifiable for the Company to proceed with the Open Offer.

Reasons for the Open Offer and the use of proceeds

As disclosed in the Letter from the Board, the Directors are of the view that the Open Offer would strengthen the financial position of the Group and enable the Group to expand its capital base. In addition, the Open Offer allows the Qualifying Shareholders to maintain their respective proportional shareholdings in the Company and to participate in the future growth and development of the Company. The Directors believe that the Open Offer is in the interests of the Company and the Shareholders as a whole.

As disclosed in the Letter from the Board, the estimated net proceeds of the Open Offer will be not less than approximately HK\$353.9 million and not more than approximately HK\$395.6 million, of which HK\$250.0 million will be used for repayment of debts and the remaining balance will be used for general working capital purposes.

As discussed under the paragraph headed “Information on the Group” in this letter, in light of the financial position of the Group, in particular the amount of cash and bank balances of approximately HK\$175.77 million as at 30 June 2009 and the net increase in cash and cash equivalents of approximately HK\$22.14 million for the six months ended 30 June 2009, we are of the view that the Group may need external financing to provide additional cashflow to settle the outstanding debts including but not limited to the deferred consideration amounted to HK\$200.0 million and for general working capital purposes. Therefore, we concur with the Directors’ view that the Open Offer is necessary.

Financing alternatives available to the Group

As discussed with the management of the Company, we understood that the Company had also considered alternative means for fund raising, such as bank borrowings, placement of new Shares and rights issue. However, in view of the interest-bearing nature of bank borrowing which will inevitably increase interest expenses of the Group and further jeopardize the financial performance of the Group and the dilution effects on the shareholding of the Company in respect of the placement of new Shares, the Directors consider that the Open Offer, which does not require additional time for trading of nil-paid rights shares and will not incur additional costs in respect of the trading of nil-paid rights, not only allows the Qualifying Shareholders to maintain their respective shareholdings, but is more time and cost effective and in the interests of the Company and the Shareholders as a whole.

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Having considered the above, we concur with the view of the Directors that the Open Offer is a more desirable means for the Group to obtain the required funding as compared with other alternatives and it is in the interests of the Company and the Independent Shareholders as a whole.

2. Principal terms of the Open Offer

Basis of the Open Offer:	Two Offer Shares for every one Share held by Qualifying Shareholders on the Record Date
Number of Shares in issue as at the Latest Practicable Date:	902,099,651 Shares
Number of Offer Shares:	Not less than 1,804,199,302 Offer Shares and not more than and not more than 2,012,780,004 Offer Shares
Subscription Price:	HK\$0.20 per Offer Share
Number of Shares in issue immediately upon completion of the Open Offer:	Not less than 2,706,298,953 Shares and not more than 3,019,170,006 Shares

Subscription Price

The Subscription Price of HK\$0.20 per Offer Share, payable in cash in full upon application, represents:

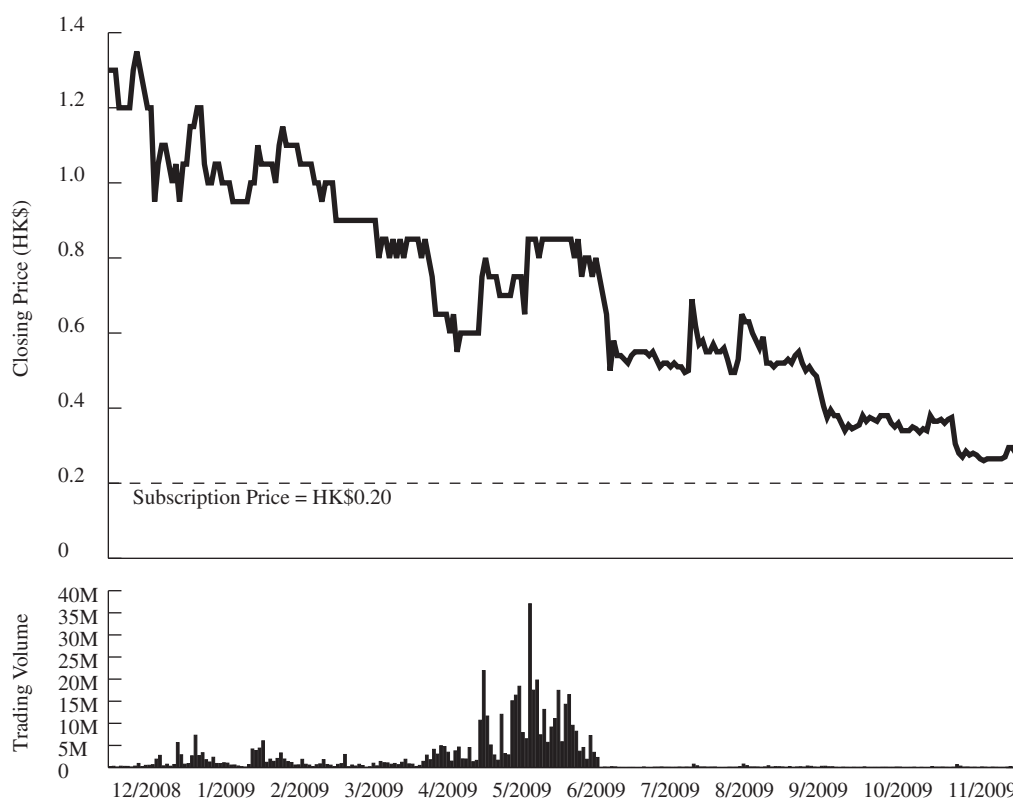
- (i) a discount of approximately 46.67% to the closing price per Share of HK\$0.375 as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 45.65% to the average of the closing prices per Share of HK\$0.368 for the last 5 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iii) a discount of approximately 44.60% to the average of the closing prices per Share of approximately HK\$0.361 for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iv) a discount of approximately 22.48% to the theoretical ex-entitlement price of approximately HK\$0.258 per Share calculated based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (v) a discount of approximately 28.57% to the closing prices per Share of HK\$0.28 as quoted on the Stock Exchange as at the Latest Practicable Date.

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The Subscription Price was determined after arm's length negotiations between the Company and the Underwriters with reference to the prevailing market condition. As the Offer Shares are offered to all Qualifying Shareholders, the Directors would like to set the Subscription Price at a level that would attract the Qualifying Shareholders to participate in the Open Offer. The Directors consider that the terms of the Open Offer, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in trading price of the Shares during the period from 10 December 2008, being 12 months immediately preceding the Latest Practicable Date to the Latest Practicable Date (the “**Review Period**”).

Closing prices and trading volume of the Shares during the Review Period



Source: Website of the Stock Exchange (www.hkex.com.hk)

Note: Share consolidation on the basis of every fifty shares of HK\$0.001 each into one consolidated share of HK\$0.05 each was effective on 25 June 2009

As illustrated in the above chart, the Shares were traded above the Subscription Price throughout the Review Period. The closing price of the Shares showed a downward trend during the Review Period. The closing price of the Shares was at the highest level of HK\$1.35 on 11 December 2008 and at the lowest level of HK\$0.26 on 27 November 2009 during the Review Period. After the publication of the announcement in relation to the Open Offer on 16 November 2009 (the “**Announcement**”), the

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closing price of the Shares dropped to HK\$0.305 on 17 November 2009 and was HK\$0.28 on the Latest Practicable Date. We were informed by the management of the Company that they were not aware of any conclusive reason for the price movement of the Shares throughout the Review Period.

We also noted that the average daily trading volume in the Shares during the Review Period was approximately 9,626,401 Shares (adjusted for the share consolidation effective on 25 June 2009), which represented only approximately 1.07% of the total number of issued Shares as at the Latest Practicable Date. The low percentage demonstrated that the liquidity of the Shares under the Review Period was very thin.

Having considered that (i) it is a common market practice for listed issuers to set the subscription prices at a deep discount to their prevailing share prices in order to enhance the attractiveness of the open offers and provide incentives to qualifying shareholders as well as underwriters to participate in such open offers; (ii) the low liquidity of the Shares during the Review Period warrants the Subscription Price set at a discount to the prevailing market price; and (iii) all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlements in full at the same price to maintain their respective shareholdings in the Company, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

3. Underwriting Arrangement

Underwriters :	Kingston Securities and Mr. Li
Number of Offer Shares underwritten :	The Underwriters have agreed to fully underwrite all the Untaken Shares, being not less than 1,649,389,302 Offer Shares and not more than 1,857,970,004 Offer Shares pursuant to underwritten by the Underwriting Agreement in the following manner: (i) Mr. Li shall subscribe for or procure subscription for the first of such number up to 270,635,000 Untaken Shares; and (ii) Kingston Securities shall subscribe for or procure subscription for all remaining Untaken Shares.
Commission :	1.5% of the aggregate subscription price of the maximum number of the Underwritten Shares

Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to subscribe or procure subscription for the Offer Shares which have not been taken up. Accordingly, the Open Offer is fully underwritten. The Directors are of the opinion that the terms of the Underwriting Agreement and the amount of commission given to the Underwriters are fair as compared to the market practice and commercially reasonable as agreed between the Company and the Underwriters.

To assess the fairness and reasonableness of the underwriting commission, we have researched for open offers announced and conducted by other listed issuers in Hong Kong in the preceding six

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months prior to the Last Trading Date. We noted that the underwriting commission falls within the range between 1% and 3.5% and the mean and median of which is 2.15% and 2.50% respectively. Therefore, we consider that the underwriting commission of 1.5% is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

No application for excess Offer Shares

As set out in the Letter from the Board, the Company decided that the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective assured entitlements. Having considered that each Qualifying Shareholder will be given equal and fair opportunities to participate in the Company's future development by subscribing for his/her/its assured entitlements under the Open Offer, the Company decided not to put in additional effort and costs to administer the excess application procedures. Any Untaken Shares (exclude those to be taken up by Mr. Li pursuant to Mr. Li's Undertaking) will be underwritten by the Underwriters. In the view that the related administration costs would be lower, the Directors consider that the absence of application for excess Offer Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We concur with the Directors' view regarding the absence of arrangement for application for excess Offer Shares based on the reasons that (i) the terms and structure of the Open Offer are set to encourage the Qualifying Shareholders to take up their respective assured allotment of the Offer Shares for the purpose of maintaining their respective existing shareholdings in the Company at a discount to the historical and prevailing market price of the Shares which provides reasonable incentives to the Qualifying Shareholders to participate in the Open Offer and (ii) the basis of the Open Offer which is two Offer Shares for every one Share held on the Record Date will not create odd lots of Shares provided that the Shareholders choose to apply for their entitled Offer Shares in full. It is reasonable to expect that a majority of the Qualifying Shareholders will apply for the Offer Shares and the Offer Shares which will be available for excess application are insignificant. Therefore, while the absence of the excess application arrangement may not be considered desirable from the point of view of Qualifying Shareholders who wish to take up the Offer Shares in excess of their entitlements, we consider that the absence of arrangements for application for excess Offer Shares under the Open Offer is fair and reasonable so far as the Independent Shareholders are concerned.

Risk associated with the Open Offer and the Underwriting Agreement

Pursuant to the Underwriting Agreement, the Open Offer will not proceed if the Underwriters exercise their termination rights under the Underwriting Agreement by serving a written notice to the Company prior to 4:00 p.m. on 18 January 2010, details of the provisions are set out in the section headed "Termination of the Underwriting Agreement" in the Letter from the Board. While such termination rights are common in underwriting agreements of similar nature, they impose a completion risk on the Open Offer as the Open Offer may or may not proceed until after 4:00 p.m. on 18 January 2010 when the Underwriting Agreement becomes unconditional.

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4. Dilution effect of the Open Offer

Set out below is the shareholding structure of the Company extracted from the Letter from the Board (assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date):

Shareholders	Immediately upon completion of the Open Offer					
	As at the Latest Practicable Date		Assuming all Qualifying Shareholders take up the Offer Shares in full		Assuming no Qualifying Shareholder (other than Mr. Li) takes up the Offer Shares	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Mr. Li	77,405,000	8.58	232,215,000	8.58	502,850,000	18.58
<i>Public</i>						
Kingston Securities	—	—	—	—	1,378,754,302	50.95
Public Shareholders	<u>824,694,651</u>	<u>91.42</u>	<u>2,474,083,953</u>	<u>91.42</u>	<u>824,694,651</u>	<u>30.47</u>
	<u>902,099,651</u>	<u>100.00</u>	<u>2,706,298,953</u>	<u>100.00</u>	<u>2,706,298,953</u>	<u>100.00</u>

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

For those Qualifying Shareholders who do not subscribe for their full entitlements under the Open Offer, depending on the extent to which they subscribe for the Offer Shares, their shareholding interests in the Company upon completion of the Open Offer will be diluted up to 60.95% at maximum upon completion of the Open Offer.

In all cases of open offers, the dilution on the shareholding of those Qualifying Shareholders who do not take up their full entitlements under the Open Offer is inevitable. In fact, the magnitude of dilution of any open offers depends primarily on the extent of the basis of entitlement under each particular open offer as the higher offering ratio of new shares to existing shares would result in the higher potential dilution effect on the shareholding of the existing shareholders who do not take up their entitlements in full. Having taken into account (i) the inherent dilutive nature of open offer in general; (ii) the Open Offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to take up the Offer Shares at a lower price as compared to the historical and prevailing market price of the Shares; (iii) the needs of the Group for the additional funding to settle the outstanding debts and for its general working capital requirements; and (iv) the Group's loss-making track record and relatively weak financial position which would place difficulties for the Company to raise capital from external sources, we are of the view that such potential dilution of the Open Offer on the shareholding of the Independent Shareholders who do not take up their entitlement in full is acceptable.

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5. Possible financial effects on the Group upon completion of the Open Offer

(a) *Net tangible assets*

Based on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group (the “**Pro Forma Statement**”) as set out in Appendix II to the Circular, the adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2009 was approximately HK\$320.10 million. Based on 752,099,651 Shares in issue as at 30 June 2009, the adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 30 June 2009 was approximately HK\$0.43.

