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

If you have sold or transferred all your shares in Asia TeleMedia Limited (In Liquidation), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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GAINHIGH HOLDINGS LIMITED ASIA TELEMEDIA LIMITED

*(Incorporated in the British Virgin Islands
with limited liability)*

(In Liquidation)

亞洲電信媒體有限公司
(清盤中)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

PROPOSED RESTRUCTURING OF ASIA TELEMEDIA LIMITED (IN LIQUIDATION) INVOLVING

- (1) PROPOSED CAPITAL RESTRUCTURING;**
 - (2) PROPOSED SUBSCRIPTION FOR NEW SHARES AND CONVERTIBLE NOTES;**
 - (3) CREDITORS' SCHEME OF ARRANGEMENT;**
 - (4) GROUP REORGANISATION;**
 - (5) APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEALS;**
 - (6) PROPOSED CHANGE OF DIRECTORS;**
 - (7) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION;**
 - (8) GENERAL MANDATE TO ISSUE SHARES; AND**
 - (9) PROPOSED ADOPTION OF A SHARE OPTION SCHEME**
- AND**
- NOTICE OF EGM**

Independent Financial Adviser to the Independent Shareholders



A letter from the Liquidators is set out on pages 12 to 45 of this circular. A letter from the Investor is set out on pages 46 to 57 of this circular. A letter from Investec Capital Asia Limited containing its advice to the Independent Shareholders is set out on pages 58 to 79 of this circular.

A notice convening the EGM to be held at the Auditorium, Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong on Thursday, 21 July 2011 at 11:30 a.m. is set out on pages 202 to 212 of this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish. In such event, the instrument appointing a proxy will be deemed revoked.

28 June 2011

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DEFINITIONS

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

“Adoption Date”	the date on which the Share Option Scheme is conditionally adopted by resolution of the Shareholders in general meeting
“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Authorised Share Capital Increase”	the proposed increase of the authorised share capital of the Company from HK\$308,701.45 (immediately upon the Capital Cancellation becoming effective) to HK\$20,000,000
“Board”	the Board of Directors
“Capital Cancellation”	the proposed cancellation of the unissued share capital in the authorised share capital of the Company, after the Share Consolidation and the Capital Reduction having become effective, resulting in the authorised share capital of the Company becoming HK\$308,701.45 (all of which are issued and fully paid up)
“Capital Reduction”	the proposed reduction of the par value of each issued and unissued Consolidated Share from HK\$10.00 each to HK\$0.01 each and the credit arising from such reduction will be applied to eliminate the accumulated losses of the Company
“Capital Restructuring”	the proposed restructuring of the capital of the Company including the Share Consolidation, the Capital Reduction, the Capital Cancellation and the Authorised Share Capital Increase
“CCASS”	the Central Clearing and Settlement System, established and operated by HKSCC
“CCT Asset Management”	China Chengtong Asset Management Corporation, a wholly-owned subsidiary of China Chengtong Holdings Group Limited

DEFINITIONS

“CCT Group”	China Chengtong Holdings Group Limited and its subsidiaries
“Claim”	any debt, liability or obligation of the Company, whether known or unknown, whether certain or contingent, whether liquidated or unliquidated and includes without limitation, any debt or liability to pay money or money’s worth, any liability under any statute or enactment; any liability for breach of trust; any liability in contract, tort or bailment and any liability arising out of an obligation to make restitution, together with all interest on such debt, obligation or liability which is or would be (and only to the extent) admissible to proof in the compulsory winding-up of the Company under the winding-up order granted by the Court against the Company on 18 March 2008
“CN Shares”	the New Shares to be issued upon conversion of the Convertible Notes
“Company”	Asia TeleMedia Limited (In Liquidation), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Completion”	completion of the Restructuring Agreement and the transactions contemplated thereunder after the conditions set out in the Restructuring Agreement are fulfilled (or waived by the relevant parties)
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$10.00 each in the capital of the Company upon the Share Consolidation having become effective

DEFINITIONS

“Convertible Notes”	the non-interest-bearing non-redeemable convertible notes to be issued by the Company in the aggregate principal amount of HK\$92.5 million which are convertible into CN Shares at the conversion price, initially of HK\$0.62 per CN Share (subject to adjustment)
“Court”	the Court of First Instance of the High Court of Hong Kong
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to approve, among other things, the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver, the Special Deals, the proposed change of Directors, the proposed amendments to the articles of association, the General Mandate and the Share Option Scheme
“Excluded Companies”	all members of the Group other than the Remaining Group, including without limitation Clavis Inc., Sky Messenger Limited, Beyond Net Limited, Mansion House Asset Management Limited, Mansion House (U.S.A.) LLC, Mansion House Group Limited, Daily Dragon Resources Limited, Telemedia Capital Limited, Mansion House (China) Limited and Mansion House Capital Limited
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“FRR”	Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong)
“General Mandate”	a general and unconditional mandate proposed to be granted to the Directors to exercise the power of the Company to allot, issue or otherwise deal with New Shares up to a maximum of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of the relevant resolution at the EGM

DEFINITIONS

“Grantee”	any Participant who accepts a Share Option Offer in accordance with the terms of the Share Option Scheme or (where the context so permits) the legal representative(s) entitled to any such Option in consequence of the death of the original Grantee
“Group”	the Company and its subsidiaries
“Group Reorganisation”	the proposed disposal of the Excluded Companies pursuant to the Scheme
“Guarantor” or “Mr. Ko”	Mr. Ko Chun Shun, Johnson
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser”	Investec Capital Asia Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“Independent Shareholders”	the Shareholders other than (i) Interested Shareholders, their associates and parties acting in concert with any of them; and (ii) those Shareholders who are involved in or interested in the Whitewash Waiver, the Special Deals, the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder
“Interested Shareholders”	the Shareholders who are also the Scheme Creditors, namely Mr. Lu Ruifeng, Mr. Kwong Wing Hing (who is also a Preferential Creditor) and Ms. So Wai Yin, Irene.
“Investor”	Gainhigh Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is ultimately wholly-owned by Mr. Ko
“Joint Announcement”	the joint announcement issued by the Company and the Investor dated 27 May 2011 in relation to, among others, the Restructuring Proposal

DEFINITIONS

“Latest Practicable Date”	24 June 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Letter of Intent”	a letter of intent dated 14 July 2009 which was jointly issued by the Investor and its ultimate beneficial owner, Mr. Ko, and accepted by the Liquidators in respect of the restructuring of the Group (as amended by a second letter of intent dated 23 July 2010, a third letter of intent dated 17 December 2010 and a side letter dated 28 February 2011)
“Liquidators”	the Joint and Several Liquidators of the Company, namely Messrs Edward Simon Middleton and Patrick Cowley, who were appointed pursuant to the order of the Court dated 14 January 2009
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	the end of twelve months from the date of the Restructuring Agreement or such other date as the Investor and the Liquidators may agree in writing
“MHF”	Mansion House Financial Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is a wholly-owned subsidiary of the Company
“MHS”	Mansion House Securities (F.E.) Limited, the principal operating subsidiary of the Company engaged in the provision of stockbroking, corporate finance and other financial services related businesses
“Ms. Kwan”	Ms. Angelina Kwan, the Chief Executive Officer of MHS, one of the Responsible Officers of MHS and a proposed Director
“New Share(s)”	new ordinary share(s) of the Company on the Capital Restructuring becoming effective, whether issued or unissued, with a par value of HK\$0.01 each

DEFINITIONS

“Option”	a right granted to the Participant to subscribe for shares of the Company pursuant to the terms of the Share Option Scheme
“Option Period”	means a period to be determined by the Board at its absolute discretion and notified by the Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme
“Participant”	any employee (whether full-time or part-time), directors or consultants of each member of the Group, provided that the Board may have absolute discretion to determine whether or not one falls within the above category
“Petition”	the petition to wind-up the Company filed on 5 June 2007 by Goodpine Limited
“Place Down”	the proposed placing of not less than 9,000,000 New Shares to independent third parties by the Investor to restore the public float as required under the Listing Rules
“PRC” or “China”	the People’s Republic of China which shall, for the purpose of this circular, exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“Preferential Claim”	a Claim which has or would have priority in a winding-up of the Company under section 265 of the Companies Ordinance
“Preferential Creditor”	any creditor of the Company with a Preferential Claim
“Relevant Period”	the period commencing on 27 November 2010 (being the date falling six months prior to the date of the Joint Announcement of 27 May 2011) and ended on the Latest Practicable Date
“Remaining Group”	the Company and the Remaining Subsidiaries

DEFINITIONS

“Remaining Subsidiaries”	MHF, MHS, MHS Futures Limited, Mansion House (Nominees) Limited, Fast Capital Holdings Limited, a new subsidiary to be formed with CCT Asset Management, Mansion House Investments Limited and such other subsidiaries as may be designated by the Investor
“Responsible Officer”	a responsible officer (which has the same meaning ascribed to it in the SFO)
“Restructuring Agreement”	the restructuring agreement dated 15 April 2011 entered into between the Company, the Liquidators, the Investor and the Guarantor in respect of the restructuring of the Group
“Restructuring Proposal”	the proposed restructuring of the Company comprising the Capital Restructuring, the Subscription, the Scheme and the Group Reorganisation pursuant to the Restructuring Agreement
“Resumption Proposal”	the resumption proposal submitted by the Company on 17 December 2010 (updated on 25 March 2011) and subsequently amended by a written submission to the Stock Exchange on 31 March 2011
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“Scheme”	the proposed scheme of arrangement between the Company and its Scheme Creditors pursuant to section 166 of the Companies Ordinance
“Scheme Administrators”	such persons who are appointed as scheme administrators under the terms of the Scheme
“Scheme Creditor”	any person, other than a Preferential Creditor (to the extent of its preferential claim amount) or a Secured Creditor (to the extent of its secured claim amount), who has a Claim against the Company that arose on or before the effective date of the Scheme

DEFINITIONS

“Secured Creditor”	a creditor of the Company with the benefit of an encumbrance in respect of its Claim
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company, whether issued or unissued, with a par value of HK\$0.20 each prior to Completion
“Share Consolidation”	the proposed consolidation of every 50 issued and unissued Shares with a nominal value of HK\$0.20 each into 1 Consolidated Share of HK\$10.00 each
“Share Option Offer”	an offer of the grant of an Option made by the Board in accordance with the Share Option Scheme
“Share Option Scheme”	the share option scheme proposed to be adopted at the EGM, the principal terms of which are set out in Appendix V to this circular
“Shareholder(s)”	the holder(s) of the Share(s)
“Special Deals”	the special deals as further described in the paragraph headed “Takeovers Code Implications – Special Deals” in the Letter from the Liquidators in this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stock Exchange Participant”	a corporation licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO which, in accordance with the rules of the Stock Exchange, may trade on or through the Stock Exchange and whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange

DEFINITIONS

“Stock Exchange Trading Right”	a right to be eligible to trade on or through the Stock Exchange and entered as such a right in a list, register or roll kept by the Stock Exchange
“Subscription”	the proposed subscription of the Subscription Shares at HK\$0.62 each and the Convertible Notes by the Investor pursuant to the Restructuring Agreement
“Subscription Agreement”	an agreement dated 7 June 2011 entered into by the Company, the Liquidators and the Investor under which the Investor shall subscribe for and the Company shall allot and issue to the Investor (or such other person(s) as it may nominate) the Subscription Shares and the Convertible Notes at the aggregate subscription price equivalent to HK\$172,000,000 (being the sum to be paid by the Investor to the Company at or prior to Completion pursuant to the Restructuring Agreement and the Subscription Agreement)
“Subscription Shares”	128,225,806 New Shares to be issued by the Company to the Investor under the Subscription
“Suspension”	the suspension of trading in the Shares since 2:54 p.m. on 18 March 2008
“Takeovers Code”	the Code on Takeovers and Mergers
“Whitewash Waiver”	a waiver from the obligation to make a mandatory general offer under the Takeovers Code under note 1 on dispensations from Rule 26 to the Takeovers Code as a result of the issue of the Subscription Shares to the Investor pursuant to the Subscription Agreement and/or the issue of CN Shares to the Investor upon conversion of the Convertible Notes
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

EXPECTED TIMETABLE

The expected timetable for the Capital Restructuring set out below is for indicative purposes only and has been prepared on the assumption that all the conditions of the Capital Restructuring will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.

2011

Latest time for lodging forms of proxy for the EGM. 11:30 a.m. on Tuesday, 19 July

EGM 11:30 a.m. on Thursday, 21 July

Announcement of results of the EGM Thursday, 21 July

The following events are conditional on, among other things, the results of the EGM and the Court hearings in relation to the Capital Restructuring, the Scheme and the permanent stay of the winding-up order and the release and discharge of the Liquidators. The dates are therefore tentative.