According to the Pro Forma Statement, based on 1,804,199,302 Offer Shares issued (assuming no exercise of the outstanding Share Options and conversion of the outstanding Convertible Notes on or before the Record Date), the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share immediately after completion of the Open Offer would decrease by approximately 39.5% to approximately HK\$0.26 per Share (based on 2,556,298,953 Shares which comprise 752,099,651 Shares in issue as at 30 June 2009 and 1,804,199,302 Offer Shares to be issued, and the unaudited adjusted pro forma consolidated net tangible assets attributable to the owners of the Company of approximately HK\$674.68 million after completion of the Open Offer).

According to the Pro Forma Statement, based on 2,012,780,004 Offer Shares issued (assuming outstanding Share Options are fully exercised and all outstanding Convertible Notes are converted on or before the Record Date), the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share immediately after completion of the Open Offer would decrease by approximately 39.5% to approximately HK\$0.26 per Share (based on 2,764,879,655 Shares which comprise 752,099,651 Shares in issue as at 30 June 2009 and 2,012,780,004 Offer Shares to be issued, and the unaudited adjusted pro forma consolidated net tangible assets attributable to the owners of the Company of approximately HK\$715.72 million after completion of the Open Offer).

Independent Shareholders should take note that the Pro Forma Statement has been prepared on the basis of the notes set out in Appendix II to the Circular for illustrative purpose only and may not give a true picture of the consolidated net tangible assets attributable to owners of the Company following the Open Offer.

(b) *Cashflow*

As stated in the Letter from the Board, the estimated net proceeds of the Open Offer will be not less than approximately HK\$353.9 million and not more than approximately HK\$395.6 million. Therefore, the Group will have a net cash inflow in the range of approximately HK\$353.9 million and HK\$395.6 million upon completion of the Open Offer.

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(c) *Gearing*

As at 30 June 2009, the Group had unsecured short term margin loan of HK\$27.19 million; unsecured short term bank loan of HK\$411.36 million; long term bank borrowing of HK\$250.00 million; long term convertible notes payable amounted to approximately HK\$392.09 million represented liabilities component of principal amount of HK\$507.55 million. The gearing ratio defined as the total amount of non-current liabilities and short term loans (totaled HK\$1,668.28 million) divided by the amount of total shareholders' equity of HK\$2,299.56 million was approximately 0.73 at 30 June 2009.

Upon completion of the Open Offer, the gearing ratio of the Group is expected to improve as a result of the increase in equity capital from the net proceeds of the Open Offer.

Based on the above, although the Open Offer will dilute the per Share unaudited pro forma adjusted consolidated net tangible assets value, the Open Offer will have positive effects to the Group's net tangible assets, cashflow and gearing. Accordingly, we consider that the Open Offer is in the interests of the Company and the Shareholders as a whole.

CONCLUSIONS

Having considered the abovementioned principal factors and reasons for the Open Offer, we consider that the Open Offer and the Underwriting Agreement are on normal commercial terms. In addition, the terms of the Open Offer and the Underwriting Agreement; and the absence of excess application for Offer Shares are fair and reasonable so far as the Independent Shareholders are concerned. We are of the opinion that the Open Offer is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolution(s) to approve the Open Offer and the transactions contemplated thereunder at the SGM.

For and on behalf of
GF Capital (Hong Kong) Limited
Danny Wan
Managing Director and Head of Corporate Finance

FINANCIAL SUMMARY

1. THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial results of the Group for each of the three years ended 31 December 2008 as extracted from the relevant annual reports of the Company.

Results

	For the year ended 31 December		
	2008	2007	2006
	HK\$'000	HK\$'000	HK\$'000
Revenue	1,191,596	5,203	8,354
Cost of sales	(1,031,125)	(4,152)	(5,385)
	160,471	1,051	2,969
Other income	24,579	5,574	2,778
Loss on disposal of available-for-sale investments	(1,025)	—	—
Change in fair value of conversion option embedded in convertible note	—	1,282	—
Change in fair value of investments held for trading	(37,928)	(40,848)	(21,184)
Impairment loss on goodwill	(322,221)	—	—
Impairment loss on available-for-sale investments	—	—	(13,489)
Impairment loss on loan to an investee company	—	—	(18,569)
Gain on disposal of subsidiaries	—	—	6,998
Share of losses of jointly controlled entities	—	—	(57)
Distribution and selling expenses	(670)	—	—
Administrative expenses	(64,885)	(15,736)	(21,229)
Finance costs	(233,311)	(5,949)	(6)
Loss before tax	(474,990)	(54,626)	(61,789)
Taxation	5,994	—	—
Loss for the year	<u>(468,996)</u>	<u>(54,626)</u>	<u>(61,789)</u>
Loss per share - Basic	<u>(HK0.02) cents</u>	<u>(HK0.52) cents</u>	<u>(HK1.16) cents</u>

Consolidated Balance Sheet

	At 31 December		
	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Property, plant and equipment	916,871	1,133	148
Deposit paid for acquisition of property, plant and equipment	3,029	—	—
Prepaid lease payments - non current portion	345,004	—	—
Goodwill	514,179	—	—
Intangible asset	1,546,602	—	—
Available-for-sale investments	—	18,912	—
Conversion option embedded in convertible note	—	2,631	—
	<u>3,325,685</u>	<u>22,676</u>	<u>148</u>
Current assets			
Inventories	482,125	378	846
Trade and other receivables	562,518	4,979	773
Prepayment for purchase of raw materials	863,043	—	—
Prepaid lease payment - current portion	1,701	—	—
Loan receivables	—	48,364	—
Investments held for trading	18,423	231,351	136,432
Pledged bank deposits	176,648	—	—
Margin loan receivables	—	—	224
Bank balances and cash	158,155	84,796	10,200
	<u>2,262,613</u>	<u>369,868</u>	<u>148,475</u>
Current liabilities			
Trade, bills and other payables	1,371,331	4,952	2,960
Amounts due to customers for contract work	358,079	—	—
Margin loan payable	32,499	51,759	—
Bank overdrafts	4,521	—	—
Bank borrowings - due within one year	113,637	—	—
Provision for warranty	2,974	—	—
Deferred consideration	173,447	—	—
	<u>2,056,488</u>	<u>56,711</u>	<u>2,960</u>
Net current assets	<u>206,125</u>	<u>313,157</u>	<u>145,515</u>
	<u>3,531,810</u>	<u>335,833</u>	<u>145,663</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	At 31 December		
	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Share capital	33,740	17,198	5,316
Reserves	<u>2,259,669</u>	<u>272,410</u>	<u>140,347</u>
	<u>2,293,409</u>	<u>289,608</u>	<u>145,663</u>
Non-current liabilities			
Bank borrowings - due after one year	227,273	—	—
Convertible notes payable	421,440	46,225	—
Deferred tax liabilities	<u>589,688</u>	<u>—</u>	<u>—</u>
	<u>1,238,401</u>	<u>46,225</u>	<u>—</u>
	<u>3,531,810</u>	<u>335,833</u>	<u>145,663</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2008

Set out below are the audited consolidated financial statements of the Group for the two years ended 31 December 2008 which are extracted from the annual reports of the Group for the year ended 31 December 2008.

Consolidated Income Statement

For the year ended 31 December 2008

	<i>NOTES</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Revenue	7	1,191,596	5,203
Cost of sales		<u>(1,031,125)</u>	<u>(4,152)</u>
		160,471	1,051
Other income	8	24,579	5,574
Loss on disposal of available-for-sale investments		(1,025)	—
Change in fair value of conversion option embedded in convertible note			
	20	—	1,282
Change in fair value of investments held for trading		(37,928)	(40,848)
Impairment loss on goodwill		(322,221)	—
Distribution and selling expenses		(670)	—
Administrative expenses		(64,885)	(15,736)
Finance costs	9	<u>(233,311)</u>	<u>(5,949)</u>
Loss before tax	10	(474,990)	(54,626)
Taxation	11	<u>5,994</u>	<u>—</u>
Loss for the year		<u><u>(468,996)</u></u>	<u><u>(54,626)</u></u>
Loss per share - Basic	14	<u><u>(HK0.02) cents</u></u>	<u><u>(HK0.52) cents</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet**

At 31 December 2008

	<i>NOTES</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	15	916,871	1,133
Deposit paid for acquisition of property, plant and equipment		3,029	—
Prepaid lease payments - non current portion	16	345,004	—
Goodwill	35	514,179	—
Intangible asset	17	1,546,602	—
Available-for-sale investments	18	—	18,912
Conversion option embedded in convertible note	20	—	2,631
		<u>3,325,685</u>	<u>22,676</u>
Current assets			
Inventories	21	482,125	378
Trade and other receivables	22	562,518	4,979
Prepayment for purchase of raw materials	22	863,043	—
Prepaid lease payment - current portion	16	1,701	—
Loan receivables	23	—	48,364
Investments held for trading	24	18,423	231,351
Pledged bank deposits	25	176,648	—
Bank balances and cash	25	158,155	84,796
		<u>2,262,613</u>	<u>369,868</u>
Current liabilities			
Trade, bills and other payables	26	1,371,331	4,952
Amounts due to customers for contract work	27	358,079	—
Margin loan payable	28	32,499	51,759
Bank overdrafts	25	4,521	—
Bank borrowings - due within one year	29	113,637	—
Provision for warranty	30	2,974	—
Deferred consideration	31	173,447	—
		<u>2,056,488</u>	<u>56,711</u>
Net current assets		<u>206,125</u>	<u>313,157</u>
		<u>3,531,810</u>	<u>335,833</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>NOTES</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Capital and reserves			
Share capital	32	33,740	17,198
Reserves		<u>2,259,669</u>	<u>272,410</u>
		<u>2,293,409</u>	<u>289,608</u>
Non-current liabilities			
Bank borrowings - due after one year	29	227,273	—
Convertible notes payable	33	421,440	46,225
Deferred tax liabilities	34	<u>589,688</u>	<u>—</u>
		<u>1,238,401</u>	<u>46,225</u>
		<u>3,531,810</u>	<u>335,833</u>

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Convertible notes reserve <i>HK\$'000</i>	Shared- based payment reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2007	5,316	312,933	528,327	—	802	—	—	—	(701,715)	145,663
Gain on change in fair value of available-for-sale investments recognised directly in equity	—	—	—	—	—	—	—	261	—	261
Loss for the year	—	—	—	—	—	—	—	—	(54,626)	(54,626)
Total recognised loss for the year	—	—	—	—	—	—	—	261	(54,626)	(54,365)
Issue of shares	6,000	90,000	—	—	—	—	—	—	—	96,000
Transaction costs attributable to issue of shares	—	(2,000)	—	—	—	—	—	—	—	(2,000)
Recognition of equity components of convertible notes payable	—	—	—	—	—	10,362	—	—	—	10,362
Conversion of convertible notes payable	5,882	94,974	—	—	—	(6,908)	—	—	—	93,948
At 31 December 2007	17,198	495,907	528,327	—	802	3,454	—	261	(756,341)	289,608

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Share capital	Share premium	Contributed surplus	Translation reserve	Capital reserve	Convertible notes reserve	Shared- based payment reserve	Investment revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange differences on translation	—	—	—	84,956	—	—	—	—	—	84,956
Loss on change in fair value of available-for-sale investments	—	—	—	—	—	—	—	(1,286)	—	(1,286)
Net income recognised directly in equity	—	—	—	84,956	—	—	—	(1,286)	—	83,670
Release on disposal of available-for-sale investments	—	—	—	—	—	—	—	1,025	—	1,025
Loss for the year	—	—	—	—	—	—	—	—	(468,996)	(468,996)
Total recognised loss for the year	—	—	—	84,956	—	—	—	(261)	(468,996)	(384,301)
Recognition of equity components of convertible notes payable	—	—	—	—	—	889,887	—	—	—	889,887
Deferred tax liability arising on recognition of equity component of convertible notes	—	—	—	—	—	(146,831)	—	—	—	(146,831)
Release of deferred tax liability upon conversion	—	—	—	—	—	114,445	—	—	—	114,445
Recognition of equity-settled shared-based payment	—	—	—	—	—	—	42,012	—	—	42,012
Conversion of convertible notes payable	16,542	2,170,766	—	—	—	(698,719)	—	—	—	1,488,589
At 31 December 2008	33,740	2,666,673	528,327	84,956	802	162,236	42,102	—	(1,225,337)	2,293,409

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Loss for the year	(474,990)	(54,626)
Adjustments for:		
Depreciation of property, plant and equipment	33,959	157
Change in fair value of conversion option embedded in convertible notes	—	(1,282)
Change in fair value of investments held for trading	37,928	30,135
Loss on disposal of available-for-sale investments	1,025	—
Loss (gain) on disposal of property, plant and equipment	624	(280)
Interest income	(7,617)	(5,294)
Finance costs	233,311	5,949
Release of prepaid lease payment	4,812	—
Amortisation of intangible asset	115,199	—
Impairment loss on goodwill	322,221	—
Share-based payment expense	42,012	—
Operating cash flows before movements in working capital	308,484	(25,241)
(Increase) decrease in inventories	(135,742)	468
Increase in trade and other receivables	(675,734)	(4,206)
Decrease (increase) in investments held for trading	175,000	(125,054)
Increase in trade, bills and other payables	1,120,181	1,992
Decrease in provision of warranty	(5,733)	—
Decrease in amounts due to customers for contract work	(452,447)	—
(Decrease) increase in margin loan payables	(19,260)	51,759
Decrease in margin loan receivables	—	224
Cash generated from (used in) operations	314,749	(100,058)
Interest received	7,617	5,294
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>322,366</u>	<u>(94,764)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>NOTE</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Increase in pledged bank deposit		(161,100)	—
Purchase of property, plant and equipment		(126,702)	(1,212)
Deposit paid for acquisition of property, plant and equipment		(3,029)	—
Decrease (increase) in loan receivables		48,364	(48,364)
Proceeds from disposal of available-for-sale investments		20,257	—
Acquisition of a subsidiary	35	13,731	—
Proceeds from disposal of property, plant and equipment		21	350
Purchase of convertible note		—	<u>(20,000)</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(208,458)</u>	<u>(69,226)</u>
FINANCING ACTIVITIES			
Repayment of bank borrowings		(41,807)	—
Interest paid		(26,702)	(2,414)
New bank loan raised		16,314	—
Net proceeds from issue of convertible notes payable		—	147,000
Net proceeds from issue of shares		—	<u>94,000</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES		<u>(52,195)</u>	<u>238,586</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		61,713	74,596
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		7,125	—
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>84,796</u>	<u>10,200</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by		<u>153,634</u>	<u>84,796</u>
Bank balances and cash		158,155	84,796
Bank overdraft		<u>(4,521)</u>	—
		<u>153,634</u>	<u>84,796</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 42 and 43, respectively.

The functional currency of the Company was originally Hong Kong dollars (“HKD”). On 16 April 2008, the Company acquired INPAX Technology Limited and its subsidiary Jiangxi Union Shipbuilding Company Limited 江西江州聯合造船有限責任公司(「江州聯合船廠」) (collectively the “INPAX Group”), both of which have Renminbi (“RMB”) as their functional currency. The directors are of the opinion that after the acquisition of INPAX Group, the primary economic environment in which the Company operates is the People’s Republic of China (the “PRC”), taking into consideration that the Company’s principal activity is holding of investments in subsidiaries. The directors have therefore determined that the functional currency of the Company has been changed to RMB after acquisition of INPAX Group.

The consolidated financial statements are presented in HKD for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) - Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustments has been required.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendment)	Eligible Hedged Items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments ²
HKFRS 8	Operating Segments ²
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives ⁴
HK(IFRIC) - Int 13	Customer Loyalty Programmes ⁵
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation ⁶
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners ³
HK(IFRIC) - Int 18	Transfers of Assets from Customers ⁷

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods ending on or after 30 June 2009

⁵ Effective for annual periods beginning on or after 1 July 2008

⁶ Effective for annual periods beginning on or after 1 October 2008

⁷ Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will

affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expense are eliminated on consolidation.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Business combination agreements with adjustments to the cost of combination based on contingent events are included in the cost of combination at the acquisition date if the adjustment is probable and can be measured reliably.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the condensed consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment in an associate

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for service rendered (for shipbuilding, see below “construction contracts” for details) and goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from shipbuilding represents contracted revenue arising on construction contracts for shipbuilding for the year.

Sales of goods are recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost and are charged to the condensed consolidated income statement over the period of the lease on a straight line basis.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Construction contracts

Where the outcome of a construction contract for shipbuilding can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as determined by reference to the standard hours incurred up to the balance sheet date as a percentage of total estimated standard hours for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the contract work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the

acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets held for trading, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss of the Group includes financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those financial assets at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Financial assets, such as trade and other receivables and loan receivables, assets that are assessed for impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loan receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and loan receivable are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis, of which the interest expense is included in net gains or losses.

Convertible notes issued by the Group

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities of the Group include trade and other payable, bills payable, margin loan payable, bank borrowings and deferred consideration which are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives (including not-closely related embedded derivatives separated from host contract) are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year.

Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which a foreign operation is disposed of.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Leasing

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme/State-managed retirement benefit schemes, which is a defined contribution scheme, are charged as an expense when employees have rendered service entitling them to the contributions.

Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair values at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Share-based payment transactions***Share options granted to employees***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amount of asset within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of goodwill is approximately HK\$514,179,000 (net of accumulated impairment loss of approximately HK\$322,221,000). Details of the recoverable amount calculation are disclosed in note 35.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which include the cash and cash equivalents, net of the margin loan payables, bank borrowings (note 29), deferred consideration (note 31), convertible notes payable and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets		
Fair value through profit or loss		
- Held for trading	18,423	231,351
- Conversion option embedded in convertible note	—	2,631
Loans and receivables (including cash and cash equivalents)	777,577	138,139
Available-for-sale investments	—	18,912
Financial liabilities		
Liabilities measured at amortised cost	1,294,596	102,936

6b. Financial risk management objectives and polices

The Group's major financial instruments include available-for-sale investments, conversion option embedded in convertible note receivable, trade and other receivables, loan receivables, investments held for trading, bank balances, trade and other payables, margin loan payables, bills payable, bank borrowings, deferred consideration and convertible notes payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency, interest rates and equity prices. Market risk exposures are further measured by sensitivity analysis. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

(i) *Currency risk*

The Group's major operating subsidiary has RMB as its functional currency and is mainly exposed to United States dollars ("USD"), Euro ("EUR"), HKD and Singapore dollars ("SGD"),

arising from foreign currency denominated bank balance, investment held for trading, convertible notes payables and deferred consideration. The Group's other operating subsidiaries (all with HKD as their functional currency) do not have significant foreign currency exposure.

The Group currently does not have an foreign currency hedging policy. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
USD	—	—	2,985	54
EUR	—	—	4,242	—
HKD	657,701	—	18,677	—
SGD	—	—	—	93,478
	<u>—</u>	<u>—</u>	<u>—</u>	<u>93,478</u>

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD, EUR, HKD and SGD, respectively. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the year end for 5% change in foreign currency rates. The sensitivity analysis includes bank balance in USD, EUR and HKD, investments held for trading in SGD, margin loan payable, bank borrowing, deferred consideration and convertible notes payables in HKD where the denomination of the receivables or payables is in a currency other than the functional currency of the lender or the borrower. A positive number indicates an decrease in loss for the year in total effect where RMB strengthens against USD, EUR, HKD and SGD. For weakening of RMB against USD, EUR, HKD and SGD would be an equal and opposite impact on the loss for the year and the balance below would be negative.

	2008	2007
	HK\$'000	HK\$'000
Increase in loss for the year		
- USD	(7)	—
- EUR	(11)	—
- HKD	639	—
- SGD	—	(234)
	<u>—</u>	<u>(234)</u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank overdrafts and bank deposits (2007: variable-rate margin loan payable and bank deposits), and exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, bank borrowings, liability component of convertible notes payable, margin loan payables, deferred consideration and the debt element of convertible note payable (2007: fixed-rate liabilities component of convertible notes payable). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's bank overdrafts and bank deposits.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank overdrafts and bank balances at the balance sheet date. The analysis is prepared assuming the amount of the outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year would decrease/increase by HK\$766,000 (2007: HK\$259,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank overdrafts and bank balances.

(iii) *Price risk on investments held for trading*

The Group is exposed to equity price risk through its investments held for trading. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in the respective Stock Exchanges. The management manages this exposure by closely monitoring the price risk and maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks of investments held for trading at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower and all other variables were held constant, loss for the year ended 31 December 2008 would decrease/increase by HK\$921,000 (2007: decrease/increase by HK\$11,568,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

(iv) *Price risk on conversion option embedded in convertible note*

The Group was required to estimate the fair value of the conversion option embedded in the convertible note at each balance sheet date with changes in fair value to be recognised in the consolidated income statements as long as the convertible note were outstanding. The fair value adjustment would be affected either positively or negatively, amongst others, by the change in share price volatility of the convertible note issuer.

Sensitivity analysis

The sensitivity analysis below had been determined based on the exposure to the convertible note issuer's share price volatility at the reporting date only as the directors of the Company consider that the change in market interest rate might not have significant financial impact on the face value of conversion option.

If the convertible note issuer's share price volatility had been 5% higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2007 (as a result of changes in fair value of conversion option component of convertible note would decrease/increase by approximately HK\$175,000).

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of convertible note involves multiple variables and certain variables are interdependent.

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk on loan receivables is significantly reduced.

The Group has concentration of credit risk as 83.9% (2007: 79.8%) of deposits are placed with three banks (2007: one bank). The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than the concentration of credit risk on bank deposits, the Group has an additional concentration credit risk as 75.7% (2007: Nil) of its trade and other receivables was due from a stakeholder in the sales contracts.

In order to minimise the credit risk in respect of the receivables from the stakeholder, the Group signed fund transfer agreements with the stakeholder and banks with which the receivables are placed. The agreements specify the receivables placed in bank could only be withdrawn by the company for shipbuilding purpose. In the event of default of the stakeholder, the bank would retain the receivables for shipbuilding purpose under the arrangement.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table for non-derivative financial liabilities has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 month HK\$'000	1 to 3 months HK\$'000	3 months to 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31.12.2008 HK\$'000
2008								
Non-derivative financial liabilities								
Trade and other payables	—	80,121	3,031	34,082	—	—	117,234	117,234
Bills payables	—	45,454	159,091	—	—	—	204,545	204,545
Margin loan payables								
- fixed rates	12%	324	650	33,925	—	—	34,899	32,499
Deferred consideration	16.25%	—	—	200,000	—	—	200,000	173,447
Convertible notes payable								
- liability component (note)	16.25%	—	—	5,400	5,400	579,999	590,799	421,440
Bank borrowings								
- variable rates	7%	4,521	—	—	—	—	4,521	4,521
- fixed rates	8.2%	289	5,608	128,349	18,639	244,382	397,267	340,910
		<u>130,709</u>	<u>168,380</u>	<u>401,756</u>	<u>24,039</u>	<u>824,381</u>	<u>1,549,265</u>	<u>1,294,596</u>

	Weighted average effective interest rate	Less than 1 month HK\$'000	1 to 3 months HK\$'000	3 months to 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31.12.2008 HK\$'000
2007								
Non-derivative financial liabilities								
Other payables	—	4,952	—	—	—	—	4,952	4,952
Margin loan payables - variable rates	HK prime rate + 3%	51,759	—	—	—	—	51,759	51,759
Convertible notes payable - liability component (note)	7.95%	—	—	—	50,000	—	50,000	46,225
		<u>56,711</u>	<u>—</u>	<u>—</u>	<u>50,000</u>	<u>—</u>	<u>106,711</u>	<u>102,936</u>

Note: This is categorised based on contractual term of redemption obligation at maturity, the holders of the convertible notes can convert the notes into the Company's shares anytime.

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets (including available-for-sale unlisted debt securities) and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (Bionomical option pricing model).

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group was originally organised into two operating divisions - metals trading and trading of securities before the acquisition of INPAX Group. A further operating division in ship building is added during the year after the acquisition. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2008

	Shipbuilding <i>HK\$'000</i>	Metals trading <i>HK\$'000</i>	Trading of securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gross proceeds	<u>1,190,824</u>	<u>772</u>	<u>425,660</u>	<u>1,617,256</u>
Revenue	<u>1,190,824</u>	<u>772</u>	<u>—</u>	<u>1,191,596</u>
Segment result	<u>(151,405)</u>	<u>(34)</u>	<u>(36,277)</u>	(187,716)
Other income				10,215
Unallocated corporate expenses				(49,953)
Share-based payment expenses				(14,225)
Finance costs				<u>(233,311)</u>
Loss before tax				(474,990)
Taxation				<u>5,994</u>
Loss for the year				<u>(468,996)</u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP
2007

	Metals trading <i>HK\$'000</i>	Trading of securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gross proceeds	<u>5,203</u>	<u>133,536</u>	<u>138,739</u>
Revenue	<u>5,203</u>	<u>—</u>	<u>5,203</u>
Segment result	<u>399</u>	<u>(40,848)</u>	(40,449)
Interest income			5,294
Gain on change in fair value of conversion option embedded in convertible note			1,282
Unallocated corporate expenses			(14,804)
Finance costs			<u>(5,949)</u>
Loss for the year			<u>(54,626)</u>

Balance sheet

	2008		2007	
	Carrying amount of assets <i>HK\$'000</i>	Carrying amount of liabilities <i>HK\$'000</i>	Carrying amount of assets <i>HK\$'000</i>	Carrying amount of liabilities <i>HK\$'000</i>
Ship building	5,232,411	1,730,978	—	—
Metals trading	772	—	623	—
Trading of securities	<u>18,423</u>	<u>—</u>	<u>291,677</u>	<u>51,759</u>
Segmental total	5,251,606	1,730,978	292,300	51,759
Other corporate assets	<u>336,692</u>	<u>1,563,911</u>	<u>100,244</u>	<u>51,177</u>
Consolidated total	<u>5,588,298</u>	<u>3,294,889</u>	<u>392,544</u>	<u>102,936</u>

Other information

	2008				
	Shipbuilding	Metal Trading of			Total
	<i>HK\$'000</i>	<i>trading</i>	<i>securities</i>	Other	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital additions	124,256	—	—	2,446	126,702
Depreciation	33,444	—	—	515	33,959
Amortisation prepaid lease payments	4,812	—	—	—	4,812
Amortisation of intangible assets	115,199	—	—	—	115,199
Loss on disposal of property, plant and equipment	—	—	—	624	624
Shared-based payment expense	27,787	—	—	14,225	42,012
Charge in fair value of investments held for trading	—	—	37,928	—	37,928
Impairment loss on goodwill	<u>322,221</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>322,221</u>

	2007				
	Metal	Trading of			Total
	<i>trading</i>	<i>securities</i>	Other		<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital additions	—	—	1,212		1,212
Depreciation	—	—	157		157
Gain on disposal of property, plant and equipment	—	—	280		280
Charge in fair value of investments held of trading	—	<u>40,848</u>	<u>—</u>		<u>40,848</u>

(b) Geographical segments

An analysis of the Group's revenue by geographical markets based on location of customers, irrespective of the origin of the goods, is presented below:

2008

	United States of America	Europe	Others	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE				
External sales	<u>145,031</u>	<u>1,045,793</u>	<u>772</u>	<u>1,191,596</u>

Less than 10% of the Group's carrying amounts of assets and capital additions are located outside the PRC, hence no segment analysis by geographical locations is presented.

2007

The Group operates within one geographical segment because its revenue was primarily generated in Hong Kong, all sales were made to customers of the Group located in Hong Kong and all identifiable assets of the Group were substantially located in Hong Kong. Accordingly, no geographical segment was presented.