Free exchange of existing share certificates for new share certificates
in purple colour for New Shares commences. Tuesday, 26 July

Effective date and time of the Capital Restructuring 4:30 p.m. on Tuesday,
9 August

Completion of the Restructuring Agreement and
the Subscription Agreement. Tuesday, 9 August

Announcement of the Completion and
resumption of trading in the New Shares. Tuesday, 9 August

Expected time and date of resumption of trading in the New Shares. 9:00 a.m. on Wednesday,
10 August

Original counter for trading in the Shares in board lots of 2,000 Shares
(in the form of existing share certificates in blue colour)
will instead be used for trading in the New Shares in board lots
of 2,000 New Shares (in the form of new share certificates
in purple colour) 9:00 a.m. on Wednesday,
10 August

EXPECTED TIMETABLE

Temporary counter for trading in the New Shares in board lots
of 40 New Shares (in the form of existing share certificates in
blue colour) opens 9:00 a.m. on Wednesday,
10 August

Parallel trading in the New Shares (in the form of new and
existing share certificates) begins 9:00 a.m. on Wednesday,
10 August

Designated broker starts to stand in the market
to provide matching services for odd lots trading Wednesday,
10 August

Temporary counter for trading in the New Shares
in board lots of 40 New Shares (in the form
of existing share certificates in blue colour) closes 4:00 p.m. on Tuesday,
30 August

Parallel trading in the New Shares (in the form of new and
existing share certificates) ends 4:00 p.m. on Tuesday,
30 August

Designated broker ceases to stand in the market
to provide matching services for odd lots trading Tuesday, 30 August

Free exchange of existing share certificates for new share certificates
for New Shares ends Thursday, 1 September

LETTER FROM THE LIQUIDATORS



ASIA TELEMEDIA LIMITED

(In Liquidation)

亞洲電信媒體有限公司

(清盤中)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

Liquidators:

Mr. Edward Simon Middleton

Mr. Patrick Cowley

Executive Directors:

Mr. Lu Ruifeng

Mr. Yiu Hoi Ying

Registered office:

8th Floor

Prince's Building

10 Chater Road

Central

Hong Kong

Independent non-executive Directors:

Mr. Lu Ning

Mr. Li Chun

28 June 2011

To the Shareholders

Dear Sirs,

**PROPOSED RESTRUCTURING OF
ASIA TELEMEDIA LIMITED (IN LIQUIDATION)
INVOLVING**

- (1) PROPOSED CAPITAL RESTRUCTURING;**
- (2) PROPOSED SUBSCRIPTION FOR NEW SHARES AND CONVERTIBLE NOTES;**
- (3) CREDITORS' SCHEME OF ARRANGEMENT;**
- (4) GROUP REORGANISATION;**
- (5) APPLICATION FOR WHITWASH WAIVER AND SPECIAL DEALS;**
- (6) PROPOSED CHANGE OF DIRECTORS;**
- (7) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION;**
- (8) GENERAL MANDATE TO ISSUE SHARES; AND**
- (9) PROPOSED ADOPTION OF A SHARE OPTION SCHEME
AND
NOTICE OF EGM**

INTRODUCTION

Reference is made to the announcements of the Company dated 15 July 2009, 8 July 2010, 5 January 2011 and 4 April 2011, and the joint announcements of the Investor and the Company dated 27 May 2011, 10 June 2011 and 17 June 2011. The Listing Committee of the Stock Exchange has

LETTER FROM THE LIQUIDATORS

allowed the Company to proceed with the Resumption Proposal subject to prior compliance with the following conditions to the satisfaction of the Listing Division within six months from 1 April 2011:

- (i) completion of the subscription of the Subscription Shares and the Convertible Notes by the Investor, the Scheme and all transactions under the Resumption Proposal;
- (ii) recruitment of qualified institutional sales (as evidenced by the signing of binding contractual agreements);
- (iii) inclusion in the circular to shareholders of a pro forma balance sheet upon completion of the transactions under the Resumption Proposal and provision of a comfort letter from the auditors under Rule 4.29 of the Listing Rules;
- (iv) publication of all outstanding financial results; and
- (v) permanent stay of the winding-up order and the release of the Liquidators.

The Company should also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and the Company's place of incorporation. The Listing Committee may modify the resumption conditions if the Company's situation changes.

The Resumption Proposal includes the Restructuring Proposal and the actions taken by the Company to address the concerns raised by the Stock Exchange as set out in the Company's announcement dated 8 July 2010. It was set out in the Joint Announcement that the Company, the Liquidators, the Investor and the Guarantor entered into the Restructuring Agreement for the implementation of the Restructuring Proposal.

The purpose of this circular is to provide you with (i) information of the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deals, the proposed change of Directors, the proposed amendments to articles of association, the General Mandate and the Share Option Scheme; (ii) a letter of advice from the Independent Financial Adviser to the Independent Shareholders in relation to the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deals; and (iii) a notice of the EGM as set out on pages 202 to 212 of this circular.

LETTER FROM THE LIQUIDATORS

THE RESTRUCTURING AGREEMENT

The Company, the Liquidators, the Investor and the Guarantor entered into the Restructuring Agreement on 15 April 2011.

Principal terms of the Restructuring Agreement

(1) The Capital Restructuring

Under the Capital Restructuring, the share capital of the Company will be restructured in the following manner:

- (a) Every 50 issued and unissued Shares of HK\$0.20 each will be consolidated into 1 Consolidated Share, as a result of which 1,543,507,296 issued Shares of HK\$0.20 each will be consolidated into 30,870,145 Consolidated Shares;
- (b) The par value of each issued and unissued Consolidated Share will be reduced from HK\$10.00 each to HK\$0.01 each and the credit arising from such reduction will be applied to eliminate the accumulated losses of the Company;
- (c) The unissued share capital in the authorised share capital of HK\$400,000,000 will, after the Share Consolidation and the Capital Reduction having become effective, be cancelled and diminished resulting in an authorised and issued share capital of the Company becoming HK\$308,701.45; and
- (d) Immediately upon the Capital Cancellation becoming effective, the authorised share capital of the Company will be increased from HK\$308,701.45 to HK\$20,000,000 divided into 2,000,000,000 New Shares.

Fractional entitlements as a result of the Capital Restructuring will be aggregated and sold for the benefit of the Company. The net proceeds from such sale will be used as additional working capital of the Company.

As at the date of this circular, the authorised share capital of the Company is HK\$400,000,000 divided into 2,000,000,000 Shares of HK\$0.20 each, of which 1,543,507,296 Shares have been issued and fully paid. Assuming there is no change in the number of Shares from the date of this circular to immediately upon the Capital Restructuring becoming effective, the authorised share capital of the Company will become HK\$20,000,000 divided into 2,000,000,000 New Shares of HK\$0.01 each, of which 30,870,145 New Shares will be in issue.

LETTER FROM THE LIQUIDATORS

The effect of the Capital Restructuring on the share capital of the Company is summarised in the following table:

	Prior to the Capital Restructuring	After the Share Consolidation	After the Capital Reduction	After the Capital Cancellation	After the Authorised Share Capital Increase
Par value of share (<i>HK\$</i>)	0.20	10.00	0.01	0.01	0.01
Number of authorised shares	2,000,000,000	40,000,000	40,000,000	30,870,145	2,000,000,000
Authorised share capital (<i>HK\$</i>)	400,000,000.00	400,000,000.00	400,000.00	308,701.45	20,000,000.00
Number of shares in issue	1,543,507,296	30,870,145	30,870,145	30,870,145	30,870,145
Paid-up capital (<i>HK\$</i>)	308,701,459.20	308,701,450.00	308,701.45	308,701.45	308,701.45

A credit amount of approximately HK\$308.4 million arising from the Capital Reduction will be applied in a manner as permitted by the Companies Ordinance and the memorandum and articles of association of the Company, including but not limited to setting off part of the accumulated losses of the Company.

The Capital Restructuring will become effective after (i) the Court's approval; and (ii) the passage of the requisite resolutions by the Shareholders at the EGM in accordance with the provisions of the memorandum and articles of association of the Company, the Companies Ordinance, the Listing Rules and other applicable laws and regulations.

(2) The Subscription

The Company, the Liquidators and the Investor entered into the Subscription Agreement on 7 June 2011. Under the Restructuring Agreement and the Subscription Agreement, the Investor has agreed to subscribe for the following:

- (a) the Subscription Shares at the subscription price of HK\$0.62 each, representing a total consideration of HK\$79.5 million; and
- (b) the Convertible Notes with a principal amount of HK\$92.5 million convertible in full into 149,193,548 New Shares at an initial conversion price of HK\$0.62 per New Share.

The total consideration payable by the Investor in respect of the Subscription is HK\$172 million. The Investor has (i) advanced HK\$51.2 million for the costs and expenses in connection with the Restructuring Proposal and for the Group's working capital; and (ii) paid HK\$3 million to the escrow agent as a deposit upon signing of the Letter of Intent. These amounts will be off-set against the total consideration payable by the Investor upon Completion.

LETTER FROM THE LIQUIDATORS

The Subscription Shares

The subscription price of HK\$0.62 per Subscription Share represents:

- (a) a discount of approximately 88% to the theoretical quoted price of HK\$5 per New Share (the quoted price of HK\$0.10 per Share has been adjusted to reflect the proposed consolidation of every 50 Shares to 1 Consolidated Share pursuant to the Share Consolidation) on 18 March 2008, the last trading day before the suspension of trading in the Shares since 2:54 p.m. that day (Shareholders should not rely upon the market price of the Shares prior to suspension of trading in the Shares on 18 March 2008 as an indicator of the current worth of the Company); and
- (b) a premium of approximately HK\$4.09 over the audited consolidated net liabilities per New Share of HK\$3.47 as at 31 December 2010 (based on the audited consolidated net liabilities of the Group of approximately HK\$107,091,000 as at 31 December 2010 and 30,870,145 New Shares upon the Capital Restructuring becoming effective).

The Convertible Notes

The principal terms of the Convertible Notes are summarised as follows:

Issuer	:	The Company
Subscriber	:	The Investor
Principal amount	:	HK\$92,500,000
Issue price	:	HK\$92,500,000
Initial conversion price	:	HK\$0.62 per CN Share (subject to adjustment)
Interest	:	Non-interest bearing
Maturity date	:	A fixed term of five years following the date of issue of the Convertible Notes. The Convertible Notes shall be issued by the Company to the Investor upon Completion. Any outstanding portion of the Convertible Notes will lapse immediately after the maturity date.

LETTER FROM THE LIQUIDATORS

- Conversion period : The Convertible Notes are convertible, in whole or in part, on any business day within a period of five years following the date of issue of the Convertible Notes at the prevailing conversion price of the Convertible Notes.
- Number of New Shares : On the basis of the initial conversion price of HK\$0.62 per CN Share (subject to adjustment), a total of 149,193,548 CN Shares will be issued upon full conversion of the Convertible Notes.
- Redemption : Non-redeemable
- Voting : The Convertible Notes do not confer any voting rights at any meetings of the Company.
- Transferability : The ownership of the Convertible Notes is freely transferable but subject to compliance with the Listing Rules and the Takeovers Code.
- Adjustment : The Convertible Notes will be subject to the usual anti-dilutive adjustments in respect of events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues.
- Listing : No application will be made by the Company for the listing of the Convertible Notes. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the CN Shares.
- Ranking : The CN Shares, when allotted and issued, will rank pari passu in all respects with all New Shares in issue at the date of the conversion notice.
- Conversion : The holder of the Convertible Notes shall not exercise its rights attached to the Convertible Notes if, immediately following the conversion the Company will be unable to meet the public float requirement under the Listing Rules.

LETTER FROM THE LIQUIDATORS

The subscription price of the Subscription Shares and the conversion price of the Convertible Notes were negotiated between the Liquidators and the Investor on an arm's length basis. In determining the subscription price and the conversion price, the Liquidators and the Investor have taken into account, among other things, the Company is currently in liquidation, the suspension of trading in the Shares since 18 March 2008 and the net deficiency in assets position of the Group. The Liquidators consider that the subscription price and the conversion price are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Subscription Shares and the CN Shares shall rank *pari passu* with all other then issued New Shares and shall have the same voting, dividend and other rights attached or accruing thereto as from Completion (in relation to the Subscription Shares) and from the date of the conversion notice (in relation to the CN Shares). The Company will submit an application for the listing of, and permission to deal in, the Subscription Shares and the CN Shares.

The shareholding structure of the Company after Completion is illustrated in the section headed "Changes in the shareholding structure of the Company" below.