8. OTHER INCOME

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income from investments held for trading	2,385	—
Interest on bank deposits	6,762	1,867
Interest on loan receivables	855	3,427
Sales of scrap materials	4,626	—
Gain on disposal of property, plant and equipment	—	280
Exchange gain	9,900	—
Others	<u>51</u>	<u>—</u>
	<u>24,579</u>	<u>5,574</u>

9. FINANCE COSTS

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
Convertible notes payable at effective interest rates (Note 33)	188,188	5,107
Imputed interest expense on deferred consideration (Note 31)	18,809	—
Bank borrowings	19,353	—
Other borrowings	<u>6,961</u>	<u>842</u>
	<u>233,311</u>	<u>5,949</u>

10. LOSS BEFORE TAX

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax has been arrived at after charging:		
Directors' emoluments	19,591	3,237
Other staff costs (including share-based payment of HK\$2,416,000 (2007: Nil))	39,314	4,024
Contributions to retirement benefits scheme, excluding directors'	<u>4,187</u>	<u>131</u>
Total staff costs	<u>63,092</u>	<u>7,392</u>
Share-based payment expense (included in cost of sales)	22,842	—
Auditor's remuneration	1,150	1,260
Amortisation of intangibles assets (included in cost of sales)	115,199	—
Depreciation of property, plant and equipment	33,959	157
Release of prepaid lease payments	4,812	—
Loss on disposal of property, plant and equipment	624	—
Minimum lease payments under operating leases in respect of rented premises	<u>1,427</u>	<u>1,128</u>

11. TAXATION

No provision for Hong Kong Profits Tax has been made since the Group has no assessable profits for both years.

In accordance with Article 8 of the Foreign Enterprise Income Tax ("FEIT") law of the PRC, foreign investment enterprises ("FIEs") of production nature are eligible to enjoy two years of

exemption and three years of 50% deduction in FEIT starting from the first profit - making year (the “2+3 tax holidays”). The first fully exempted financial year of 江州聯合船廠 was the year ended 31 December 2007 and 江州聯合船廠 still enjoys full exemption for the current year.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law (“Implementation Regulations”). The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain tax exemption and deduction for the FEIT is still applicable until the end of the five-year transitional period under the New Law.

Under the New Law and Implementation Regulations 江州聯合船廠 continues to enjoy the preferential tax treatment (12.5% effective tax rate, i.e. 50% of the applicable tax rate of 25%) for each of the years from 2009 to 2011. Thereafter, the tax rate will ratchet up to 25% from 2012.

Income tax for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax	<u>(474,990)</u>	<u>(54,626)</u>
Tax at applicable domestic income tax rate of 25% (2007: 17.5%)	(118,748)	(9,559)
Tax effect of expenses not deductible for tax purpose	176,463	11,665
Tax effect of income not taxable for tax purpose	(3,382)	(2,106)
Tax effect of tax exemption granted to a PRC subsidiary	(54,333)	—
Tax effect of deductible temporary difference	(27,699)	—
Deferred tax on undistributed earnings of a PRC subsidiary	<u>21,705</u>	<u>—</u>
Tax charge for the year	<u>(5,994)</u>	<u>—</u>

At the balance sheet date, the Group had unused tax losses of approximately HK\$25,906,000 (2007: HK\$25,906,000) available to offset against future profits. No deferred taxation asset has been recognised due to unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

12. DIRECTORS' EMOLUMENTS

	2008						2007				
	Fees	Salaries and other benefits	Discre- tionary bonus	Retirement benefits scheme contri- butions	Share- based payments	Total	Fees	Salaries and other benefits	Discre- tionary bonus	Retirement benefits scheme contri- butions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive:											
Mr. Chau On Ta Yuen	—	1,300	—	12	10,460	11,772	—	340	—	3	343
Mr. Zhang Shi Hong	—	960	—	5	3,487	4,452	—	—	—	—	—
Mr. Wang San Long	—	137	—	4	2,807	2,948	—	—	—	—	—
Mr. Tang Chi Ming*	132	—	—	—	—	132	—	293	—	9	302
Mr. Chiu Kong	—	—	—	—	—	—	—	338	—	5	343
Mr. Hui Richard Rui	—	—	—	—	—	—	—	447	—	4	451
Mr. Tsui Ching Hung	—	—	—	—	—	—	—	424	—	4	428
Ms. Cheung Sze Man	—	—	—	—	—	—	—	500	—	10	510
Mr. Chung Nai Ting	—	—	—	—	—	—	—	215	—	2	217
Mr. Tse Lanny Cheuk Ming	—	—	—	—	—	—	—	205	—	2	207
Mr. Chen Zhong Min	—	—	—	—	—	—	—	126	—	2	128
Independent non-executive:											
Mr. Hu Bai He	51	—	—	—	—	51	—	—	—	—	—
Mr. Xiang Siying	51	—	—	—	—	51	—	—	—	—	—
Mr. Zhang Xiping	31	—	—	—	—	31	—	—	—	—	—
Mr. Sin Chi Fai*	31	—	—	—	—	31	50	—	—	—	50
Ms. Chan Ling, Eva*	74	—	—	—	—	74	97	—	—	—	97
Mr. Chan Sek Nin, Jackey*	49	—	—	—	—	49	86	—	—	—	86
Mr. Miu Frank H.	—	—	—	—	—	—	45	—	—	—	45
Mr. Chan Sze Hung	—	—	—	—	—	—	30	—	—	—	30
	<u>419</u>	<u>2,397</u>	<u>—</u>	<u>21</u>	<u>16,754</u>	<u>19,591</u>	<u>308</u>	<u>2,888</u>	<u>—</u>	<u>41</u>	<u>3,237</u>

* Directors resigned during the year

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2007: five) were directors of the Company whose emoluments are included in note 12 above. The emoluments of the remaining two highest paid individuals are as follows:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	864	—
Retirement benefits scheme contributions	12	—
Share-based payments	<u>1,699</u>	<u>—</u>
	<u>2,575</u>	<u>—</u>

Their emoluments were within the following bands:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$nil to HK\$1,000,000	—	—
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>—</u>

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Loss		
Loss for the year attributable to equity holders of the Company	<u>(468,996)</u>	<u>(54,626)</u>
	2008 <i>'000</i>	2007 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>19,160,105</u>	<u>10,437,646</u>

No diluted loss per share was presented for the year ended 31 December 2008 and 2007 because the exercise of both share options and convertible notes has an anti-dilutive effect.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
COST						
At 1 January 2007	428	796	2,067	—	—	3,291
Additions	996	216	—	—	—	1,212
Disposals	<u>(428)</u>	<u>(796)</u>	<u>(2,067)</u>	<u>—</u>	<u>—</u>	<u>(3,291)</u>
At 31 December 2007	996	216	—	—	—	1,212
Additions	725	3,256	7,103	36,645	78,973	126,702
Acquired on acquisition of a subsidiary	651,976	638	14,746	41,492	87,795	796,647
Disposals	(524)	(169)	(48)	—	—	(741)
Currency realignment	<u>15,302</u>	<u>298</u>	<u>830</u>	<u>4,263</u>	<u>9,150</u>	<u>29,843</u>
At 31 December 2008	<u>668,475</u>	<u>4,239</u>	<u>22,631</u>	<u>82,400</u>	<u>175,918</u>	<u>953,663</u>
DEPRECIATION						
At 1 January 2007	390	756	1,997	—	—	3,143
Provided for the year	96	61	—	—	—	157
Eliminated on disposals	<u>(428)</u>	<u>(796)</u>	<u>(1,997)</u>	<u>—</u>	<u>—</u>	<u>(3,221)</u>
At 31 December 2007	58	21	—	—	—	79
Provided for the year	26,235	280	2,053	5,391	—	33,959
Eliminated on disposals	(59)	(21)	(16)	—	—	(96)
Currency realignment	<u>2,334</u>	<u>20</u>	<u>150</u>	<u>346</u>	<u>—</u>	<u>2,850</u>
At 31 December 2008	<u>28,568</u>	<u>300</u>	<u>2,187</u>	<u>5,737</u>	<u>—</u>	<u>36,792</u>
CARRYING VALUES						
At 31 December 2008	<u>639,907</u>	<u>3,939</u>	<u>20,444</u>	<u>76,663</u>	<u>175,918</u>	<u>916,871</u>
At 31 December 2007	<u>938</u>	<u>195</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,133</u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	5%
Furniture and fixtures	25%
Motor vehicles	12.5%
Plant and machinery	6.67% - 25%

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land held under medium-term lease in the PRC	<u>346,705</u>	<u>—</u>
Analysed for reporting purposes as:		
Non-current asset	345,004	—
Current asset	<u>1,701</u>	<u>—</u>
	<u>346,705</u>	<u>—</u>

17. INTANGIBLE ASSET

	Contracted and uncontracted customer relationships
	<i>HK\$'000</i>
COST	
At 1 January 2007 and at 31 December 2007	—
Acquired on acquisition INPAX Group (Note 35)	1,626,339
Currency realignment	<u>35,462</u>
At 31 December 2008	<u>1,661,801</u>
AMORTISATION AND IMPAIRMENT	
At 1 January 2007 and at 31 December 2007	—
Amortisation charge for the year	<u>115,199</u>
At 31 December 2008	<u>115,199</u>
CARRYING VALUES	
At 31 December 2008	<u><u>1,546,602</u></u>
At 31 December 2007	<u><u>—</u></u>

Intangible asset represents contracted and unconstructed customer relationships arising from the acquisition of INPAX Group during the year.

The fair value of the intangible asset as the date of acquisition was arrived using the multiperiod excess earnings method under the income capitalisation approach. Under the income capitalisation approach the value of an asset reflects the future cash flows it generates. The multiperiod excess earnings method assumes that the value of the asset equals to the present value of the incremental after tax cash flows attributable to the asset.

The amount will be amortised over its estimated useful life of 10 years on a straight-line basis.

18. AVAILABLE-FOR-SALE INVESTMENTS

	<i>Notes</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Unlisted securities:			
- Equity securities at cost	(a)	13,489	13,489
Less: impairment loss recognised		<u>(13,489)</u>	<u>(13,489)</u>
		—	—
- Debt securities	(b)	<u>—</u>	<u>18,912</u>
Total		<u>—</u>	<u>18,912</u>

Notes:

- (a) The unlisted investment represents approximately a 5.94% interest in the issued share capital of Found Macau Investments International Limited (“Found Macau”), an investment holding company incorporated in the British Virgin Islands. Found Macau was formed to invest in gaming, entertainment and related business in Macau through its subsidiaries. Included in the investment cost is the fair value adjustment of HK\$13,489,000 arising from an interest free loan advanced to Found Macau which was considered as deemed capital contribution.

In view of the recurring operating losses incurred by Found Macau, the directors of the Company reviewed the carrying amount of the unlisted investment based on its expected recoverable amount. Accordingly, an impairment loss of HK\$13,489,000 was identified and charged to the consolidated income statement in 2006.

- (b) On 2 November 2007, the Group subscribed convertible note of HK\$20,000,000 from ITC Corporation Limited (“ITC 2009 CN”), a 5% convertible note bearing interest at 5% per annum payable semi-annually with maturity on 1 November 2009. ITC Corporation Limited is a public limited company with their shares listed on the Stock Exchange. The Group has classified the debt element of the convertible note as available-for-sale investment and the embedded derivative component as conversion option embedded in convertible note on initial recognition. The fair value of each component of the convertible note on initial recognition and at the balance sheet date are determined by the directors of the Company with reference to the valuation performed by Greater China Appraisal Limited, a firm of independent valuers.

As at 31 December 2007, the fair value for the debt element and conversion option element were approximately HK\$18,912,000 and HK\$2,631,000. Therefore, an increase in fair value of approximately HK\$261,000 for the debt element and an increase in fair value of approximately HK\$1,282,000 for conversion option element were recognised in equity and profit and loss during the year, respectively.

On 4 February 2008, the Group disposed of the convertible note to an independent third party at consideration of approximately HK\$20,257,000.

19. INTEREST IN AN ASSOCIATE

	2008 & 2007
	<i>HK\$'000</i>
Cost of unlisted investment in an associate	—
Loan to an associate	54,505
Less: Impairment loss recognised	<u>(54,505)</u>
	<u>—</u>

In previous years, in view of the recurring operating loss incurred by the associate, which exceeded the Group's investments, full impairment had been recognised and the Group did not share loss of the associate since then. Details of the Group's associate at 31 December 2008 are set out in note 43.

20. CONVERSION OPTION EMBEDDED IN CONVERTIBLE NOTE

As explained in note 18(b), the Group subscribed ITC 2009 CN during the year, an amount of HK\$1,349,000 was recognised as conversion option embedded in convertible note upon the subscription which was measured at fair value at initial recognition and changes in fair value was directly recognised in profit or loss in subsequent period.

The fair value of the conversion option embedded in convertible note is based on Black-Scholes pricing model using a rate based on the market interest rate and risk premium of 1.5%.

The Group recognised an increase in fair value of approximately HK\$1,282,000 as at 31 December 2007. On 4 February 2008, the Group had disposed of the convertible note to an independent third party (see note 18(b)).

21. INVENTORIES

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	482,125	—
Finished goods	<u>—</u>	<u>378</u>
	<u>482,125</u>	<u>378</u>

22. TRADE AND OTHER RECEIVABLES/PREPAYMENT OF RAW MATERIALS

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	3,053	—
Value-added tax recoverable	109,385	—
Amount receivable from a stakeholder (Note)	426,004	—
Other	<u>24,076</u>	<u>4,979</u>
Total trade and other receivables	<u>562,518</u>	<u>4,979</u>
Prepayment for purchase of raw materials	<u>863,043</u>	<u>—</u>

Note: A ship buyer has made progress payment for ship construction contracts to a stakeholder rather than directly to the Group. The amounts received by the stakeholder will be paid over to the Group based on the progress of the contract work.

The Group allows an average credit period of 90 days to its trade customers. The Group's trade receivables aged over 90 days as at the reporting date.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$3,053,000 (2007: Nil) which are past due as at the reporting date for which the Group has not provided for impairment loss. The amount was fully settled subsequent to the balance sheet date. The Group does not hold any collateral over these balances. The average age of these receivables is 150 days (2007: Nil).

Prepayment of raw materials represents amount paid for purchase of steel plates and vessel components for shipbuilding.

The directors consider that the carrying amounts of trade receivables and amount due from a stakeholder approximate their fair values.