(3) The Scheme

Based on the latest information available, as at the Latest Practicable Date, total Claims of the Scheme Creditors and the Preferential Creditors amount to approximately HK\$115.44 million, and approximately HK\$0.12 million of the Claims are related to the Preferential Creditors. The Company does not have any Secured Creditors.

Upon Completion, all the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised and discharged in full in return for a cash payment of HK\$72 million to be distributed in accordance with the terms of the Scheme funded by the Company out of the proceeds from the Subscription. The Company estimates that it will recognise a gain of approximately HK\$31.71 million, being the Company's indebtedness to be discharged under the Scheme of HK\$103.71 million (based on the Company's books and records) less the cash payment of HK\$72 million, in the Company's statement of comprehensive income for the year ending 31 December 2011. The differences between the figures disclosed in the Joint Announcement and this circular are due to the accrued expenses in respect of the Group's PRC representative offices of approximately HK\$1.94 million which should have been included in the total indebtedness to be discharged under the Scheme pursuant to its terms but were not counted as part of the indebtedness to be discharged under the Scheme in the Joint Announcement.

If the Scheme is implemented, a sum of HK\$72 million will be paid from the proceeds from the subscription of the Subscription Shares and the Convertible Notes for distribution to the Scheme Creditors, subject to prior payment of certain costs in accordance with terms of the Scheme (including Liquidators' and petitioner's costs and costs of administering the Scheme) and the Preferential Claims. It is proposed that all Preferential Claims be paid in full. Each Scheme Creditor will receive a pro rata portion of the Scheme funds (after payments of certain costs and the Preferential Claims) divided proportionately among the Scheme Creditors, according to the individual admitted Claims. The HK\$72 million will be distributed to the Preferential Creditors and the Scheme Creditors in consideration of each Scheme Creditor compromising its Claim through its participation in the Scheme. Each of the Scheme Creditors would discharge and waive all its claims in consideration of the right to participate in the distribution of the Scheme funds. This will return the Company to solvency.

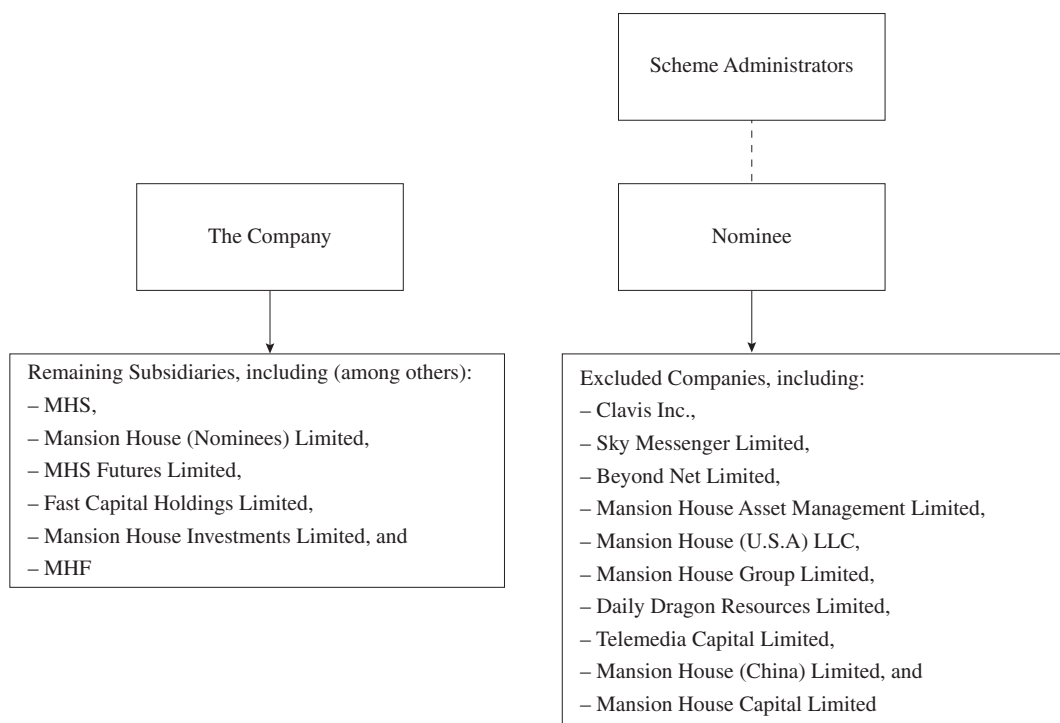
LETTER FROM THE LIQUIDATORS

Upon the sanction of the Scheme by the Court and the registration by the Registrar of Companies of an office copy of the order of the Court, the Liquidators intend to apply for a permanent stay of the winding-up order and their discharge from office.

(4) The Group Reorganisation

Upon Completion, all the issued shares of the Excluded Companies will be transferred to a nominee of the Scheme Administrators for the benefit of the Scheme Creditors at a nominal consideration of HK\$1.00 and any guarantee or indemnity given by the Company in respect of the obligations or liabilities of each of the Excluded Companies shall be released and discharged in full upon such transfer.

As a result, the Excluded Companies will cease to be subsidiaries of the Company and their assets, liabilities and results will not be consolidated in the financial statements of the Group after Completion. The Company estimates that it will recognise a gain of approximately HK\$40,000, being the difference between the consideration of HK\$1.00 and the deficiency in net assets of the Excluded Companies (net of amounts due to the Company). In diagrammatic form, the Group Reorganisation can be illustrated as follows:



LETTER FROM THE LIQUIDATORS

(5) *Conditions precedent to the Restructuring Agreement*

Completion will be subject to, among other things, the satisfaction or waiver (as the case may be) of the following conditions:

- (a) The Court's sanction of the Scheme;
- (b) Delivery of an office copy of the Court order sanctioning the Scheme to the Registrar of Companies in Hong Kong for registration;
- (c) The Court's confirmation of the Capital Restructuring;
- (d) Shareholders' resolutions approving:
 - (i) the Capital Restructuring;
 - (ii) the Subscription Agreement and the issue of the Subscription Shares and the Convertible Notes;
 - (iii) all transactions contemplated under the Restructuring Agreement;
 - (iv) the Whitewash Waiver and any Special Deals;
 - (v) the removal of all existing Directors from the Board (to the extent legally possible);
 - (vi) the appointment of new Directors to the Board, to be nominated by the Investor; and
 - (vii) the amendments to the articles of association of the Company to reflect the Capital Restructuring;
- (e) Execution of the Subscription Agreement;
- (f) The Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares in issue on Completion and to be issued pursuant to the Restructuring Agreement and the Subscription Agreement (including the issuance of the CN Shares);
- (g) Confirmation that the Executive has granted the Whitewash Waiver and consent required in respect of any Special Deals;

LETTER FROM THE LIQUIDATORS

- (h) Completion of the Group Reorganisation;
- (i) Grant of approval by the Court under the Companies Ordinance for an extension in respect of the date for the laying of the Company's accounts at annual general meeting and the holding of such general meetings (if applicable);
- (j) The SFC granting an approval or a consent under the SFO in respect of the change in substantial shareholder of a licensed corporation as a result of the implementation of the transactions contemplated under the Restructuring Agreement and the SFC's approval regarding the responsible officer and other persons as nominated by the Investor to serve MHS, the principal operating subsidiary of the Company; and
- (k) Permanent stay of the winding-up order against the Company dated 18 March 2008 and the release and discharge of the Liquidators.

Completion is conditional on each of the conditions precedent (to the extent not amended or waived by the Investor) having been satisfied and remaining satisfied up to Completion. The Investor may, at any time prior to Completion, waive in whole or in part and conditionally or unconditionally the conditions precedent set out in paragraphs 5(h) or 5(i) above. None of the Company, the Liquidators nor the Investor may waive any other conditions precedent.

As at the Latest Practicable Date, conditions (e) and (i) have been fulfilled.

Unless the Liquidators and the Investor shall otherwise agree, the Restructuring Agreement shall be terminated automatically if the conditions precedent have not been satisfied (or not been waived by the Investor pursuant to the Restructuring Agreement) upon the expiry of the Long Stop Date.

USE OF PROCEEDS

The aggregate cash proceeds from the Subscription of HK\$172 million shall be applied as follows:

- (a) HK\$72 million to be paid to the Scheme Administrators under the Scheme to be distributed in accordance with the terms of the Scheme, including but not limited to, the discharge and compromise of the Company's indebtedness;
- (b) HK\$20 million as funding for the costs and expenses in connection with the Restructuring Proposal, of which HK\$12.5 million has already been financed by the Investor; and
- (c) HK\$80 million to finance the regulatory and general working capital as well as infrastructure investment for the Group, of which HK\$38.7 million has already been financed by the Investor.

LETTER FROM THE LIQUIDATORS

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table shows the Company's existing shareholding structure and the structure after Completion:

	Existing		Immediately upon Completion and before the Place Down		Immediately upon Completion, after the Place Down and before conversion of the Convertible Notes		Immediately upon Completion, after the Place Down and full conversion of the Convertible Notes	
	No. of Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%
Investor and parties acting in concert (including CCT Asset Management)	-	-	128,225,806	80.60%	119,225,806	74.94%	268,419,354	87.07%
Lu Ruifeng and his associates (Note 1)	712,889,808	46.19%	14,257,796	8.96%	14,257,796	8.96%	14,257,796	4.62%
Evans Carrera Lowe and his associates (Note 2)	184,900,000	11.98%	3,698,000	2.32%	3,698,000	2.32%	3,698,000	1.20%
Other existing shareholders	645,717,488	41.83%	12,914,349	8.12%	12,914,349	8.12%	12,914,349	4.19%
Independent placees	-	-	-	-	9,000,000	5.66%	9,000,000	2.92%
Total	1,543,507,296	100.00%	159,095,951	100.00%	159,095,951	100.00%	308,289,499	100.00%

Notes:

- (1) According to the disclosure of interests filing dated 28 December 2007 published on the website of the Stock Exchange, Mr. Lu Ruifeng was interested in 712,889,808 Shares comprising (i) 1,389,808 Shares held by Asia TeleMedia Holdings Limited, the entire issued share capital of which was wholly owned by Mr. Lu Ruifeng; (ii) 693,725,000 Shares held by China United Telecom Limited, 35% of the issued share capital of which was held by Asia TeleMedia Holdings Limited; and (iii) 17,775,000 Shares held by Transmedia Asia Limited, which was a wholly-owned subsidiary of China United Telecom Limited. In addition, according to the abovementioned disclosure of interests filing, Mr. Lu Ruifeng was also interested in cash settled options that represented 1,500,000 Shares. These options have lapsed and the exercise period of these options has expired on 27 December 2010. Mr. Lu Ruifeng is the chairman of the Company and an executive Director.
- (2) According to the disclosure of interests filing dated 30 October 2007 published on the website of the Stock Exchange, Mr. Evans Carrera Lowe was interested in 184,900,000 Shares through High Reach Assets Limited, the entire issued share capital of which was wholly owned by Mr. Lowe. Mr. Lowe is a former Director.
- (3) Save for the subscription of the Subscription Shares and the Convertible Notes, none of the Investor, its sole director (Mr. Ko), or any other parties acting in concert with them had any shareholding interests in the Company as at the Latest Practicable Date.

In order to restore the public float, the Investor will engage a placing agent to place not less than 9,000,000 New Shares from the Investor to independent third parties immediately after completion of the issue of the Subscription Shares. The Place Down will be completed before the resumption of trading in the Shares. Details of the Place Down will be disclosed in the Company's further announcements.

LETTER FROM THE LIQUIDATORS

The Company is prepared to consider any further equity fund raising activities from time to time subject to market sentiment and other market factors. However, other than the Place Down, the Company does not have any other plans or a timetable for other share placements at present.

INFORMATION ON THE GROUP

Principal business

The Group was principally engaged in securities and futures broking as well as corporate finance advisory work in Hong Kong before the Suspension. The Group's stockbroking related business has been carried out without interruption for many years.

Since the Suspension, the Group has continued its securities brokerage business and, with the financial support from the Investor, has successfully moved back into areas the Company used to operate in, namely placing and underwriting, corporate finance and consulting. The Group is currently principally engaged in securities broking, placing and underwriting, corporate finance, consulting and related services.

History of the Group

The Company is incorporated in Hong Kong with limited liability. The Shares have been listed on the Stock Exchange since 17 July 1987. The Company is an investment holding company and its principal business operation is carried out through its principal operating subsidiary, MHS.

MHS was established in Hong Kong in 1985. It offered a wide range of financial services, including providing securities and futures broking for both retail and institutional clients, placing and underwriting, margin financing, online trading services, corporate finance and asset management.

MHS is licensed by the SFC in respect of the following regulated activities:

Regulated Activity	Effective Date
Type 1 – Dealing in Securities	18 July 1986
Type 4 – Advising on Securities	18 July 1986
Type 6 – Advising on Corporate Finance <i>(Note 1)</i>	18 July 1986
Type 7 – Providing Automated Trading Services	1 April 2003
Type 9 – Asset Management <i>(Note 2)</i>	18 July 1986

LETTER FROM THE LIQUIDATORS

Note 1: The SFC has imposed a condition on MHS's type 6 licence that MHS shall not act as a sponsor.

Note 2: SFC has imposed a condition on MHS's type 9 licence that MHS shall not manage a portfolio of futures contracts for another person.

In addition, MHS is a participant of the Stock Exchange.

MHS was active in Hong Kong's financial markets, participating in the underwriting and the placing of shares in a number of well-known listed companies, including Shangri-La Asia Limited, Tsingtao Brewery Co. Ltd., Maanshan Iron & Steel Co. Ltd., Dao Heng Bank, Chong Hing Bank, China Travel International Investment Hong Kong Limited and Beijing Enterprises Holdings Limited.

However, in more recent years MHS's businesses had significantly diminished and had become unprofitable. In addition, the SFC took a number of enforcement actions against MHS in previous years. The number of clients and staff of MHS decreased. None of the employees who caused the enforcement actions remain with the Group and the senior management at that time have also left the Group. The SFC enforcement actions against MHS have been resolved and closed. An internal controls review was commissioned by the Liquidators and performed by an independent accounting firm that yielded no internal control weaknesses relating to these previous SFC enforcement actions.

Overview of the Group's operation since the Suspension

Since the Suspension, there has been no change or cessation in the Group's core business activities in securities broking. MHS's licences in respect of the SFC regulated activities remain unchanged.

In September 2010, Ms. Kwan joined the Group as the Chief Executive Officer of MHS. Ms. Kwan has entered into a two-year employment contract with MHF and has been seconded to MHS. Ms. Kwan was the former Chief Operating Officer of the Cantor Fitzgerald Group of companies in Asia Pacific, based in Hong Kong. Prior to joining Cantor Fitzgerald, Ms. Kwan was (amongst other things) a Director of Enforcement and a Director of Supervision of Markets of the SFC. Ms. Kwan has a proven track record of starting up offices, new businesses and operations for a number of financial services groups in Asia; namely HG Asia (later subsumed into ABN Amro/RBS), Dresdner Kleinwort Benson and most recently with the BGC/Cantor Fitzgerald Group of companies. Ms. Kwan understands the importance of compliance and is very familiar with the operational and regulatory requirements involved in running a financial services group.

LETTER FROM THE LIQUIDATORS

Ms. Kwan has made an immediate impact since joining the Group. Ms. Kwan also succeeded in bringing in new clients to the Group and in securing placing and underwriting business for the Group. Ms. Kwan has formulated and commenced the implementation of plans to improve the Group's infrastructure, internal controls and systems, including its IT systems, settlements, accounting and dealing systems. In order to cope with the planned business expansion and infrastructure improvements, the Group moved to new and larger office premises on 3 May 2011 that have been fitted out with the most updated systems and infrastructure.

Securities brokerage

The Group executes trades in respect of securities listed on the Stock Exchange on behalf of its clients and charges a commission. The Group also generates a small amount of fees in respect of share transfers and custodian services. As at 31 December 2010 and 30 April 2011, the Group had 4,115 clients where 1,223 were active clients and 4,122 clients where 1,245 were active clients respectively.

The commission rates on securities dealing are agreed between the Group and the clients by negotiation and may vary on a case-by-case basis. For the year ended 31 December 2010, in most cases, the Group charged its clients a fee ranging from 0.05% to 0.75% of the transaction value (subject to a minimum charge) for securities trading orders, which is determined based on the transaction value.

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, the total value of transactions in relation to securities brokerage by the Group amounted to approximately HK\$8,143 million. The Group's income generated from securities brokerage amounted to HK\$8.89 million, representing 63.34% of the Group's total revenue for the year ended 31 December 2010.

Placing and underwriting

MHS acts as a placing agent and an underwriter/sub-underwriter for the placing of existing and/or new shares of companies listed on the Stock Exchange. The placing or underwriting commission charged by the Group is subject to negotiation with the client or company concerned and is generally in line with market practice and pricing.

Since September 2010 to 30 April 2011, the Group has successfully completed 7 placing, sub-underwriting or large block trade transactions. It is expected that, going forward, MHS will continue to participate in a number of placing or possibly underwriting/sub-underwriting exercises.

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, the total value of transactions in relation to placing and underwriting by the Group amounted to approximately HK\$293.5 million. The Group's income generated from placing and underwriting amounted to HK\$4.80 million, representing 34.19% of the Group's total revenue for the year ended 31 December 2010.

LETTER FROM THE LIQUIDATORS

Corporate finance

With the recruitment of Ms. Kwan and the subsequent recruitment of another Responsible Officer with the full sole capability for the corporate finance function, MHS's Type 6 licence in respect of advising on corporate finance activities was re-activated in December 2010. Since then, the Group has been advising on corporate finance transactions and acted as a financial adviser to listed companies in 6 transactions involving acquisitions and disposals of businesses and/or assets up to 30 April 2011.

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, the income generated from corporate finance transactions amounted to HK\$0.3 million, representing 2.14% of the Group's total revenue for the year ended 31 December 2010.

Consulting services

CCT Asset Management, which was not a Shareholder as at the Latest Practicable Date, has mandated MHS in November 2010, to provide advisory and consulting services for the following three projects with a view to reorganising and/or restructuring the assets in the projects for potential public listings or other corporate fund raising transactions (e.g. private equity, loans, debt, etc.):

- (a) a business engaged in the caring for elderly, vacation, leisure, and healthcare services in more than 10 locations in the PRC;
- (b) a group that controls maritime tourism projects in Sanya, Hainan, the PRC; and
- (c) a restructuring of more than forty exchange centres of heavy industry production materials such as steel, iron and other resources.

The Group's engagement for the above three projects is for a term commencing on 15 November 2010 and ending on 31 December 2012. The Group will receive a retainer fee of HK\$10,000 per month per contract for the term of the agreement and will receive a commission representing 3.5% of the gross proceeds raised in any IPO or other fund raising from each of these projects.

Based on the audited financial statements of the Group for the year ended 31 December 2010, the income generated from consulting services amounted to HK\$0.05 million, representing 0.33% of the Group's total revenue for the year ended 31 December 2010.

LETTER FROM THE LIQUIDATORS

These three consulting mandates bring an additional revenue of HK\$30,000 per month (a total of approximately HK\$0.8 million over the life of the three contracts) to the Group. More importantly, as part of these consulting projects, MHS has been given the right to review all the assets in the various projects and to formulate proposals as it sees fit, such as marketing them to international investors, which will generate value for CCT Asset Management. This may lead to significant additional business and fees for the Group.

Competitive advantages of the Group

Management experience and expertise

The Group is now managed by experienced professionals who have formulated a new corporate strategy to grow the businesses, improve operations, monitor compliance and day-to-day operations and who will implement plans for business development. The management team comprises mainly Responsible Officers and persons experienced in the securities dealing and financial services industry. Ms. Kwan, the Chief Executive Officer and a Responsible Officer of MHS as well as a proposed Director, has over 24 years of experience in management, regulatory, compliance, audit and internal audit across a wide range of businesses in both Asia and the United States. The other Responsible Officers of MHS all have relevant experience in the financial services field.

With the extensive experience and knowledge of the management team, the Group is able to react promptly to changes of market conditions and implement suitable measures in accordance with changing credit risks. Please refer to the section headed “The Board” in the “Letter from the Investor” in this circular for further details on the experience of the proposed Directors.

Strong strategic partnerships

CCT Asset Management is an asset management company which is wholly-owned by China Chengtong Holdings Group Limited. China Chengtong Holdings Group Limited, the parent Company of CCT Group, is an entity designated by SASAC of the State Council of the PRC to deal with and to handle the operations of many state-owned assets. CCT Asset Management is not only responsible for carrying out the reorganisation and restructuring of state-owned assets, but is also responsible for the improvement of the structure of state-owned enterprises. CCT Group has been entrusted by SASAC to assist a number of state-owned enterprises to improve their competitiveness and profitability.

LETTER FROM THE LIQUIDATORS

Since 2005, CCT Group has taken up six large projects from SASAC and successfully completed the restructuring for these projects. CCT Group was able to tap the latent potential of the companies in the projects and helped the companies develop their core businesses, diverted and relocated redundant employees through various channels to other state-owned enterprises. Because of its special status and networks, CCT Group is well positioned to continue assisting SASAC. CCT Group has a network of contacts that are “registered” in most provinces of China to be able to dispose of assets and to deal with the human resources element of restructuring state-owned enterprises.

CCT Group has selected the Group as a main channel for it to deal with many state-owned enterprises in the PRC that have been targeted for restructuring and/or disposal. CCT Asset Management will introduce the Group to those state-owned enterprises and thus provide the Group with a steady stream of potential businesses where the Group can assist in raising capital, introducing sellers or buyers and listing on the Stock Exchange or other markets.

CCT Group has already demonstrated a huge commitment to the Group with its proposed purchase of a 20% interest in the Investor through CCT Asset Management which will result in it becoming a strategic partner and indirect shareholder of the Company. In addition to being a strategic partner and indirect shareholder of the Company, CCT Asset Management and the Group will establish a joint venture company in Beijing to advise CCT Group in respect of the reorganisation and restructuring of the non-core and non-performing assets of state-owned enterprises in the PRC mandated to CCT Group by SASAC. CCT Asset Management has awarded MHS consultancy services agreements in respect of three major projects in November 2010. Although CCT Asset Management cannot undertake to refer business to the Group, CCT Group has demonstrated its commitment to the Group as a strategic partner, an indirect shareholder as well as a joint venture partner. Having a vested interest in the Group, the Company believes that CCT Group will have the incentive to refer business to the Group.

Moreover, CCT Asset Management has agreed that upon Completion, on the same conditions CCT Asset Management offers to other parties, MHS will be offered priority to provide services in respect of assets operated and managed by CCT Asset Management. CCT Asset Management will also introduce MHS to State Council-owned enterprises and local state-owned enterprises in respect of opportunities such as mergers and acquisitions, restructurings, industrial chain integration and listing arrangements.

With the strategic tie-up with CCT Group, the Group is confident that it will be able to expand its business operation in the foreseeable future through CCT Group’s special status and networks.

LETTER FROM THE LIQUIDATORS

Internal controls

The Group engaged Graham H.Y. Chan & Co., the auditors of the Company, to review the Group's internal control systems in September 2009. Graham H.Y. Chan & Co., conducted a follow up review in September 2010. The internal control review was undertaken in accordance with Hong Kong Standard on Related Services 4400 "Engagement to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The auditors of the Company have applied the "Internal Control and Risk Management – a Basic Framework" issued by the HKICPA as the criteria for their evaluation of the effectiveness of the internal control systems. The internal control review covered principally corporate governance, operational procedures, financial reporting and compliance with the Listing Rules. In addition, the review concentrated on the internal control systems of the Group in the following cycles and areas:

- Payment and receipt cycle
- Payroll cycle, including commission to authorised executives
- Financial reporting policies and procedures
- Control system for complying with Client Securities Rules and Client Money Rules under the SFO
- Other rules and regulations compliance policies and procedures

The Liquidators and the senior management of the Group have made substantial progress in rectifying the weaknesses identified in the internal control reviews and have made improvements to the Group's internal control systems. Ms. Kwan has reviewed the results of both internal control reviews and has ensured that all of the recommendations have been addressed and the identified remedial measures have been put in place. The key factors in a proper internal control system are that (a) staff are adequately trained as to the regulatory requirements and internal control procedures; (b) the existing controls and procedures are implemented by MHS; and (c) there are controls to deal with issues when they arise (for example, staff are trained in respect of the Group's updated compliance and procedural manuals). These internal control improvements include implementing maker/checker review procedures, escalation procedures, new business initiative approval procedures with sign off by all departments before a transaction is entered into and so forth.

LETTER FROM THE LIQUIDATORS

In addition, Ms. Kwan has implemented a corporate governance manual detailing the terms of reference for the Board, including directors' responsibilities and duties, independence and conflicts of interest by reference to the Code on Corporate Governance Practices of the Stock Exchange and a revised compliance manual. Revised procedures for the reactivated businesses are currently being prepared and will be in place before the new businesses are implemented.

The Liquidators and the senior management of the Company consider that, based on the current level of the Group's operations and the results of the internal control reviews, the Group has adequate internal control systems to comply with the Listing Rules.