23. LOAN RECEIVABLES

Loan receivables were unsecured, interest bearing at Hong Kong Prime Rate plus 1% per annum and repayable on demand.

The loan receivables are fully repaid during the year.

The directors consider the carrying amount approximates its fair value.

24. INVESTMENTS HELD FOR TRADING

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
At fair value:		
Equity securities listed in Hong Kong	18,423	137,873
Equity securities listed elsewhere	<u>—</u>	<u>93,478</u>
	<u>18,423</u>	<u>231,351</u>

Details of the investments as at 31 December 2008 and 2007 are as follows:

Name of company	Country of incorporation	Class of shares held	Attributable equity interest	
			2008	2007
Get Nice Holdings Limited	Cayman Islands	Ordinary	—	3.98%
ITC Properties Group Limited	Bermuda	Ordinary	—	3.41%
Pacific Century Regional Developments Limited	Republic of Singapore	Ordinary	—	1.61%
Superb Summit International Timber Company Limited	Cayman Islands	Ordinary	0.08%	—
China E-Learning Group Limited	Cayman Islands	Ordinary	2.47%	—

25. BANK BALANCES/PLEDGED BANK DEPOSITS/BANK OVERDRAFTS**Bank balances/pledged bank deposits**

Bank balances carry interest at market rates ranging from 0.01% to 0.72% (2007: an average 1.55%) per annum.

The pledged deposits carry a fixed interest rate of 3.78% (2007: Nil) per annum.

Bank Overdrafts

Bank overdrafts carry interest at market rate at Hong Kong Prime rate +2% per annum.

26. TRADE, BILLS AND OTHER PAYABLES

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payable	40,753	—
Bills payable	204,545	—
Advance from customers for ship construction contract	1,024,767	—
Interest payable	20,160	—
Dividend payable to former equity holders of a subsidiary	21,757	—
Consideration payable for acquisition of prepaid lease payment	42,859	—
Others payable and accruals	<u>16,490</u>	<u>4,952</u>
	<u>1,371,331</u>	<u>4,952</u>

Advance from customers for ship construction contract represents advance from customers for ship building. The construction work of which has not yet been commenced at the balance sheet date.

Included in trade and other payables are trade and bills payable of HK\$245,298,000. The following is an aged analysis of trade payables at the balance sheet dates:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	79,538	—
30 - 60 days	25,757	—
61 - 90 days	1,916	—
Over 90 days	<u>138,087</u>	<u>—</u>
	<u>245,298</u>	<u>—</u>

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payable is within the credit timeframe.

Bills payable are secured by pledged bank deposits (Note 25).

Non-trade payables are unsecured, non interest bearing and repayable on demand.

The directors consider the carrying amounts of trade payable, bills payable, interest payable, consideration payable for acquisition of prepaid lease payment approximate their fair values.

27. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at the balance sheet date:		
Contract costs incurred to date	1,002,281	—
Recognised profits less recognised losses	<u>314,905</u>	<u>—</u>
	1,317,186	—
Less: Progress payments and progress billings	<u>(1,675,265)</u>	<u>—</u>
Amounts due to customers for contract works	<u>(358,079)</u>	<u>—</u>

28. MARGIN LOAN PAYABLE

The amount is unsecured, bears fixed interest rate at 12% (2007: Hong Kong Prime rate +3%) per annum and is repayable within one year subsequent to balance sheet date.

The directors consider the carrying amount approximates its fair value.

29. BORROWINGS

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Bank loans	340,909	—
Secured	52,296	—
Unsecured	<u>288,614</u>	<u>—</u>
	<u>340,910</u>	<u>—</u>
Carrying amount repayable:		
On demand or within one year	113,637	—
More than two years but not more than five years	<u>227,273</u>	<u>—</u>
	340,910	—
Less: Amounts due within one year shown under current liabilities	<u>(113,637)</u>	<u>—</u>
	<u>227,273</u>	<u>—</u>

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Fixed-rate borrowings:		
Within one year	113,637	—
In more than two years but not more than five years	<u>227,273</u>	<u>—</u>
	<u>340,910</u>	<u>—</u>

In addition, the Group has variable-rate borrowing which carries interest at Hong Kong Prime rate plus 2% per annum. Interest is repriced in accordance with the relevant bank's periodic announcement.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

Effective interest rate:

Fixed-rate borrowings	6.66% to 10.2%
Variable-rate borrowing	Hong Kong Prime rate +2%

The Group's borrowing denominated in HKD, currency other than the functional currency of the relevant Group entity is set out below:

	<i>HK\$'000</i>
As at 31 December 2008	4,521
As at 31 December 2007	<u>—</u>

30. PROVISION FOR WARRANTY

	<i>HK\$'000</i>
At 1 January 2007 and 31 December 2007	—
Acquired on acquisition of INPAX Group (Note 35)	8,707
Additional provision for the year	2,729
Reversal of provision	(8,177)
Currency realignment	<u>(285)</u>
At 31 December 2008	<u>2,974</u>

The Group provides an one-year warranty on shipbuilding and undertakes to repair or replace items that fail to perform satisfactorily. The provision is estimated based on historical data of the level of repairs and replacement.

31. DEFERRED CONSIDERATION

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Acquisition of INPAX Group (Note 35)	154,638	—
Imputed interest expense	<u>18,809</u>	<u>—</u>
At 31 December 2008	<u>173,447</u>	<u>—</u>

The amount is interest free and repayable on 31 December 2009 and represents HK\$200,000,000 deferred consideration payable for the acquisition of INPAX Group during the year. The imputed interest rate is 16.25% per annum.

The directors consider the carrying amount approximates its fair value.

32. SHARE CAPITAL

	Number of shares		Share capital	
	2008	2007	2008 HK\$'000	2007 HK\$'000
Ordinary shares of HK\$0.001 each				
Authorised:				
At the beginning and the end of the year	<u>250,000,000,000</u>	<u>250,000,000,000</u>	<u>250,000</u>	<u>250,000</u>
Issued and fully paid:				
At the beginning of the year	17,198,806,126	531,645,319	17,198	5,316
Issue of new shares				
- on 12 April 2007 (note a)	—	100,000,000	—	1,000
- on 21 May 2007 (note b)	—	500,000,000	—	5,000
Issued of new shares upon share subdivision on 3 July 2007 (note c)	—	10,184,807,871	—	—
Conversion of convertible notes (note d)	<u>16,541,176,465</u>	<u>5,882,352,936</u>	<u>16,542</u>	<u>5,882</u>
At the end of the year	<u>33,739,982,591</u>	<u>17,198,806,126</u>	<u>33,740</u>	<u>17,198</u>

Notes:

- (a) On 15 March 2007, the Company entered into an underwriting agreement with a placing agent for placement of 100,000,000 new shares on a fully-underwritten basis at the price of HK\$0.16 per share to independent third parties.
- (b) On 15 March 2007, the Company also entered into a placing agreement with a placing agent for placement of 500,000,000 new shares on a best-effort basis at the price of HK\$0.16 per share to independent third parties.
- (c) Pursuant to an ordinary resolution at the special general meeting on 29 June 2007, each of the existing issued and unissued shares of HK\$0.01 each in the share capital of the Company be subdivided into ten shares of HK\$0.001 each in the share capital of the Company.
- (d) During the year, CBI and CBII (as defined in note 33) were converted into 16,541,176,465 ordinary shares of HK\$0.001 each of the Company.

33. CONVERTIBLE NOTES PAYABLE

The Company issued convertible notes in 2007 and 2008. The details are as follows:

- On 18 May 2007, the Company issued convertible loan notes (“CBI”) with an aggregate principal amount of HK\$150,000,000. The fair value of the liability component at the date of issue is HK\$139,426,909. CBI carries a coupon of 4% per annum, accrued on a day to day basis on the outstanding principal amount, payable annually in arrears, and will be matured on 17 May 2009. CBI is denominated in HKD. The initial conversion price is HK\$0.17 per share and is adjusted to HK\$0.017 following a share subdivision in 2007, which is subject to anti-dilutive adjustments. The effective interest rate of the liability component is 7.95% per annum.

Unless the notes have been converted by the noteholders, the Company will redeem CBI on the maturity date at the principal amount of the convertible notes then outstanding.

After the conversion of HK\$100,000,000 of CBI in 2007, the principal amount of CBI remained outstanding at 31 December 2007 amounted to HK\$50,000,000. During the year, the remaining HK\$50,000,000 of CBI was converted into 2,941,176,470 of the company’s shares of HK\$0.001 each.

The movement of the liability component of CBI is as follow:

	2008	2007
	<i>HK\$’000</i>	<i>HK\$’000</i>
Liability component at the beginning of the year	46,225	—
Issue of convertible note	—	136,638
Conversion	(45,990)	(93,948)
Interest charged	2,264	5,107
Interest paid	<u>(2,499)</u>	<u>(1,572)</u>
	<u>—</u>	<u>46,225</u>

On 5 November 2007, the Company entered into a conditional agreement to issue convertible notes under an acquisition agreement for the acquisition of the entire interest in INPAX Group (see Note 35). The convertible notes (“CBII”) were issued on 16 April 2008 upon completion of the acquisition.

CBII comprises restricted convertible notes and unrestricted convertible notes.

The aggregate principal amount of the unrestricted convertible notes issued in HK\$2,400 million.

The aggregate initial principal amount of the restricted convertible notes issued is HK\$600 million, which is subject to downward adjustment for the potential shortfall between the guaranteed profit of HK\$600 million and the audited profit after taxation of INPAX Group for the year ended 31 December 2008. Based on the audited profit after taxation of INPAX Group of HK\$217 million, the shortfall is determined to be approximately HK\$383 million as compared to the guaranteed profit of HK\$600 million.

The difference between the principal amount of the CBII of HK\$2,617 million, representing the aggregate amount of the principal amount of the unrestricted convertible notes of HK\$2,400 million and the adjusted principal amount of the unrestricted convertible notes issued of HK\$217 million, and the fair value of the liability component of the CBII of approximately HK\$1.7 billion, represents the conversion option of approximately HK\$0.9 billion, which is credited directly to equity as convertible loan notes reserve.

The holder(s) of the restricted convertible notes may convert the whole or any part of the principal amount of the restricted convertible notes outstanding into ordinary shares of the Company from 1 April 2009 to 15 April 2011 at the initial conversion price of HK\$0.15 per share (subject to anti-dilutive adjustments).

The holder(s) of the unrestricted convertible notes may convert the whole or any part of the principal amount of the unrestricted convertible notes outstanding into ordinary shares of the Company from 16 April 2008, the date of issue of the convertible notes, to 15 April 2011, the date of maturity, at an initial conversion price of HK\$0.15 per conversion share (subject to anti-dilutive adjustments).

The conversion rights of CBII shall only be exercisable so long as the aggregate shareholdings in the Company held by Million King Investments Limited (“Million King”), an independent third party from which the Company acquired INPAX Group, its associates and parties acting in concert immediately upon such exercise will not reach or exceed 30% of the then issued share capital of the Company; and that Million King, its associates and parties acting in concert shall not become a controlling shareholder of the Company within the meaning of Listing Rules.

In respect of the restricted convertible note, no interest will be payable. For the unrestricted convertible note, coupon interest at the rate of 1.5% per annum will be accrued on a day to day basis on the outstanding principal amount, payable semi-annually in arrears. First coupon interest payment due October 2008 had been deferred for one year.

The CBII is not redeemable at the option of the noteholder(s) prior to maturity. The Company shall have the right to redeem any portion of the CBII outstanding at an amount equals to the principal amount of the CBII together with any interest accrued at its sole and absolute discretion at any time prior to the maturity date of the CBII. In the opinion of the directors of the Company, such redemption option has risks and characteristics that are closely related to CBII, therefore, it is not separated from the liability component. Unless previously converted or redeemed, the Company shall redeem the CBII at par on the maturity date of the CBII.

The CBII is freely transferrable, provided that the noteholder(s) of the CBII must inform and obtain written consent from the Company of each transfer or assignment made by them. All noteholders of the CBII are still subject to the above-mentioned 30% limit.

The fair value of the equity component of the CBII was calculated using the Binominal option pricing model. The inputs used in the model in determining the fair value as follows:

	Restricted Liability Component 16 April 2008	Unrestricted Liability Component 16 April 2008
Share price	HK\$0.149	HK0.149
Exercise price	HK\$0.15	HK\$0.15
Contractual Life	3 years	3 years
Risk-free rate	1.659%	1.659%
Expected dividend yield	0%	0%
Volatility	<u>49.05%</u>	<u>51.46%</u>

The movement of the liability component of CBII is as follows:

	<i>HK\$'000</i>
Liability component at the beginning of the year	—
Issue of convertible note	1,723,162
Conversion	(1,469,597)
Interest charged	185,924
Interest paid	<u>18,049</u>
Liability component at the end of the year	<u>421,440</u>

The effective interest rate of the liability portion of CBII was 16.25%.

As at the balance sheet date, the unconverted principal amount of restricted and unrestricted convertible notes is HK\$217 million and HK\$360 million, respectively.

34. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Convertible loan notes	Withholding tax on undistributed earnings of the PRC subsidiaries	Fair value adjustments on properties and intangible asset	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2007 and 31 December 2007	—	—	—	—
Acquisition of INPAX Group (Note 35)	—	—	532,006	532,006
Currency realignment	—	—	4,292	4,292
(Credit) Charge to consolidated income statement for the year	(27,699)	21,705	—	(5,994)
Charge to equity for the year	146,831	—	—	146,831
Reversal on conversion of CBII during the year (credit to equity)	<u>(87,447)</u>	<u>—</u>	<u>—</u>	<u>(87,447)</u>
At 31 December 2008	<u>31,685</u>	<u>21,705</u>	<u>536,298</u>	<u>589,688</u>

Under the New Law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. At 31 December 2008, deferred tax has been provided in respect of temporary differences attributable to such retained profits.

35. ACQUISITION OF A SUBSIDIARY/ASSESSMENT ON IMPAIRMENT OF GOODWILL

On 5 November 2007, the Company entered into a sale and purchase agreement with Million King to acquire 100% interest in INPAX Group. The completion date of the agreement was on 16 April 2008, which is also the acquisition date for accounting purposes.

The consideration for the acquisition comprises cash payment of HK\$300,000,000, convertible loan notes (see note 33) and interest free deferred cash payment of HK\$200,000,000 to be settled on 31 December 2009. The fair value of the total consideration was approximately HK\$3,067,687,000.

INPAX Group is engaged in the shipping building business in Jiangxi region, the PRC.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	145,020	651,627	796,647
Prepaid lease payment	82,043	261,597	343,640
Intangible assets	—	1,626,339	1,626,339
Inventories	257,432	88,573	346,005
Other receivables and prepayment	746,948	(2,100)	744,848
Pledged bank deposits	15,548	—	15,548
Bank balances and cash	313,731	—	313,731
Amounts due to customers for contract work	(810,526)	—	(810,526)
Trade and other payables	(196,486)	—	(196,486)
Bills payable	(22,206)	—	(22,206)
Provision for warranty	(8,707)	—	(8,707)
Bank borrowings	(366,402)	—	(366,402)
Deferred tax liabilities	(2,645)	(529,361)	(532,006)
Net assets acquired	<u>153,750</u>	<u>2,096,675</u>	2,250,425
Goodwill			<u>817,262</u>
Total consideration			<u>3,067,687</u>
Total consideration satisfied by:			
Cash			300,000
Deferred consideration (Note 31)			154,638
CBII (Note 33)			<u>2,613,049</u>
			<u>3,067,687</u>
Net cash outflow of cash and cash equivalents in respect of acquisition of INPAX Group:			
Cash consideration paid			(300,000)
Bank balances and cash acquired			<u>313,731</u>
			<u>13,731</u>

INPAX Group contributed a profit of approximately HK\$190,850,000 to the Group's result for the period between the date of acquisition and the balance sheet date.

The initial accounting for the acquisition of INPAX Group involves identifying and determining the fair value to be assigned to the identifiable assets, liabilities and contingent liabilities and the cost of the business combination.

The fair value adjustments of the property, plant and equipment are determined based on the assessment carried by the directors using depreciated placement cost while the prepaid lease payment and inventories are determined using market approach by reference to market evidence of transaction prices for similar properties and inventories. For fair value adjustment of intangible asset, the directors adopted income capitalisation approach to determine the fair value.

The goodwill arising on the acquisition is attributable to the anticipated profitability of its business. In addition, the consideration paid for the combination effectively included amount in relation to the benefit of assembled work force amounting to approximately HK\$115,000. This benefit is not recognised separately from goodwill as the amount is not significant.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been approximately HK\$1,387,953,000, and loss for the year would have been approximately HK\$442,547,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

Impairment of goodwill

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill is allocated to one individual cash generating unit ("CGU"), being the ship building segment.

The movement of the goodwill is as follows:

	<i>HK\$'000</i>
At 1 January 2007 and 31 December 2007	—
Acquisition of INPAX Group	817,262
Currency realignment	19,138
Impairment loss recognised	<u>(322,221)</u>
At 31 December 2008	<u>514,179</u>

During the year ended 31 December 2008, the Group recognised an impairment loss of approximately HK\$322,221,000 in relation to goodwill arising on acquisition of INPAX Group.

The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. For impairment purpose, the calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 19.4%. The cash flows beyond the 5-year period are extrapolated with zero growth rates. Another key assumption for the value in use calculations relate to the estimation of cash inflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the ship building segment to exceed the aggregate recoverable amount of the ship building segment.

36. CAPITAL COMMITMENTS

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>40,587</u>	<u>—</u>
Capital expenditure in respect of the acquisition of properties, plant and equipment authorised but not contracted for	<u>79,418</u>	<u>—</u>

37. PLEDGE OF ASSETS

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank deposits	176,648	—
Prepaid lease payments	<u>37,250</u>	<u>—</u>
	<u>213,898</u>	<u>—</u>

Bank deposits and prepaid lease payments were pledged to banks for banking facilities granted by banks to the group.

Pledged bank deposits represents deposits pledged to banks to secure bills payable issued by the Group and is therefore classified as current assets.

The pledge on the bank deposits will be released upon the settlement of relevant bills payables.

38. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to resolutions passed on 5 March 2008 and 7 May 2008 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 4 March 2018 and 6 May 2018 respectively. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 1,719,000,000, representing 5.1% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per person. Options may be exercised at any time during the exercise period. The subscription price of the option shall be determined by the board but in any case shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a trading day, (ii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a share.

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The following table discloses details of the options held by directors, employees and consultants and movements in such holding during the period ended 31 December 2008:

Name	Date of grant	Exercisable period	Exercise price per share	Number of share options			
				Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Outstanding at 31.12.2008
Category I:							
Directors	5 March 2008	5 March 2008 to 4 March 2018	HK\$0.180	—	80,000,000	—	80,000,000
		5 March 2009 to 4 March 2018	HK\$0.180	—	60,000,000	—	60,000,000
		5 March 2010 to 4 March 2018	HK\$0.180	—	60,000,000	—	60,000,000
				—	200,000,000	—	200,000,000
	7 March 2008	7 May 2008 to 6 May 2018	HK\$0.143	—	52,000,000	—	52,000,000
		7 May 2009 to 6 May 2018	HK\$0.143	—	39,000,000	—	39,000,000
		7 May 2010 to 6 May 2018	HK\$0.143	—	39,000,000	—	39,000,000
				—	130,000,000	—	130,000,000
				—	330,000,000	—	330,000,000
Category II:							
Employees	7 May 2008	7 May 2008 to 6 May 2018	HK\$0.143	—	69,600,000	—	69,600,000
		7 May 2009 to 6 May 2018	HK\$0.143	—	52,200,000	—	52,200,000
		7 May 2010 to 6 May 2018	HK\$0.143	—	52,200,000	—	52,200,000
				—	174,000,000	—	174,000,000
Category III:							
Consultants	7 May 2008	7 May 2008 to 6 May 2018	HK\$0.143	—	1,215,000,000	—	1,215,000,000
				—	1,719,000,000	—	1,719,000,000

The consultants provide consultancy service with regard to the acquisition and operation of INPAX Group.

No share options were exercised during the year ended 31 December 2008. The estimated fair values of the options granted on 5 March and 7 May 2008 are approximately HK\$18,086,000 and HK\$30,502,000 respectively.

These fair values were calculated using the Binominal model. The inputs into the model were as follows:

	5 March 2008	7 May 2008
Grant date share price	HK\$0.180	HK\$0.138
Exercise price	HK\$0.180	HK\$0.143
Contractual life	10 years	10 years
Expected volatility	43.73%	44.73%
Dividend yield	0%	0%
Risk-free interest rate	2.766%	2.802%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately HK\$42,012,000 for the year ended 31 December 2008 (2007: Nil) in relation to share options granted by the Company.

No options were granted in 2007.

39. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% or HK\$1,000 in maximum of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of PRC. The retirement scheme contributions, which are based on a certain percentage of the basic salaries of the relevant subsidiaries' employees, are charged to the consolidated income statement in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme. The only obligation of the Group with respect to the retirement benefits schemes operated by the PRC is to make the required contributions under the schemes.

The retirement benefit cost charged to the consolidated income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

40. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
In respect of rented premises:		
Within one year	269	807
In the second to fifth year inclusive	<u>95</u>	<u>295</u>
	<u>364</u>	<u>1,102</u>

Leases are negotiated for an average term of one to two years.

41. RELATED PARTY TRANSACTIONS**Compensation of key management personnel**

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

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	2,816	3,196
Long-term benefits	21	41
Share-based payment expenses	<u>16,754</u>	<u>—</u>
	<u>19,591</u>	<u>3,237</u>

The remuneration of directors and the key executive is determined by the remuneration committee having regard to the performance of individual and market trends.

42. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company				Principal activities
			2008		2007		
			Directly %	Indirectly %	Directly %	Indirectly %	
Able King Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100	—	100	—	Investment holding
Acewell Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	—	100	Investment holding
Ample Asset Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	—	100	Investment holding
Global Empire Group Inc	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	—	100	Investment holding
Gold Castle Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	—	100	Investment holding
Giant Wave Limited	Hong Kong	1 ordinary share of HK\$1 each	—	100	—	100	Securities investment
King Force International Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	—	100	Investment holding
Merge Limited	Hong Kong	1 ordinary share of HK\$1 each	100	—	100	—	Inactive
Northlink Holdings Limited	British Virgin Islands*	200 ordinary share of US\$1 each	100	—	100	—	Investment holding
Ocean Vision Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100	—	100	Investment holding
Premier Win Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100	—	100	—	Inactive
Wealth Prospect Limited	Hong Kong	2 ordinary share of HK\$1 each	—	100	—	100	Metals trading

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Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company				Principal activities
			2008		2007		
			Directly %	Indirectly %	Directly %	Indirectly %	
INPAX Technology Limited**	British Virgin Islands*	10,000 ordinary share of US\$1 each	100	—	N/A	N/A	Investment holding
Jiangxi Union Shipbuilding Company Limited*** 江州聯合船廠	British Virgin Islands	RMB100,000,000 paid-up registered capital	—	100	N/A	N/A	Manufacturing metal vessel, vessel ancillary products and reparation of vessels

* The companies are engaged in investment holding or inactive and have no specific principal place of operation.

** The company was newly acquired during 2008.

*** The Company is registered in the form of a wholly foreign owned enterprise. It was held by INPAX Technology Limited and became a group member subsequent to the acquisition of INPAX Technology Limited by the Company.

None of the subsidiaries had any debt securities at 31 December 2008 and 2007 or at any time during the years.

43. PARTICULARS OF AN ASSOCIATE

Particulars of the Group's associate as at 31 December 2008 and 2007 is as follows:

Name of associate	Place of incorporation/ operation	Issued share capital	Nominal value of issued share capital held by the Group		Principal activity
			2008 & 2007		
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK\$1 each		49%	Inactive

3. BUSINESS REVIEW AND PROSPECTS

Business Review

The Group is engaged in the production and operation of shipbuilding and trading of securities. For the six months ended 30 June 2009, the Group recorded a revenue of HK\$600.44 million (2008: HK\$428.99 million), an increase of 39.97% over the same period of last year. The increase in revenues was due to the Group recorded six months' revenues of shipbuilding business for the six months ended 30 June 2009 while it recorded the revenues after the completion of acquisition of Inpax Group on 16 April 2008 in the corresponding period.

The half-year gross profit (*before deducting the amortisation of intangible assets of HK\$81.32 million (2008: HK\$33.88 million)*) was HK\$85.09 million (2008: HK\$70.57 million) and gross profit margin was 14.17% (2008:16.45%). The decrease in gross profit margin was mainly due to the exchange difference arising from appreciation in the value of RMB, increasing raw materials costs and the costs of modification. The half-year other income was decreased by HK\$44.02 million versus the corresponding period last year to HK\$1.59 million. The decrease was due to other income for the corresponding period including HK\$40.11 million exchange gain resulting from the change of functional currency of the Group. The amortisation of intangible assets was increased by HK\$47.44 million as it represented six months' amortisation cost versus two and half months' amortisation cost in the corresponding period. There is no additional impairment loss in goodwill was recognised during the six months ended 30 June 2009 which caused the decrease of impairment loss of HK\$22.22 million. The administrative expense was HK\$35.19 million, down HK\$22.73 versus the corresponding period last year. The administrative expenses in the corresponding period include a non-recurring share based payment HK\$36.13 million. The Group recorded finance costs of HK\$55.83million versus HK\$81.20million for the corresponding period last year, reflecting a significant decrease in imputed interest expenses. The decrease of imputed interest was due to a majority of convertible notes has been converted into shares in the second half of 2008. The Group recorded a loss attributable to shareholders of HK\$101.47 million (2008: loss of HK\$100.15 million) for the six months ended 30 June 2009. The loss for the six months ended 30 June 2009 was slightly increased by 1.32% in comparing with the same period of last year.

Shipbuilding business

Before the international financial crisis in September 2008, China's Shipbuilding industry has maintained rapid growth for six years running in terms of tonnage of vessels completed and the orders for vessels in hand. After that, the industry faced a grim situation but shows signs of recovery since June 2009. The industry seems to recover gradually from its bottom but it is not clear whether this recovery will be sustained.

During the six months ended 30 June 2009, the shipbuilding business generated revenue of approximately HK\$600.44million representing an increase of approximately of 39.77% as compared to approximately HK\$428.99 million in the corresponding period last year. The increase in revenues was due to the Group recorded six months' revenues during the six months ended 30 June 2009 while it recorded the revenues after the completion of acquisition of Inpax

Group in the corresponding period. The shipbuilding business recorded a profit before tax of HK\$53.86million (*before deducting amortisation of intangible assets*) representing a decrease of approximately of 23.00% as compared to approximately HK\$69.95million (*before deducting amortisation of intangible assets*). The decrease of average monthly revenue, the gross profit margin and the profit of shipbuilding business were due to the following factors: (i) deferred delivery of vessels due to certain modifications were required, (ii) exchange difference arising from appreciation in the value of RMB; (iii) increasing raw materials costs; and (iv) the modification costs.

As at 30 June 2009, the order in hand of the Group reached 37 vessels amounted to approximately HK\$8 billion, with shipbuilding work arranged to the mid of 2012. The Group actively assisted the financing of ship-owners to ensure performance of secured orders. Barring unforeseen factors, the Group believed that no ship-owners who placed orders to the Group will cancel their orders or abandon new-built vessels.

Trading businesses

For the six months ended 30 June 2009, the securities trading business recorded a loss of HK\$7.94 million as compared to a loss of HK\$14.35 million in the corresponding period last year. The loss of securities trading was mainly reflected the change in fair value of investments held. The Group did not make significant investment in securities and carry out metal trading business during the six months ended 30 June 2009.

Prospects

The Group is trying its best to cope with the financial crises. The measures include close negotiation with the ship-owners, take a more flexible attitude to prices and delivery, improve efficiency of shipbuilding and shortened the shipbuilding cycle, enhance the financial situation and to carry out cost measures.