Financial position of the Group upon Completion

Cashflow

Based on the annual report of the Company for the year ended 31 December 2010, the Group had bank balances and cash of HK\$36.9 million as at 31 December 2010. Based on the unaudited pro forma statement of financial position of the Group set out in Appendix II to this circular, the Group's bank balances and cash would be improved to HK\$89.8 million upon Completion.

Net asset value

Based on the annual report of the Company for the year ended 31 December 2010, the Group's deficiency in net assets amounted to HK\$107.1 million as at 31 December 2010. Based on the unaudited pro forma statement of financial position of the Group set out in Appendix II to this circular, the Group would have net assets of HK\$91.7 million upon Completion.

Gearing

Based on the annual report of the Company for the year ended 31 December 2010, the gearing ratio of the Group was 1.99 times as at 31 December 2010, calculated on the basis of total liabilities over total assets. Based on the unaudited pro forma statement of financial position of the Group set out in Appendix II to this circular, the Group's gearing ratio would be reduced to 0.43 times upon Completion subject to other things remaining unchanged.

Outstanding claims

Details of the Group's outstanding claims have been set out in paragraph 10 of Appendix VI to this circular. Save as disclosed in Appendix VI, the Liquidators are not aware of any other material outstanding claims in relation to the Group.

LETTER FROM THE LIQUIDATORS

RISK FACTORS

The following details the potential risk factors investors or holders of the Shares need to be aware of.

Risks relating to the Group

Credit and settlement risks

Securities brokerage clients of the Group are required to settle their securities transactions within two trading days from the transaction day. If a client fails to do so, the Group will be required to settle the same on behalf of its client with HKSCC with its own funds, which may negatively impact the liquidity and financial condition of the Group.

Risk of underwriting/sub-underwriting and placing business

The performance of underwriting/sub-underwriting and placing business may generally deteriorate during sluggish and volatile market conditions. In general, there would be lesser underwriting and placing activities under such market conditions resulting in lesser opportunities for the Group to participate as a underwriter/sub-underwriter or placing agent. Even if there are underwriting/sub-underwriting opportunities, if investor appetite towards subscription for new securities or purchase of existing securities is normally weak, this may resulting in under-subscription of shares in underwriting/sub-underwriting or placing transactions. As a result, the Group may be required to take up the unsubscribed securities as an underwriter or sub-underwriter. As such, the financial position of the Group may be affected.

In addition, under the FRR, the value of an open position of any underwriting or placing agreement, or the market value of any securities that MHS is required to take up as principal to fulfill its obligations under such agreement, would have an impact on MHS's liquid capital. In case the minimum liquid capital of MHS drops below the minimum requirement under the FRR, MHS would breach the FRR. In such case the SFC may take action against MHS including suspending MHS's licences or imposing conditions in relation to all or any of the regulated activities for which MHS is licensed by the SFC and accordingly the Group's business and operation will be adversely affected.

Risk of compliance failure and regulatory action

The securities market in Hong Kong is highly regulated. The businesses operated by MHS have operations that are classified as regulated activities under the SFO and its Responsible Officers and representatives are required under the SFO to be licensed by the SFC and therefore are subject to applicable rules and regulations promulgated by the SFC.

LETTER FROM THE LIQUIDATORS

The Hong Kong regulatory regime for the financial services industry has from time to time implemented changes in the rules and regulations that may be applicable to the Group (including the SFO which includes the FRR), the Listing Rules, the GEM Listing Rules, the Takeovers Code and the Code of Share Repurchases. Failure to comply the relevant laws or rules or regulations may result in fines, or, revocation or suspension of the licences of MHS or its Responsible Officers or representatives, or criminal liability and thereby adversely affecting the Group's businesses and financial performance.

High level of liquidity required

A licensed corporation shall at all times maintain paid-up share capital and liquid capital not less than the specified amounts according to the FRR. For MHS, the required paid-up share capital is HK\$5 million for its existing business activities (and HK\$10 million if it were to undertake other regulated activities including margin financing activities), and the required liquid capital is the higher of HK\$3 million or 5% of the aggregate of (a) its adjusted liabilities; (b) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and (c) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

MHS must maintain a relevant level of liquidity at all times to comply with the FRR. Failing to meet the capital requirements may cause the SFC to take disciplinary actions against MHS, which may adversely affect the Group's business and financial performance.

Reliance on key persons

The Group's performance depends to a significant extent on the continued service and performance of Ms. Kwan, one of the Responsible Officers of MHS and a proposed executive Director. Ms. Kwan is responsible for formulating the Group's business strategy and day-to-day management. The departure of Ms. Kwan would have a material adverse effect on the Group's business and performance.

As at the Latest Practicable Date, MHS currently has four Responsible Officers approved by the SFC. MHS is required to have a minimum of two Responsible Officers approved by the SFC. For each regulated activity, MHS is required to have at least one Responsible Officer available at all times to supervise the business. The same individual may be appointed to be a Responsible Officer for more than one regulated activity provided that he/she is fit and proper to be so appointed and there is no conflict in the roles assumed.

LETTER FROM THE LIQUIDATORS

The Group is currently recruiting high calibre qualified personnel who will become Responsible Officers going forward. However, in the event that MHS fails to meet the Responsible Officers requirement under the SFO due to resignation of some or all of these Responsible Officers without immediate and adequate replacement, its licensed corporation status could be adversely affected, thus jeopardising the Group's business operations.

Risk associated with the internal control systems

The Group has put in place internal control procedures to ensure compliance with the licensing and regulatory requirements under the SFO in relation to the operations of the Group. The Group maintains, closely monitors and regularly reviews and updates the internal control procedure and the compliance manual. However, there is no assurance that the internal control procedures put in place by the Group are at all times adequate and effective to deal with all the possible compliance and management risks in view of the changing financial and regulatory environment. Any failure of the internal control systems to prevent the potential risks will directly affect the operations and profitability of the Group and the ability of the Group to fulfill licensing and regulatory obligations under the SFO.

Uncertainty on the development of the Group

CCT Asset Management and the Group will establish a joint venture company in Beijing to advise CCT Group in respect of reorganisation and restructuring of the non-core and non-performing assets mandated to them by SASAC. In addition, as set out in the letter from the Investor, the Group is in the process of recruiting successful high calibre institutional sales trading personnel who are expected to bring to the Group access to significant deal flow in securities trading, placings and underwriting transactions. Despite this, there is uncertainty whether CCT Asset Management and the institutional sales trading team may develop new business for the Group in the manner and timing as expected. As such, the development of the Group as planned including the introduction of new businesses and services may be affected.

Risks relating to the industry

Volatility of the securities market

The Group generates income from the provision of brokerage services for securities and the placing and underwriting services, which are highly dependent on the performance of the securities market in Hong Kong. The Hong Kong securities market is directly affected by the local and international economic and socio-political environment, which in turn are affected by many unpredictable factors including, among others, local and international economic and political conditions, general market sentiment, changes in the regulatory environment, fluctuations in interest rates, capital flows and outbreaks of epidemics. Severe fluctuations or shifts in market and economic sentiments may also result in prolonged periods of lower market activity, which would in turn adversely impact on the Group's business and financial performance.

LETTER FROM THE LIQUIDATORS

Competition

The financial services industry in Hong Kong has a large number of participants and is highly competitive. As at 31 March 2011, there were 854 licensed corporations engaging in dealing in securities (Type 1), 840 licensed corporations engaging in advising on securities (Type 4), 255 licensed corporations engaging in advising on corporate finance (Type 6), 23 licensed corporations engaging in providing automated trading services (Type 7) and 811 licensed corporations engaging in asset management (Type 9). New participants may enter into the industry provided that they satisfy the FRR, possess relevant professionals with the appropriate skills and have obtained the requisite licences and permits.

If the Group fails to maintain its competitive edge, the Group's business and profitability may be adversely affected.

Risks relating to the PRC

In recent years, the PRC government has introduced various reforms to transform its planned economy into a socialist market-oriented economy. These reforms are unprecedented in the PRC and therefore are subject to frequent refinement and improvement in response to political, economic and social conditions. Accordingly, the operating environment and the laws and regulations in the PRC may change from time to time. A significant number of companies listed on the Stock Exchange and certain of MHS's clients have operations and businesses in the PRC. They may be affected if there are changes to their operating environment in the PRC. As an adviser to these companies and clients, the Group may or may not be able to keep up with those changes and offer effective advice, thereby affecting the Group's operations and profitability.

In addition, the Group intends to set up a joint venture in Beijing. This operation, once set up, may also be affected by changes in various reforms to the PRC economy.

PROPOSED CHANGE OF DIRECTORS

Mr. Lu Ruifeng and Mr. Yiu Hoi Ying are executive Directors, and Mr. Lu Ning and Mr. Li Chun are independent non-executive Directors of the Company.

LETTER FROM THE LIQUIDATORS

Since their appointment, the Liquidators have used their best endeavours to contact the Directors, namely Mr. Lu Ruifeng, Mr. Yiu Hoi Ying, Mr. Lu Ning and Mr. Li Chun. However, the Directors have not responded to any of the requests and enquiries made by the Liquidators in respect of the Company's affairs. Given this lack of cooperation from the Directors, their involvement is likely to cause unnecessary delays and create uncertainties to the restructuring of the Group. The Directors have had no involvement, and the Liquidators have not been able to involve the Directors, in the Group's operations, discussions and negotiations of the Restructuring Proposal since the date of appointment of the Liquidators and they are expected not to be involved in the preparation of all the announcements, circulars and other documents of the Company (as defined in the Takeovers Code) (the "Documents"). Pursuant to the order of the Court dated 14 January 2009, the Liquidators are empowered to manage the operation and corporate affairs of the Group. The Company has made a request to the Executive for consent to the exclusion of the Directors from the responsibility statement in the Documents under Rule 9.4 of the Takeovers Code and the Executive consented to such exclusion.

The Liquidators intend to remove all the existing Directors from office from Completion subject to approval by Shareholders subject to the related provisions of the Takeovers Code. Under Rule 7 of the Takeovers Code, the Directors are not allowed to resign before the date of the EGM. The Investor intends to nominate six new executive Directors and three new independent non-executive Directors with effect from Completion subject to the related provisions of the Takeovers Code. Under Rule 26.4 of the Takeovers Code, no nominee of the Investor or parties acting in concert with it is allowed to be appointed as director of the Board or the board of any subsidiary of the Company before posting of this circular. Details of the proposed new Directors are set out in the section headed "Letter from the Investor" of this circular on pages 46 to 57.

At the EGM, a resolution will be proposed to the Shareholders to approve the appointment of new Directors with effect from Completion. Upon Completion and subject to Court approval, the winding-up order will be permanently stayed and the Liquidators will be discharged and released. The proposed new Directors of the Company will take office without any restrictions.

LETTER FROM THE LIQUIDATORS

PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

Special resolution will be proposed at the EGM to amend the articles of association of the Company. A brief summary of the amendments is set out below:

Matter	Existing provision	Proposed amendment
1. Term of office for Director appointed by the Board to fill casual vacancy or as an addition to the Board	Any Director so appointed shall hold office until the next annual general meeting and shall then be eligible for re-election at that meeting	Any Director so appointed shall hold office until the next general meeting and shall then be eligible for re-election at that meeting
2. Number of Directors subject to retirement by rotation at annual general meetings	One-third (or if the number is not a multiple of three, the number nearest to but not more than one-third)	One-third (or if the number is not a multiple of three, the number nearest to but not less than one-third)
3. Untraceable members	No provision	Power granted to the Company to sell any shares of members who are untraceable, subject to satisfaction of certain conditions as set out in the proposed resolution

For details of the proposed amendments, please refer to resolution numbered 15 set out in the notice of the EGM.

GENERAL MANDATE TO ISSUE SHARES

At the EGM, an ordinary resolution, as set out in the notice of the EGM of the Company, will be proposed for the Shareholders to consider and, if thought fit, grant the General Mandate to the Directors to allot, issue and deal with Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of such resolution, that is 1,543,507,296 Shares or 30,870,145 New Shares (after the Capital Restructuring becoming effective).

LETTER FROM THE LIQUIDATORS

The General Mandate to issue New Shares will remain in effect until the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Ordinance or the articles of association of the Company to be held; and (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of Shareholders in a general meeting.

PROPOSED ADOPTION OF SHARE OPTION SCHEME

An ordinary resolution will be proposed at the EGM to approve the adoption of the Share Option Scheme. So far as the Liquidators are aware, no Shareholder is prohibited from voting in respect of such resolution. Operation of the Share Option Scheme will commence after all the conditions precedent as referred to under the paragraph headed “Conditions of the Share Option Scheme” have been fulfilled.

The Share Option Scheme

The purpose of the Share Option Scheme is to provide the Company with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to, the Participants and for such other purposes as the Board may approve from time to time. Subject to the terms of the Share Option Scheme, the Participants of the Share Option Scheme shall be the employees (whether full-time or part-time), directors or consultants of each member of the Group.

The exercise price of the Options granted under the Share Option Scheme shall be a price solely determined by the Board subject to a minimum amount set out in the rules of the Share Option Scheme, and the Board may specify in the offer letter granting the Options the performance targets that need to be achieved by a Participant as well as the minimum period for which an Option must be held before an Option can be exercised. It is believed that by providing the Board with the discretion to determine the Option exercise price and prescribing a vesting period before Options can be exercised, the Group will be in a better position to attract and retain valuable human resources as well as to achieve the purposes of the Share Option Scheme. The Share Option Scheme does not have a trustee. As at the Latest Practicable Date, the number of Shares in issue is 1,543,507,296 Shares or 30,870,145 New Shares (after the Capital Restructuring becoming effective). Assuming there is no change in the number of issued Shares between the period from the Latest Practicable Date and the Adoption Date, the number of the Shares issuable pursuant to the Share Option Scheme on the date of approval of the Share Option Scheme and any other share option schemes of the Company will initially be 154,350,729 Shares or 3,087,014 New Shares (after the Capital Restructuring becoming effective), being 10% of the total number of Shares in issue on the date of approval of the Share Option Scheme, unless the Company obtains a fresh approval from its Shareholders to renew the 10% limit on the basis that the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time. The Company has not adopted other share option schemes.

LETTER FROM THE LIQUIDATORS

Conditions of the Share Option Scheme

The Share Option Scheme is subject to the following conditions:

- (i) the passing of an ordinary resolution by the Shareholders in a general meeting approving the adoption of the Share Option Scheme and authorising the Directors to grant Options to subscribe for the Shares (or New Shares) thereunder and to allot and issue Shares pursuant to the exercise of any Options granted under the Share Option Scheme; and
- (ii) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, any Shares (or New Shares) to be issued under the Share Option Scheme.

Application will be made to the Stock Exchange for the approval of the listing of, and permission to deal in, in the Shares (or New Shares) to be issued upon the exercise of the Options granted under the Share Option Scheme.

Principal terms of the Share Option Scheme

A summary of the principal terms of the Share Option Scheme is set out in Appendix V to this circular. This serves as a summary of the terms of the Share Option Scheme but does not constitute the full terms of the same. The full terms of the Share Option Scheme can be inspected at the Liquidators' office at 27/F, Alexandra House, 18 Chater Road, Central, Hong Kong from the date of this circular up to and including the date of the EGM.

Value of the Options

It is not practicable to state the value of all the Options that can be granted pursuant to the Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of factors crucial for the calculation of the value of Options cannot be determined. Such factors include the subscription price, exercise period, any lock up period, any performance targets set and other variables. Therefore, at this stage, any calculation of the value of the Options as at the Latest Practicable Date based on the large number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.

LETTER FROM THE LIQUIDATORS

REASONS FOR THE RESTRUCTURING PROPOSAL

The Company has been in financial distress since late 2007. The Petition was heard by the Court on 18 March 2008 and a winding-up order was made against the Company. On 14 January 2009, Messrs Edward Simon Middleton and Patrick Cowley, both of KPMG, were appointed as Joint and Several Liquidators of the Company by the Court. Since the Company has few realisable assets, the Liquidators decided that some form of restructuring would provide the best return for the Scheme Creditors and the Shareholders. Accordingly, the Liquidators entered into discussions and negotiations with various potential investors with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange. The Liquidators are of the view that the Restructuring Proposal submitted by the Investor represents the best way forward for the Company, its Shareholders and its Scheme Creditors.

The Restructuring Proposal will (amongst other things) result in the Company's capital being boosted, its debts being extinguished and the permanent stay of the winding-up order against the Company.

TAKEOVERS CODE IMPLICATIONS

Whitewash Waiver

Upon Completion, the Investor and parties acting in concert with it (including CCT Asset Management) will be interested in 128,225,806 New Shares, representing approximately 80.60% of the enlarged issued ordinary share capital of the Company and will hold the Convertible Notes which based upon the initial conversion price of HK\$0.62 per CN Share (subject to adjustment) would result in the issue of 149,193,548 CN Shares upon full conversion. If the Convertible Notes are converted in full, the shareholding of the Investor and its concert parties in the Company will increase to 87.07% after the Place Down of 9,000,000 New Shares. In the absence of the Whitewash Waiver, the Investor would be required to make an unconditional mandatory general offer for all the New Shares not already owned or agreed to be acquired by the Investor or parties acting in concert with it (including CCT Asset Management). The Investor has made an application to the Executive for the Whitewash Waiver. The Executive has indicated that it will grant to the Investor the Whitewash Waiver, subject to, among others, the approval of the Independent Shareholders by way of poll at the EGM.

Upon Completion, the Investor and parties acting in concert with it (including CCT Asset Management) will hold more than 50% of the enlarged issued share capital of the Company. Accordingly, the Investor and parties acting in concert with it (including CCT Asset Management) may increase their holding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer. There may be circumstances where there are

LETTER FROM THE LIQUIDATORS

changes in the composition of the group consisting of the Investor and its parties acting in concert, and holdings of each party in the group may change from time to time. This being the case, any party in this group holding an interest of less than 50% in the Company may incur an obligation to make a mandatory general offer under Rule 26.1 of the Takeovers Code upon further acquisitions of Shares by any of them unless a waiver from the Executive is granted.

Completion is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders at the EGM. Under the Restructuring Agreement, the Investor cannot waive these conditions precedent.

As at the date of this circular, the Company does not have any options, warrants or convertible securities in issue. The Investor and parties acting in concert with it (including CCT Asset Management) do not hold any Shares. Save for the Letter of Intent, the Restructuring Agreement and the Subscription Agreement, none of the Investor and parties acting in concert with it (including CCT Asset Management) have dealt in the securities of the Company during the six-month period immediately prior to the date of the Joint Announcement. Furthermore, the Investor has confirmed that neither it nor any parties acting in concert with it (including CCT Asset Management):

- (a) owns, controls or directs any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;
- (b) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or shares of the Investor and which might be material to the transactions contemplated under the Restructuring Agreement, the Subscription Agreement or the Whitewash Waiver with any other persons;
- (c) has any agreements or arrangements to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Restructuring Agreement, the Subscription Agreement or the Whitewash Waiver, nor any such agreements or arrangements the consequences of its so invoking or seeking to invoke a precondition or a condition to such transactions would result in any break fees being payable;
- (d) has received an irrevocable commitment to vote in favour or against the Restructuring Agreement, the Subscription Agreement, the Whitewash Waiver and/or the Special Deals; and
- (e) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

LETTER FROM THE LIQUIDATORS

Special Deals

As at the date of this circular, there are three Scheme Creditors, including Mr. Lu Ruifeng (an executive Director), with an aggregate Claim of approximately HK\$23.02 million who are also Shareholders. It was disclosed in the Joint Announcement that there were four Scheme Creditors with an aggregate Claim of approximately HK\$23.07 million who are also Shareholders. Subsequent to the publication of the Joint Announcement, the Liquidators have made further investigation and have established that one of the four said Scheme Creditors with a Claim of approximately HK\$50,000 is not a Shareholder. Accordingly, the number of Scheme Creditors who are also Shareholders is reduced from four to three and the aggregate amount of their Claims is reduced from HK\$23.07 million to HK\$23.02 million.

One of the three Scheme Creditors is a former employee of the Group who has submitted a Preferential Claim against the Company. Preferential Creditors are expected to be repaid in full. The Scheme Creditors will receive a pro rata portion of the Scheme funds after payment of costs and any Preferential Claims in accordance with the terms of the Scheme. These Interested Shareholders would receive payments under the Scheme if their Claims are admitted by the Scheme Administrators. Under the Group Reorganisation, the issued shares of the Excluded Companies will be transferred to the Scheme Administrators and any net cash realised from the Excluded Companies and their assets will be distributed to the Scheme Creditors under the terms of the Scheme as part of the settlement of the Claims of the Scheme Creditors. This arrangement is not extended to other Shareholders who do not have an admitted Claim against the Company. Therefore, the implementation of the Scheme and the Group Reorganisation constitute special deals under Note 5 to Rule 25 of the Takeovers Code, and requires the consent of the Executive. The Company has made an application to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Scheme and the Group Reorganisation.

The Executive will normally consent to the Special Deals under Note 5 to Rule 25 of the Takeovers Code provided that (i) the settlement terms under the Scheme are arm's length on normal commercial terms; (ii) the independent financial adviser to the Independent Shareholders publicly states that in its opinion the settlement terms are fair and reasonable; and (iii) the settlement terms are approved by the Independent Shareholders by way of poll at the EGM. The Independent Financial Adviser has given its opinion that the Special Deals are arm's length transactions on normal commercial terms and that the terms of the Special Deals are fair and reasonable, and a copy of its advice is set out in the section "Letter from the Independent Financial Adviser" of this circular on pages 58 to 79.

EGM

No independent board committee will be formed to advise the Independent Shareholders as the independent non-executive Directors have never responded to the Liquidators' enquiries in respect of the affairs of the Company. Investec Capital Asia Limited has been appointed as the independent financial adviser to advise the Independent Shareholders in relation to the Whitewash Waiver and the Special Deals.

LETTER FROM THE LIQUIDATORS

The EGM will be convened to consider and approve by way of poll, among other things, the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver, the Special Deals, the proposed change of Directors, the proposed amendments to the articles of association, the General Mandate and the Share Option Scheme. The Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder (including the Capital Restructuring), the Whitewash Waiver and the Special Deals are subject to the approval of the Independent Shareholders by way of poll under the Takeovers Code.

The Company is incorporated in Hong Kong. Under the Companies Ordinance, the Capital Restructuring is subject to the approval of the Shareholders. Separate resolutions will be proposed to approve the Capital Restructuring at the EGM to comply with the Companies Ordinance. Given that the Capital Restructuring is a transaction contemplated under and a condition precedent to the Restructuring Agreement, if the Capital Restructuring is not approved by the Shareholders pursuant to the aforesaid separate resolutions, the Restructuring Agreement and the transactions contemplated thereunder will not proceed.

The Interested Shareholders, their associates and parties acting in concert with any of them and those Shareholders involved in or interested in the Restructuring Agreement, the Subscription Agreement, the Whitewash Waiver and the Special Deals and transactions contemplated thereunder shall abstain from voting for the resolutions in respect of the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deals. Except for the Interested Shareholders, there are no Shareholders having an interest in or involved in the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deals. Therefore no other Shareholder is required to abstain from voting for the resolutions in respect of the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Wavier and the Special Deals.

Set out on pages 202 to 212 of this circular is a notice convening the EGM to be held at the Auditorium, Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong on Thursday, 21 July 2011 at 11:30 a.m..

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so desire. In such event, the instrument appointing a proxy will be deemed revoked.

LETTER FROM THE LIQUIDATORS

Based on the latest filing made by the Directors pursuant to the SFO, Mr. Lu Ruifeng and his associates are deemed to be interested in 712,889,808 Shares representing 46.19% of the issued shares capital of the Company. Since Mr. Lu Ruifeng has not responded to any enquiry made by the Liquidators, the Liquidators are not aware of the intention of Mr. Lu Ruifeng to vote for or against the resolutions in respect of the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deals. However, as described above, since Mr. Lu Ruifeng is an Interested Shareholder, he and his associates and parties acting in concert with any of them shall abstain from voting for the resolutions in respect of the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deals.

TRADING ARRANGEMENTS

Share certificate exchange arrangement

To enable Shareholders having new certificates for the New Shares on the commencement day of the parallel trading (details of which have been set out below), Shareholders may from Tuesday, 26 July 2011 to Thursday, 1 September 2011 (both dates inclusive) submit certificates for the existing Shares to the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong to exchange, at the expense of the Company, for new certificates for the New Shares. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 for each certificate for the existing Shares cancelled or each new certificate issued for the New Shares, whichever number of certificates cancelled or issued is higher (or such higher amount as may from time to time be allowed by the Stock Exchange). It is expected that the certificates for the New Shares will be available within 10 business days from the date of submission of the certificates for the existing Shares.

After 4:00 p.m. on Tuesday, 30 August 2011, each of the certificates for the existing Shares will continue to be effective as documents of title for one-fiftieth of a New Share but will not be valid for trading, settlement and registration purpose.