Facing the grim situation of shipbuilding market in the first half of the year, the Group has adjusted its strategy to intensify its effort on the special vessels markets. Based on the information available to the Company, the ship building price for the heavy lift vessels took a smaller hit during the financial crisis, and the demands for the medium size heavy lift vessel, one of the major type of the Group's products, are recovered healthily. It is expected that the demand for this type of vessels will over 40 in the coming five years. The Group is well-prepared to fight for the new orders.

The directors will carry out the securities trading business cautiously and adopt a prudence policy in securities investments. The metal trading business was suspended and is likely to be discontinued because the performance of this sector was poor during the past years.

The Directors will continue to reinforce the Group's financial position so that it would be fully prepared to seize suitable investment opportunities when they arise.

4. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 October 2009, being the latest practicable date of this indebtedness statement, the Group had outstanding borrowings of approximately HK\$1,321,185,000, comprising the following:

	<i>HK\$'000</i>
Secured bank borrowings (<i>note 1</i>)	193,182
Unsecured bank borrowings	420,454
Deferred consideration (<i>note 2</i>)	200,000
Convertible notes payable (<i>note 3</i>)	<u>507,549</u>
	<u>1,321,185</u>

Note:

1. secured by certain of the Group's bank deposits, prepaid lease payments and plant and machinery with an aggregate carrying amount of approximately HK\$84,091,000, HK\$36,612,000 and HK\$162,504,000 respectively as at 31 October 2009.
2. amount represents the principal amount payable on 31 October 2009 to Million King Investments Limited, an entity from which the Company acquired INPAX Technology Limited and its subsidiary in April 2008. Amount is interest free and carries an imputed interest rate at 16.25% per annum with carrying amount of approximately HK\$195,574,000 as at 31 October 2009.
3. amount represents principal amount of approximately HK\$507,549,000 with a carrying amount of approximately HK\$407,703,000 as at 31 October 2009. The Company's convertible notes comprise a restricted portion with principal amount of approximately HK\$147,549,000 carrying at zero coupon rate and an unrestricted portion with principal amount of approximately HK\$360,000,000 carrying at a coupon rate of 1.5% per annum and are measured at amortised costs with an imputed interest rate of 16.25%.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have outstanding at the close of business on 31 October 2009 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 October 2009.

5. WORKING CAPITAL STATEMENT

The Directors, after due and careful consideration, are of the opinion that, taking into account the internal financial resources, the present available banking facilities, the cash flows to be generated from the operating activities and the estimated net proceeds of the Open Offer to be received if the Open Offer becomes unconditional, the Group will have sufficient working capital for at least twelve months from the date of this Circular.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, the date on which the latest published audited consolidated financial statements of the Company were made up.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information prepared in accordance with Paragraph 29 of Chapter 4 of the Listing Rules is for illustrative purposes only, and is set out here to provide Shareholders with further information about how the Open Offer might have affected the net tangible assets of the Group after completion of the Open Offer. Although reasonable care has been exercised in preparing the said information, Shareholders who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial positions as at 30 June 2009.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets attributable to owners of the Company (the "Unaudited Pro Forma Financial Information") which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Open Offer as if it had taken place on 30 June 2009. The Unaudited Pro Forma Financial Information of the Group is prepared based on the unaudited consolidated financial statements of the Group for the six month period ended 30 June 2009 and is adjusted for the effect of the Open Offer.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to owners of the Company following the Open Offer.

Consolidated net assets of the Group attributable to owners of the Company as at 30 June 2009	Intangible assets of the Group as at 30 June 2009	Adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2009	Adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share as at 30 June 2009	Estimated net proceeds from Open Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company after completion of the Open Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share immediately after completion of the Open Offer	
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Note 1)	(Note 2)		(Note 3)	(Note 4)		(Notes 5 & 6)	
Based on 1,804,199,302 Offer Shares issued ("Minimum Open Offer")	2,299,560	1,979,464	320,096	HK\$0.43	354,587	674,683	HK\$0.26
Based on 2,012,780,004 Offer Shares issued ("Maximum Open Offer")	2,299,560	1,979,464	320,096	HK\$0.43	395,627	715,723	HK\$0.26

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 June 2009 is extracted from the published interim report of the Company for the six month period ended 30 June 2009.
2. Intangible assets of the Group as at 30 June 2009 include goodwill arising from acquisition of a subsidiary in April 2008 of approximately HK\$514 million and intangible asset representing contracted and uncontracted customer relationship of approximately HK\$1,465 million, which are extracted from the published interim report of the Company for the six month period ended 30 June 2009.
3. The number of shares used for the calculation of adjusted consolidated net tangible assets per share attributable to the owners of the Company at 30 June 2009 and prior to the completion the Open Offer is based on 752,099,651 shares in issue as at 30 June 2009.
4. The estimated net proceeds from the Open Offer of
 - (i) approximately HK\$355 million are calculated using the minimum number of 1,804,199,302 Offer Shares to be issued (based on 902,099,651 shares in issue on the Record Date) at a subscription price of HK\$0.20 per Offer Share, after deduction of estimated related expenses directly attributable to the Open Offer of approximately HK\$6.3 million.
 - (ii) approximately HK\$396 million are calculated using the maximum number of 2,012,780,004 Offer Shares to be issued at a subscription price of HK\$0.20 per Offer Share, after deduction of estimated related expenses directly attributable to the Open Offer of approximately HK\$6.9 million. The maximum number of Offer Shares is determined based on 1,006,390,002 shares, comprising the following:
 - a. 902,099,651 shares in issue at the Record Date,
 - b. 69,910,351 shares assuming conversion of outstanding convertible notes with an aggregate principal amount of HK\$507,549,000 at a conversion price of HK\$7.26 per share; and
 - c. 34,380,000 shares assuming exercise of share options on or before the Record Date.
5. For Minimum Open Offer, the calculation of the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company per share is based on 2,556,298,953 shares which comprise 752,099,651 shares in issue as at 30 June 2009 and 1,804,199,302 Offer Shares to be issued.
6. For Maximum Open Offer, the calculation of the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company per share is based on 2,764,879,655 shares which comprise 752,099,651 shares in issue as at 30 June 2009 and 2,012,780,004 Offer Shares to be issued.
7. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2009.
8. The above calculation has not taken into account of proceeds of approximately HK\$63 million received from shares issued from 1 July 2009 to the Record Date, i.e., a placement of 150,000,000 shares at HK\$0.43 per placement share. If these proceeds were taken into account,
 - (i) Minimum Open Offer

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- the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company after completion of the Open Offer would have been increased to approximately HK\$737 million; and
 - the unaudited pro forma adjusted consolidated net tangible assets per share immediately after completion of the Open Offer (based on 2,706,298,953 shares which comprise 902,099,651 Shares in issue at the Record Date and 1,804,199,302 Offer Shares to be issued) would be HK\$0.27.
- (ii) Maximum Open Offer
- the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company after completion of the Open Offer would have been increased to approximately HK\$779 million; and
 - the unaudited pro forma adjusted consolidated net tangible assets per share immediately after completion of the Open Offer (based on 2,914,879,655 shares which comprise 902,099,651 shares in issue at the Record Date and 2,012,780,004 Offer Shares to be issued) would be HK\$0.27.

2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP



TO THE DIRECTORS OF WONSON INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (“Unaudited Pro Forma Financial Information”) of Wonson International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages II-1 to II-3 of Appendix II to the circular dated 14 December 2009 (the “Circular”) in connection with the issue of not less than 1,804,199,302 offer shares and not more than 2,012,780,004 offer shares of HK\$0.05 each at the subscription price of HK\$0.20 per offer share on the basis of two offer shares for every one share (the “Open Offer”) held on the Record Date (as defined in the Circular), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Open Offer might have affected the financial information presented, for inclusion in Appendix II of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction and notes to the Unaudited Pro Forma Financial Information included in Appendix II to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

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

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We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 June 2009 or any future date.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 14 December 2009

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and bye-laws (the “Bye-laws”) of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed which are unrestricted and that the Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on 2 July, 1998 and amended at the annual general meetings of the Company held on 28 May, 2004 and 30 June, 2006 respectively. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares

in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) *Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) paid to any Director in respect of any such other office or place of profit shall be in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to such Director or his associate(s) in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (cc) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or any of his associates is/are beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to the Director, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or any of his associates, as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Board in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Such remuneration shall be deemed to accrue from day to day. The Directors shall also be entitled to be repaid or prepaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law.

The Board shall obtain the approval of the Company in general meetings before making any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).

(viii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one-third) will retire from office by rotation provided that the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments.

(ix) *Borrowing powers*

The Board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) **Alterations to constitutional documents**

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) **Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the Directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons or (in the case of a member being a corporation) its duly authorised representative holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or (in the case of a member being a corporation) its duly authorised representative or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than fourteen (14) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designed Stock Exchange (as defined in the Bye-laws), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and not less than fourteen (14) clear business days has been given.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person or by proxy shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is demanded by: (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those

documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days. All other special general meetings shall be called by notice of at least fourteen (14) clear days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at

a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members of the Company without charge at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act, unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person or (in the case of a member being a corporation) by its duly authorised representative or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the

Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share

premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care,

diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

1. RESPONSIBILITY STATEMENT

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

(A) Share capital

The authorised and issued capital of the Company as at the Latest Practicable Date were and immediately following completion of the Open Offer will be as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>5,000,000,000</u> Shares	<u>250,000,000.00</u>
<i>(I) Fully paid Shares in issue or to be issued (assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Latest Practicable Date):</i>	
902,099,651 Shares in issue as at the Latest Practicable Date	45,104,982.55
<u>1,804,199,302</u> Offer Shares to be issued pursuant to the Open Offer	<u>90,209,965.10</u>
<u>2,706,298,953</u> Shares	<u>135,314,947.65</u>
<i>(II) Fully paid Shares in issue or to be issued (assuming the exercise of the outstanding Share Options and convertible rights attached to the Convertible Notes in full on or before the Latest Practicable Date):</i>	
902,099,651 Shares in issue as at the Latest Practicable Date	45,104,982.55
34,380,000 Shares to be issued pursuant to the outstanding Share Options	1,719,000.00
69,910,351 Shares to be issued pursuant to the outstanding Convertible Notes	3,495,517.55
<u>2,012,780,004</u> Offer Shares to be issued pursuant to the Open Offer	<u>100,639,000.20</u>
<u>3,019,170,006</u> Shares	<u>150,958,500.30</u>

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Offer Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares in issue on the date of allotment of the Offer Shares in fully-paid form.

None of the equity or debt securities of the Company is listed or dealt in on any of the stock exchange other than the Stock Exchange and no such listing or permission to deal is being or proposed to be sought.

(B) Share Option Scheme

The Company's share option scheme (the "**Scheme**") was adopted on 27 May 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 26 May 2012. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At the Latest Practicable Date, the number of Shares in respect of which options had been granted and remained outstanding under the Scheme was 34,380,000, representing 3.81% of the Shares of the Company in issue at that date. The total number of Shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the Shares of the Company in issue at any point in time, without prior approval from the Company's Shareholders. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares of the Company in issue at any point in time, without prior approval from the Company's Shareholders.

As at the date of this circular, the following participants had interests in share options to subscribe for Shares in the Company and details of which are as follows:

Name or Category of Participant	No. of share options granted	No. of Shares as at the Latest Practicable Date (Note 1)	Exercise Price (Note 2)	Date of Grant	Exercise Period
Directors:					
Chau On Ta Yuen	60,000,000	1,200,000	9.00	05-03-08	05-03-08 to 04-03-18
	45,000,000	900,000	9.00	05-03-08	05-03-09 to 04-03-18
	45,000,000	900,000	9.00	05-03-08	05-03-10 to 04-03-18
Zhang Shi Hong	20,000,000	400,000	9.00	05-03-08	05-03-08 to 04-03-18
	15,000,000	300,000	9.00	05-03-08	05-03-09 to 04-03-18
	15,000,000	300,000	9.00	05-03-08	05-03-10 to 04-03-18
Wang San Long	52,000,000	1,040,000	7.15	07-05-08	07-05-08 to 06-05-18
	39,000,000	780,000	7.15	07-05-08	07-05-09 to 06-05-18
	<u>39,000,000</u>	<u>780,000</u>	7.15	07-05-08	07-05-10 to 06-05-18
Sub-total	<u>330,000,000</u>	<u>6,600,000</u>			
Employees:					
	69,600,000	1,392,000	7.15	07-05-08	07-05-08 to 06-05-18
	52,200,000	1,044,000	7.15	07-05-08	07-05-09 to 06-05-18
	<u>52,200,000</u>	<u>1,044,000</u>	7.15	07-05-08	07-05-10 to 06-05-18
Sub-total	<u>174,000,000</u>	<u>3,480,000</u>			
Other participants	<u>1,215,000,000</u>	<u>24,300,000</u>	7.15	07-05-08	07-05-08 to 06-05-18
Total:	<u><u>1,719,000,000</u></u>	<u><u>34,380,000</u></u>			

Note 1: The number of outstanding share options has been adjusted to take into account the effect of the share consolidation upon it took effect on 25 June 2009.

Note 2: The initial exercise prices of the shares options granted on 5 March 2008 and 7 May 2008 were HK\$0.180 and HK\$0.143 respectively, upon the share consolidation became effective 25 June 2009, the exercise prices of shares options were adjusted to HK\$9.00 and HK\$7.15 respectively.

(C) Convertible Notes

The Company issued convertible notes in April 2008. The details are as follows:

On 5 November 2007, the Company entered into a conditional agreement to issue convertible notes under an acquisition agreement for the acquisition of the entire interest in INPAX Group. The convertible notes (“CNI”) were issued on 16 April 2008 upon completion of the acquisition.

CNI comprises restricted convertible notes (“**Restricted Convertible Notes**”) and unrestricted convertible notes (“**Unrestricted Convertible Notes**”).

The aggregate principal amount of the Unrestricted Convertible Notes issued is HK\$2,400 million.

The aggregate initial principal amount of the Restricted Convertible Notes issued is HK\$600 million, which is subject to downward adjustment for the potential shortfall between the guaranteed profit of HK\$600 million and the audited profit after taxation of INPAX Group for the year ended 31 December 2008. Based on the audited profit after taxation of INPAX Group of approximately HK\$217 million, the shortfall was determined to be approximately HK\$383 million as compared to the guaranteed profit of HK\$600 million.