Parallel trading arrangement

Following the effective date of the Capital Restructuring and subject to resumption of trading in the New Shares, the Company proposes the following trading arrangements for the Shareholders:

- (i) from 9:00 a.m. on Wednesday, 10 August 2011, the present counter for trading in the Shares in board lots of 2,000 Shares will be removed temporarily and a temporary counter for trading in the New Shares in board lots of 40 New Shares in the form of existing share certificates (in blue colour) will be set up. Existing share certificates for the Shares (in blue colour) may only be traded at this temporary counter;

LETTER FROM THE LIQUIDATORS

- (ii) with effect from 9:00 a.m. on Wednesday, 10 August 2011, the present counter for trading in the New Shares in board lots of 2,000 New Shares will be re-opened. Only share certificates for the New Shares (in purple colour) will be traded at this counter;
- (iii) during the period from Wednesday, 10 August 2011 to Tuesday, 30 August 2011 (both dates inclusive), there will be parallel trading at the above two counters; and
- (iv) the temporary counter for trading in the New Shares in board lots of 40 New Shares (in the form of existing share certificates (in blue colour)) will be removed after the close of trading on Tuesday, 30 August 2011. Thereafter, trading will only be in the New Shares in board lots of 2,000 New Shares (represented by new share certificates in purple colour) and existing share certificates (in blue colour) will cease to be acceptable for dealing and settlement purposes. However, such certificates will continue to be good evidence of legal title to the New Shares on the basis of 50 Shares for one New Share and may be exchanged for new certificates for the New Shares at any time.

Facilities for odd lot holders

The existing board lot size of the Shares is 2,000 Shares. The New Shares will be traded in board lots of 2,000 New Shares. Any fractional entitlement to the New Shares will be aggregated, sold and retained for the benefits of the Company. In order to alleviate the difficulties arising from the existence of odd lots of the New Shares as a result of the Capital Restructuring, the Company has agreed to procure MHS to stand in the market to provide matching services for the odd lots of New Shares on a best effort basis, during the period from Wednesday, 10 August 2011 to Tuesday, 30 August 2011 (both dates inclusive). Holders of the New Shares in odd lots (i.e. lots which are not in integral multiples of 2,000 New Shares) who wish to take advantage of this matching facility either to dispose of their odd lots of the New Shares or to top up to board lots of 2,000 New Shares, may contact Mr. Tony Hui, Dealing Manager of MHS at Suites 1102-1103, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong at telephone number (852) 2843 1410 during office hours.

Holders of the New Shares in odd lots should note that successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed. Shareholders are advised to consult their professional advisers if they are in doubt about the above facility.

Listing and dealing

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares falling to be issued pursuant to the Restructuring Agreement and the Subscription Agreement.

LETTER FROM THE LIQUIDATORS

The Shares are only listed on the Stock Exchange. No part of the Company's securities is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New 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 New 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.

RECOMMENDATION

The Liquidators believe that the Restructuring Proposal is in the best interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

Shareholders are strongly advised to consider the "Letter from the Independent Financial Adviser" before deciding to vote in favour of or against the resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the sections headed "Letter from the Investor", "Letter from the Independent Financial Adviser", the notice of the EGM and the additional information set out in the appendices to this circular.

Completion of the Restructuring Proposal and the resumption of trading in the Shares are subject to the satisfaction and/or waiver of the conditions precedent to the Restructuring Agreement. The despatch of this circular is not an indication that the Restructuring Proposal will be completed or trading in the Shares will be resumed. Trading in the Shares has been suspended at the request of the Company since 2:54 p.m. on 18 March 2008 and will remain suspended until further notice. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

For and on behalf of
Asia TeleMedia Limited
(In Liquidation)

Edward Simon Middleton and Patrick Cowley
Joint and Several Liquidators
acting as agents without personal liability

LETTER FROM THE INVESTOR

GAINHIGH HOLDINGS LIMITED

(incorporated in the British Virgin Islands with limited liability)

Director:

Mr. Ko Chun Shun, Johnson

Registered office:

c/o ATC Trustees (BVI) Limited
2nd Floor, Abbott Building
Road Town, Tortola
British Virgin Islands

Principal place of business

in Hong Kong:

3901, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

28 June 2011

To the shareholders of Asia TeleMedia Limited (In Liquidation)

Dear Sirs,

**PROPOSED RESTRUCTURING OF
ASIA TELEMEDIA LIMITED (IN LIQUIDATION)
INVOLVING**

- (1) PROPOSED CAPITAL RESTRUCTURING;
(2) PROPOSED SUBSCRIPTION FOR NEW SHARES AND CONVERTIBLE NOTES;
(3) CREDITORS' SCHEME OF ARRANGEMENT;
(4) GROUP REORGANISATION;
(5) APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEALS;
(6) PROPOSED CHANGE OF DIRECTORS;
(7) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION;
(8) GENERAL MANDATE TO ISSUE SHARES; AND
(9) PROPOSED ADOPTION OF A SHARE OPTION SCHEME
AND
NOTICE OF EGM**

INTRODUCTION AND BACKGROUND

It was jointly announced by the Investor and the Company on 27 May 2011 that the Restructuring Agreement was duly signed on 15 April 2011. Details of the Restructuring Agreement and other matters incidental to the Restructuring Proposal are set out in the "Letter from the Liquidators" of this circular of the Company dated 28 June 2011 (the "Circular"), of which this letter forms part.

LETTER FROM THE INVESTOR

The purpose of this letter is to provide you with, among other things, information on the Investor and the future intentions of the Investor after Completion.

INFORMATION ON THE INVESTOR

The Investor is an investment holding company incorporated in the British Virgin Islands and is beneficially and ultimately wholly-owned by Mr. Ko. Mr. Ko who is also the sole director of the Investor. Particulars of Mr. Ko are set out in the section headed “Proposed change of Directors” below.

The Investor, its associates and parties acting in concert with them are third parties independent of the Company and connected persons of the Company.

FUTURE INTENTIONS OF THE INVESTOR

The Group is principally engaged in the provision of financial services – currently comprising securities broking, share placing and underwriting, corporate finance, consulting and related services. The Group is also in the process of setting up a private equity fund. The Investor intends to continue and expand the Group’s existing businesses in the provision of financial services. The Investor’s overall vision and plan for the Group is for it to develop further into a Hong Kong-based global financial powerhouse that will serve as a conduit and bridge between Chinese and Asian companies and their investors and Western counterparts. The Investor may seek to expand the Group’s operations to encompass the provision of additional financial services related businesses, including expanding the Group’s broking activities into overseas markets, expanding into the provision of equity derivatives give-up business, futures and options brokerage, wealth management, proprietary trading, direct investment, asset management, mezzanine financing, margin financing and money lending.

The Group is in the process of recruiting successful high calibre institutional sales trading personnel who are expected to bring to the Group access to significant deal flow in securities trading, placings and underwriting transactions. Some or all of these people will join the existing members of the Group’s proposed and future senior management team. As an incentive, Mr. Ko is planning to offer some or all of the Group’s senior management team equity interests in the Investor of an amount of up to 25% in aggregate of the total share capital of the Investor. This group of individuals, who may obtain an equity interest in the Investor, are not Shareholders. In addition, the Group plans to recruit additional staff in the corporate finance, research, support services and middle office functions to support the Group’s growth. In order to cope with the Group’s planned business expansion, new and larger offices have been leased and the Group has relocated to the new offices with effect from 3 May 2011.

LETTER FROM THE INVESTOR

In November 2010, the immediate holding company of the Investor and CCT Asset Management entered into a cooperation framework agreement. CCT Asset Management is principally engaged in managing and operating state-owned assets and is wholly-owned by CCT Group. China Chengtong Holdings Group Limited was established in 1992 and is a state-owned enterprise managed by SASAC. CCT Group is principally engaged in asset management and operation, warehousing and logistics service, material distribution and paper making industry. CCT Group manages more than one hundred enterprises, including five listed companies (i) Zhongchao Development Stock Co. Ltd. (中儲發展股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600787); (ii) Foshan Huaxin Packaging Co., Ltd. (佛山華新包裝股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 200986); (iii) China Chengtong Development Group Ltd. (中國誠通發展集團有限公司), the shares of which are listed on the Stock Exchange (stock code: 217); (iv) Guangdong Guanhao High-Tech Co., Ltd. (廣東冠豪高新技術股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600433); and (v) Yueyang Paper Co., Ltd. (岳陽紙業股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600963).

The directors of China Chengtong Holdings Group Limited are Ma Zhengwu, Hong Shuikun, Li Yaoqiang, Du Changtao, Tao Rui, Dong Zhihua, Zhang Qiusheng, Fan Xiaofu and Tang Guoliang.

CCT Asset Management does not have a board of directors. The senior management of CCT Asset Management comprises Communist Party Committee Deputy Secretary, Zhang Binghua as general manager and legal representative; Communist Party Committee Secretary, Zhang Baowen as a deputy general manager. Each of Chen Shengjie and Liu Naijie are also a deputy general manager of CCT Asset Management.

Under the cooperation framework agreement, the Group will be offered priority to provide consulting, financial advisory and corporate finance services in respect of asset restructuring, merger and acquisition, industry chain integration and public listing coordinating of assets managed by CCT Asset Management. CCT Asset Management will also refer to the Group similar corporate finance business in respect of the PRC central or municipal governments thereby creating deal flow for the Group. In addition, CCT Asset Management and the Group have begun work to establish a new joint venture based in Beijing with an equity investment of RMB10 million to advise CCT Group in respect of the reorganisation and the restructuring of non-core and non-performing assets. The new joint venture will be 51% and 49% owned by the Group and CCT Asset Management respectively. Upon resumption of trading in the Shares, CCT Asset Management will pay HK\$34.4 million to the Investor to acquire 20% of the share capital in the Investor. CCT Asset Management is not a Shareholder.

LETTER FROM THE INVESTOR

Both the Company and the Investor do not have any agreement, arrangement, negotiation and/or plan to carry out any other principal businesses other than securities broking, placing and underwriting, corporate finance, consulting and the financial services related business as detailed in the previous paragraphs within 24 months after resumption of trading in the Shares. The Investor has no intention to redeploy any fixed assets of the Group and the Investor intends to continue employment of the employees of the Group.

There is no agreement, arrangement or understanding where any of the New Shares and the Convertible Notes subscribed by the Investor will be transferred, charged or pledged to any other persons.

Apart from the proposed acquisition of a 20% shareholding interest in the Investor by CCT Asset Management and the proposed offer of shares in the Investor to the Group's senior management team, the Investor and its beneficial owner have no intention or plan to dispose of its controlling interests in the Company within 24 months after resumption of trading in the Shares, except for the Place Down with a view to maintaining the public float requirement under the Listing Rules.

The Investor believes that the Restructuring Proposal and the Resumption Proposal will help restore the financial strength and revive the business operations of the Group in long-term.

BUSINESS PLAN

Business strategy and the development plans for the Group

The overall vision and plan for the Group is to develop into a Hong Kong based global financial services group that will serve as a bridge between Chinese and Asian companies, and their investors and Western counterparts. Ms. Kwan and the senior management of the Group have formulated a detailed business plan so as to provide a road map to realise the Investor's vision and plan.

MHS currently provides retail brokerage services (primarily in respect of securities listed on the Stock Exchange) and placing and underwriting services in respect of securities listed on the Stock Exchange. The Group has also provided corporate finance and consulting services to clients.

The Group will in the following phases develop its businesses which will be funded by the net proceeds from the Subscription and the Group's internal resources:

LETTER FROM THE INVESTOR

(a) *Continue to expand its brokerage business*

MHS has approximately 4,122 retail broking clients of which approximately 1,245 are currently active. The Group is working on its client list with a view to reactivating as many dormant clients and to procuring existing clients to trade more with MHS as possible. The Group has also been actively working to develop and expand its retail stockbroking client base by attracting new corporate, high net worth and professional investor accounts. In addition to generating additional broking revenue for the Group, by serving the personal accounts of chairpersons, directors and senior management of corporations, the Group has been establishing relationships with these decision-makers which may lead to the Group securing business from such corporations such as placements and underwriting business and corporate finance advisory work.

(b) *Continue to expand its placing/underwriting business as well as its corporate finance and corporate advisory services*

Ms. Kwan and the senior management of the Group will continue to forge new business relationships and clientele so as to expand and build in its placing and underwriting/sub-underwriting as well as its corporate finance advisory businesses with the recruitment of high calibre staff with strong business relationships.