The holder(s) of the Restricted Convertible Notes may convert the whole or any part of the principal amount of the restricted convertible notes outstanding into the ordinary shares of the Company from 5 June 2009 to 15 April 2011 at the initial conversion price of HK\$0.15 per share. The conversion price was adjusted to HK\$7.50 upon the share consolidation with effect from 25 June 2009 and was further adjusted to HK\$7.26 upon the completion of placing on 31 August 2009.

The holder(s) of the Unrestricted Convertible Notes may convert the whole or any part of the principal amount of the Unrestricted Convertible Notes outstanding into the ordinary shares of the Company from 16 April 2008, the date of issue of the convertible notes, to 15 April 2011, the date of maturity, at an initial conversion price of HK\$0.15 per conversion share. The conversion price was adjusted to HK\$7.50 upon the completion of share consolidation with effect from 25 June 2009 and was further adjusted to HK\$7.26 upon the completion of placing on 31 August 2009.

In respect of the Restricted Convertible Note, no interest will be payable. For the Unrestricted Convertible Note, coupon interest at the rate of 1.5% per annum will be accrued on a day to day basis on the outstanding principal amount, payable semi-annually in arrears.

As at the Latest Practicable Date, the Company has (i) outstanding Restricted Convertible Notes in the principal amount of HK\$147,549,152 which are convertible into 20,323,574 Shares; and (ii) outstanding Unrestricted Convertible Notes in the principal amount of HK\$360,000,000 which are convertible into 49,586,777 Shares.

Save as disclosed in this circular, no share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally or unconditionally to be issued or granted.

There is no arrangement under which Future dividends are waived or agreed to be waived.

2. DISCLOSURE OF INTERESTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executives (if any) of the Company had, or was deemed to have, any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

Name of Director	Capacity in holding interest	Long/short Position	No. of Shares	No. of Shares held	Approximate percentage of securities in the same class
					of securities (as enlarged by the issue of Offer Shares)
Li Ming	Beneficial owner	Long	64,695,000	—	2.14
Li Ming (Note 1)	Interest of controlled corporation	Long	12,710,000	—	0.42
Li Ming (Note 2)	Beneficial owner and interested of controlled corporation	Long	425,445,000	—	14.09
Chau On Ta Yuen (Note 3)	Beneficial owner	Long	—	3,000,000	0.1
Zhang Shi Hong (Note 3)	Beneficial owner	Long	—	1,000,000	0.03
Wang San Long (Note 4)	Beneficial owner	Long	—	2,600,000	0.09

Note 1: Mr. Li is the sole legal and beneficial owner of Lead Dragon Limited, which, as at the Latest Practicable Date, was interested in 12,710,000 Shares, by virtue of the provision of the Part XV of the SFO, Mr. Li is deemed to be interested in all the Shares in which Lead Dragon Limited is interested.

Note 2: These include (a) an interest in 154,810,000 Offer Shares derived from Mr. Li's undertaking to apply for the entire number of Offer Shares in the assured allotments in which Mr. Li and Lead Dragon Limited is beneficially interested; and (b) 270,635,000 Offer Shares which Mr. Li has underwritten pursuant to the Underwriting Agreement.

Note 3: Such number of Shares represents the underlying shares of the options granted on 5 March 2008 under the Scheme.

Note 4: Such number of Shares represents the underlying shares of the options granted on 7 May 2008 under the Scheme.

3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable date, so far as is known to any Director or chief executive (if any) of the Company, no other person (not being a Director, chief executive (if any) of the Company) had an interest or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Capacity in holding interest	Long/short Position	No. of Shares	Approximate percentage of securities in the same class of securities (as enlarged by the issue of Offer Shares)
Chu Yuet Wah (<i>Note</i>)	Interest of controlled corporation	Long	1,587,335,004	52.57
Ma Siu Fong (<i>Note</i>)	Interest of controlled corporation	Long	1,587,335,004	52.57
Kingston Securities Limited (<i>Note</i>)	Beneficial interest	Long	1,587,335,004	52.57

Note: Kingston Securities Limited is owned as to 51% and 49% by Chu Yuet Wah and Ma Siu Fong respectively. Therefore, each of Chu Yuet Wah and Ma Siu fong is deemed to be interested in all the Shares which are beneficially owned by Kingston Securities Limited for the purpose of SFO.

4. DIRECTORS' INTERESTS IN ASSETS/ CONTRACTS AND OTHER INTERESTS

Save as the guarantee contracts disclosed in the Company's announcements dated 4 November 2008 and 4 February 2009 and the Underwriting Agreement, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2008, being the date to which the latest published audited consolidated accounts of the Group were made up.

5. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries during the period commencing two years preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

- (A) the Underwriting Agreement;
- (B) the placing agreement dated 20 August 2009 entered into between the Company and Kingston Securities Limited in relation to the placing of 150,000,000 new shares of HK\$0.05 each of the Company at the price of HK\$0.43 per share; and
- (C) the placing agreement dated 21 May 2009 entered into between the Company and Kingston Securities Limited in relation to the placing of 3,400,000,000 shares of HK\$0.001 each of the Company at the price of HK\$0.013 per share.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries or associated companies, excluding contracts expiring within one year without payment of compensation other than statutory compensation.

8. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business in Hong Kong	Unit 1103,11/F., China Merchants Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Authorised representatives	Mr. Chau On Ta Yuen Unit 1103, 11/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong Mr. Ngai Man Wo Unit 1103, 11/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
Company Secretary	Mr. Ngai Man Wo
Legal advisers to the Company	<i>As to Hong Kong law:</i> D.S. Cheung & Co. Solicitors Room 1910-1913, Hutchison house, 10 Harcourt Road, Central, Hong Kong <i>As to Bermuda law:</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place, Central, Hong Kong
Auditors	Deloitte Touche Tohmatsu 35th Floor, One Pacific Place 88 Queensway Hong Kong
Principal share registrar	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street, Hamilton HM11 Bermuda

Branch share registrar and transfer office	Tricor Abacus Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Principal bankers	Bank of Communications Co. Ltd. 20 Pedder Street, Central, Hong Kong Chiyu Banking Corporation Ltd. No.78, Des Vouex Road, Central, Hong Kong China Merchants Bank Co. Ltd. 21/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
Underwriters	Kingston Securities Limited Suite 2801, 28th Floor One International Finance Centre, 1 Harbour View Street Central, Hong Kong Li Ming Unit 1103, 11/F, China Merchants Tower Shun Tak Centre 168-200 Connaught Road Central, Hong Kong

9. BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. Chau On Ta Yuen, aged 62, graduated from Xiamen University majoring in Chinese Language and Literature. Mr. Chau is currently the independent non-executive director of Wonderful World Holdings Limited, Buildmore International Limited and Come Sure Group (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Everpride Biopharmaceutical Company Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange. From March 2000 to November 2006, he was appointed as the executive director and the vice chairman of Everbest Century Holdings Limited (now known as Dynamic Energy Holdings Limited) which is listed on the Main Board of the Stock Exchange. Mr. Chau is a member of the Chinese People Political Consultative Conference of the People Republic of China and the vice chairman of Hong Kong Federation of Fujian Associations. The business address of Mr. Chau is Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Mr. Li Ming, aged 46, graduated from Jiangxi Finance Institute (now known as Jiangxi University of Finance & Economics) majoring in planning statistics. Prior to joining the Company, Mr. Li held senior positions in a number of well-known companies in the People's Republic of China and had extensive experience in management and business planning. During the period from 3 September 2002 to 5 October 2007, he was appointed as a non-executive director of Ningbo Yidong Electronic Company Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The business address of Mr. Li is Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Mr. Zhang Shi Hong, aged 40, has over 15 years of experience in finance, credit management and investment management. He has worked for the head office of the Bank of China for around nine years and was mainly responsible for credit management. He also pursued investment management in various corporations in the PRC. Mr. Zhang holds a Master's degree in Economics. The business address of Mr. Zhang is Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Mr. Wang San Long, aged 59, has more than thirty years working experience in the field of ship-building. He is a senior engineer and was graduated from ship-building department of Huazhong Gong Xue Yuan (now known as Huazhong University of Science and Technology). Mr. Wang is a member of Changjiang Committee in China Classification Society. He is also a member of teaching guidance committee of ship engineering department in Jiujiang Vocational and Technical College. Mr. Wang is currently the director and general manager of one of the subsidiary of the Company, namely Jiangxi Jiangzhou Union Shipbuilding Co., Ltd. The business address of Mr. Wang is Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Independent Non-executive Directors

Mr. Hu Bai He, aged 46, was graduated from Jiangxi University of Finance & Economics. He is a Senior Accountant, Certified Public Accountant, Certified Public Valuer and Certified Tax Agent in the PRC. He has extensive experience in finance and accounting field. Mr. Hu is currently the General Manager of Peking Certified Public Accountants. Before he joined Peking Certified Public Accountants in 1993, he has had over seven years working experience with Ministry of Finance the PRC. The business address of Mr. Hu is Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Ms. Xiang Siying, aged 46, holds an MBA degree from the London Business School. She has extensive experience in corporate finance, restructuring, initial public offering and merge and acquisitions deals. Ms. Xiang is currently an executive director of China International Capital Corporation Limited ("CICC") and works in its private equity department. Before she joined CICC in 2004, she has had over ten years working experience with International Finance Corporation (IFC), the private investment arm of the World Bank Group, in Washington DC, United States of America. The business address of Mr. Xiang is Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Mr. Zhang Xi Ping, aged 64, graduated from the department of shipping design and building at Harbin Institute of Military Engineering in 1968 and completed a postgraduate course in fluid mechanics at Shanghai Jiao Tong University in 1977. He is a professorial engineer and a senior economist in the PRC. Mr. Zhang has extensive experience in shipping field and has held senior positions in several national companies. The business address of Mr. Zhang is Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

Ms. Xiang Ying, aged 55, was graduated and obtained her Bachelors Degree in Economics from Zhongnan University of Economics and Law. Ms. Xiang is a qualified lawyer and a certified public accountant in the People's Republic of China. She also holds qualifications to act as a senior lecturer in Economic Law. The business address of Ms. Xiang is Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

10. EXPERT AND CONSENT

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
GF Capital	a licensed corporation to carry on business in Type 6 (advising on corporate finance) regulated activities under the SFO

Deloitte Touche Tohmatsu and GF Capital have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their letters or opinions or reports or reference to their names in the form and context in which they appear.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and GF Capital had not had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Deloitte Touche Tohmatsu and GF Capital have not had any direct or indirect interests in any assets which have been, since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any business day at the principal place of business of the Company in Hong Kong at Unit 1103, 11/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including 14 January 2010, being the Latest Acceptance Date:

- (a) the memorandum of association and bye-laws of the Company;

- (b) the material contracts referred to in the section headed “Material contracts” in this appendix;
- (c) the annual reports of the Company for the two years ended 31 December 2007 and 31 December 2008 respectively;
- (d) the report issued by Deloitte Touche Tohmatsu on the unaudited pro forma adjusted consolidated net tangible assets of the Group as set out in appendix II to this circular; and
- (e) the written consents by the experts referred to in the section headed “Expert and consent” in this appendix.

12. GENERAL

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is at Unit 1103, 11/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong.
- (b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (c) The secretary of the Company is Mr. Ngai Man Wo who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (d) The English text of this circular shall prevail over the Chinese text.

NOTICE OF THE SGM



WONSON INTERNATIONAL HOLDINGS LIMITED

和成國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00651)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of the members of Wonson International Holdings Limited (“**Company**”) will be held at Unit 1103, 11/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Wednesday, 30 December 2009 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without modification, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT** subject to and conditional upon The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, the Offer Shares (as defined below) in their fully-paid forms to be allotted to the Qualifying Shareholders (as defined in the circular dated 14 December 2009 (“**Circular**”) to the shareholders of the Company of which the notice convening the meeting at which this resolution is proposed forms part, a copy of the Circular marked “A” has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification) by way of open offer as announced by the Company on 16 November 2009:
 - (a) the issue by way of open offer (“**Open Offer**”) of a total of not less than 1,804,199,302 offer shares and not more than 2,012,780,004 offer shares of HK\$0.20 each (collectively, the “**Offer Shares**”) to the holders of the shares of HK\$0.05 each of the Company (each, a “**Share**”) whose names appear on the register of members of the Company on the Record Date (as defined in the Circular) in the proportion of two Offer Shares for every one Share then held at the subscription price of HK\$0.20 per Offer Share payable in full upon acceptance in accordance with to the terms and conditions set out in the Circular be and is hereby approved;
 - (b) the directors of the Company (“**Directors**”) be and are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer provided that in the case of shareholders of the Company whose addresses as shown on the register of members of the Company at the close of business on the Record Date are in any jurisdictions outside Hong Kong, and to whom the Directors, based on the enquiry made by the Company,

NOTICE OF THE SGM

consider it necessary or expedient not to offer the Offer Shares on account of the legal advice given by the legal counsels of such jurisdictions (“**Excluded Shareholders**”), the Offer Shares shall not be issued to the Excluded Shareholders but shall be taken up by the Underwriter (as defined in the Circular);

- (c) the absence of arrangements for application for the Offer Shares by the Qualifying Shareholders (as defined in the Circular) in excess of their entitlements under the Open Offer as referred to in Rule 7.26A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the alternative arrangement in respect of the untaken Offer Shares under the Open Offer be and is hereby approved, confirmed and ratified;
- (d) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps or other exclusions or other arrangements in relation to the Excluded Shareholders as they may in their absolute discretion deem necessary, appropriate, desirable or expedient to give effect to or in connection with the Open Offer and the Underwriting Agreement (as defined in the Circular) or any of the transactions contemplated thereunder; and
- (e) the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Directors may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Open Offer and the Underwriting Agreement or any transactions contemplated thereunder.”

By order of the Board
Wonson International Holdings Limited
CHAU ON TA YUEN
Chairman

Hong Kong, 14 December 2009

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:

Unit 1103, 11/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

** For identification purpose only*