(c) *Joint venture with CCT Asset Management*

As mentioned above, CCT Asset Management and the Group plan to establish a joint venture company in Beijing to advise CCT Group in respect of the reorganisation and restructuring of non-core and non-performing assets of state-owned enterprises mandated to CCT Group by SASAC. The joint venture company will be owned as to 51% by the Group and 49% by CCT Asset Management. MHS will initially second on a part-time basis, Ms. Kwan to the joint venture's Beijing office and will hire additional staff to assist in the projects referred by CCT Group. CCT Asset Management will also be seconding employees to the joint venture company and will also provide a portfolio of non-core and non-performing assets for review.

MHS will be leading the relationship and the transactions. The joint venture will be responsible for reviewing all the specific non-core and non-performing assets in respect of projects referred to it by CCT Asset Management as well as working on the corporate finance aspects of those projects in Hong Kong. It will endeavour to screen those assets that can be repackaged or restructured for sale to investors or for initial public offerings, or other fund raising activities.

(d) *Institutional stockbroking services*

The Group is currently in the process of recruiting a number of qualified institutional sales trading personnel to join the Group. In preparation, the Group has upgraded MHS's infrastructure to prepare it for the institutional equity trading business. The Group has set up a pan-Asian equities trading platform offering agency execution trading in the Asian markets which will be marketed to hedge funds, financial institutions, long funds, sovereign wealth funds and private banks. Based on client demand, the agency equities trading will be further expanded to be able to trade North American, Latin American and European equities in due course.

LETTER FROM THE INVESTOR

(e) Equity derivatives give up business

The Group is also in the process of recruiting qualified institutional/equity derivatives traders who will trade equity derivatives products. The equity derivatives give up business involves the introduction of two parties who respectively wish to buy and sell a derivative product such as a swap. By finding a buyer and a seller of an equity derivative, MHS will introduce the two parties into a give up position and take a commission for the introduction work. As MHS only introduces the two parties and takes a commission, there are no regulatory capital or working capital requirements as the trade is not taken on MHS's books. This is an over-the counter business for which MHS only requires a Type 1 licence under the SFO which MHS already has. As such, the Group believes the introduction of this business, which is riskless, will also help MHS boost its income.

Clients of the equity derivatives give up business may wish to hedge their positions. As an extra service to facilitate the give up transaction, the client may wish MHS to buy or sell futures contracts for them on the Stock Exchange or other futures markets. MHS has a dormant futures trading right that can be reactivated and can be used by MHS to provide this service.

(f) Others businesses

The Group plans to set up a research function. The Group is recruiting seasoned and experienced research staff for the function. New policies and procedures will be formulated for the production review/vetting, publication and distribution of research reports. It is intended that the research reports will be distributed to the Group's institutional clients at an initial stage.

The Group also plans to reactivate its asset management licence as well as move into other areas of financial services related businesses including expanding the Group's broking activities into overseas markets, expanding into the provision of equity derivatives give-up business, futures and options brokerage, wealth management, proprietary trading, direct investment, asset management, mezzanine financing, margin financing and money lending.

INFRASTRUCTURE AND HUMAN RESOURCES

Human resources

Human resources are a key factor to success for a financial services firm. Highlighting the importance of attracting high calibre staff, Ms. Kwan, was recruited to run MHS as the Chief Executive Officer with effect from 7 September 2010.

LETTER FROM THE INVESTOR

The Group currently has 16 employees, 15 full time and 1 part time, including four Responsible Officers. They are shown by function as follows:

Management and Corporate finance	2
Retail trading	6
Support services:	
Finance	2
Client administration	1
Operations	1
Information technology	1
Administration	3

The Group recruited a Corporate Finance head in December 2010, Separately, the joint venture with CCT Asset Management will employ appropriate staff.

The Group is recruiting highly motivated and very experienced sales trading, futures trading/equity derivatives, research and corporate finance as well as support services personnel. Recruitment of qualified personnel has been ongoing since the second quarter of 2011. These sales traders, with at least 10 years relevant experience, must be able to both market to institutional clients and to trade on their behalf. They must have transportable client portfolios and have a proven track record in bringing new clients in and building businesses. The supporting services personnel must also be highly motivated and very experienced in the fields of finance, compliance, clearing and settlement operations, information technology and administration.

The Group expects that some or all of the new personnel will begin work when they are legally able to do so which should be by the first quarter of 2012 when they are legally able and wish to do so.

The Group will ensure that all the new staff members to be recruited are appropriately qualified and experienced professionals, and are able to support an operation of the Group's target size. The Group believes that the presently proposed human resources structure is appropriate for the Group's business. The Group expects that it has sufficient staff to carry out business expansion plan as set out in this circular.

Infrastructure

With the injection of funding from the Investor, MHS has embarked on a plan to improve its operations and infrastructure in preparation for the implementation of the various phases of its detailed business plan – in particular, the reviving of the Group's institutional broking business and on-going compliance with SFC rules and regulations. The Group has invested over HK\$10 million to date in infrastructure with over another HK\$5 million committed for licenses and contracts.

LETTER FROM THE INVESTOR

Information technology

Significant investments have been made to upgrade the Group's information technology systems. New servers, computers, printers, programs and systems have been put in place that will facilitate the Group's business expansion plans.

Trading systems and connectivity for trading capabilities

MHS has acquired the licenses for two new trading systems, for its retail trading and its institutional trading platforms. These systems have been implemented and the Group has now set up its Pan Asia trading execution and Direct Market Access for a voice and electronic trading. The Group is now able to offer agency execution for institutional clients who wish to trade the Hong Kong, Japan, Singapore, Australia, Korea, Indonesia, Thailand, Malaysia and the Philippines markets. The retail trading platform will be enabled with Pan Asian execution services in due course.

Clearing and settlement

In order to prepare for institutional execution trading and its new retail trading platform, MHS is also in the process of upgrading the clearing and settlements systems to handle the electronic clearing, settlement and confirmation processes used by institutional clients and its existing retail clients. The new clearing and settlement systems shall provide a seamless trading, clearing and settlement process for clients.

Initially, MHS will continue to self-clear in respect of share trading in Hong Kong but will explore moving towards settlement agency services as necessary. The Group is now setting up Pan Asia Clearing and Settlement accounts with two major financial institutions as the two Clearing and Settlement Banks/Custodians in order to clear and settle clients' transactions in markets outside of Hong Kong.

Finance

The Group has also implemented a new updated financial accounting system to cope with the business expansion that will enable it to link into its trading, clearing and settlement systems seamlessly.

LETTER FROM THE INVESTOR

THE BOARD

The Investor intends to nominate six new executive Directors and three new independent non-executive Directors with effect from Completion. Set out below are the biographical details of the proposed Directors to be nominated to the Board.

(a) Executive Directors

Mr. Ko Chun Shun, Johnson, aged 59, is the ultimate beneficial owner of the Investor. Mr. Ko is currently the chairman and executive director of Varitronix International Limited (stock code: 710) and DVN (Holdings) Limited (stock code: 500), and vice-chairman and executive director of China WindPower Group Limited (stock code: 182), the shares of which are listed on the Stock Exchange. Mr. Ko is also a substantial shareholder of China WindPower Group Limited and Varitronix International Limited. Mr. Ko has extensive experience in a variety of activities, including manufacturing, securities trading, international trade, electronics and the wind power industry. He also has extensive experience in corporate finance, corporate restructuring and mergers and acquisitions. Mr. Ko was also the chairman and executive director of Sheng Yuan Holdings Limited (formerly known as MAE Holdings Limited) (stock code: 851) until June 2009.

Mr. Ko is the ultimate sole shareholder of the Investor, which has a discloseable interest in the Company under the SFO as a result of the entering into of the Subscription Agreement. Please refer to the section “Disclosure of interests” under Appendix VI to this circular.

Mr. Tsoi Tong Hoo, Tony, aged 46, is the chief executive officer and executive director of Varitronix International Limited. Mr. Tsoi graduated from The University of Western Ontario, Canada with an honours degree in business administration in 1986. He served as the Deputy Chairman of the Listing Committees of the Main Board and the Growth Enterprise Market of the Stock Exchange from 2008 to 2009. He is a non-executive director of China WindPower Group Limited (stock code: 182) and an independent non-executive director of Fairwood Holdings Limited (stock code: 52), the shares of which are listed on the Stock Exchange.

Miss Ko Wing Yan, Samantha, aged 31, is the daughter of Mr. Ko. She holds a bachelor degree in economics and mathematics from Mount Holyoke College, and a master degree in finance from the Imperial College Management School in London. She has over seven years of experience in banking and has extensive experience in the securities and capital markets. She was a director of global markets – structured credit and fund solutions of HSBC until August 2009. Before joining HSBC, Ms. Ko served in international investment banks including Morgan Stanley (in Hong Kong) and JP Morgan Securities Limited (in London). Ms. Ko is an executive director of China WindPower Group Limited (stock code: 182).

LETTER FROM THE INVESTOR

Ms. Angelina Kwan, aged 45, was appointed as the Chief Executive Officer of MHS in September 2010. Ms. Kwan is one of the responsible officers of MHS holding licences in respect of types 1, 4 and 6 regulated activities under the SFO.

Ms. Kwan is the former Managing Director, Chief Operating Officer – Asia Pacific for Cantor Fitzgerald and was responsible for all supporting functions and operating aspects of the Cantor Fitzgerald's operations and businesses in the Asia Pacific region. Prior to joining Cantor Fitzgerald, Ms. Kwan worked at the SFC where she was a Director of the Supervision of Markets Division as well as a Director of Enforcement. Ms. Kwan has participated in the establishment of new operations in various locations in Asia for HG Asia (later subsumed into ABN Amro/RBS), Dresdner Kleinwort Benson and the BGC/Cantor Fitzgerald Group of Companies. Ms. Kwan has over 24 years of experience in business management, operations, regulation, compliance, audit and internal audit across a wide range of businesses in both Asia and the US.

Ms. Kwan is a certified public accountant both in Hong Kong and the United States. She holds a Bachelor of Science in Business Administration (Accounting), an M.B.A. (Finance) and a Bachelor of Laws. She is an Honorary Professor of Finance for Hong Kong Polytechnic University, a SFC appointed Director and Fellow of the Hong Kong Securities Institute, a Director of the Securities and Investments Development Corporation (the training arm of the Securities Commission of Malaysia) and lectures frequently for Hong Kong Polytechnic University, Hong Kong Securities Institute, various international regulatory organizations and course providers.

Mr. Zhang Binghua, aged 58, is the general manager and legal representative of CCT Asset Management and Communist Party Committee Deputy Secretary. Mr. Zhang is the president (legal representative) of China Container Holding Group Company, a member of CCT Group, and Communist Party Committee Deputy Secretary since 2000.

Mr. Zhang graduated with a mechanics major from Zhejiang University and is a senior engineer. He is experienced in asset injections, enterprise management and human resource management, especially the operation and asset disposal of distressed enterprises.

Mr. Chen Shengjie, aged 50, is the general manager (legal representative) of China Chengtong Resources Recycling Development & Utilization Company and Communist Party Committee Branch Secretary since 2004.

Mr. Chen is an EMBA graduate of Tsinghua University and is a registered accountant in the PRC. Mr. Chen has been a chief of a division in the Commerce and Trade Audit Department under the National Audit Office of the PRC, the assistant to the general manager of China National Nonferrous Materials Corporation (中國有色金屬材料總公司) and the chief accountant of CCT Group.

LETTER FROM THE INVESTOR

(b) Independent non-executive Directors

Mr. Liu Zhengui, aged 63, holds a bachelor degree in management engineering from HeFei University of Technology. Mr. Liu has over 40 years' experience in corporate finance and capital management. Mr. Liu is currently a director of the 山東社會經濟發展研究院 and is the chairman of 山東東銀投資管理有限公司. He is also a financial consultant of the Shandong provincial government. During the period of 2004 to 2009, Mr. Liu was the chairman of Bank of China Group Investment Limited (BOCGI). Prior to that, he served as the chief executive of Bank of China's branches in three different provinces for 16 years.

Mr. Ding Hebai, aged 62, holds a PhD degree in international business trading from the Chinese Academy of Social Science. Mr. Ding has extensive experience in asset management and international trading. Mr. Ding has held senior positions in Ministry of Health of the PRC (國家衛生部), the Office of the Economic and Trade of the State Council (國務院經濟貿易辦公室), the State Economic and Trade Commission of the PRC (國家經濟貿易委員會), State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) and China National Medical Equipment & Supplies I/E Corporation (中國醫療衛生器材進出口公司).

Mr. Chu Chung Yue, Howard, aged 62, was the Vice President, Asia and Chief Representative, China of Teck Resources Limited (formerly Teckcominco Limited). Mr. Chu was responsible for the development of an Asian strategy for the company, monitoring China's economic performance and promoting business development opportunities in China. Mr. Chu held various positions including corporate controller for Teck Resources Limited from 1978 to 2007 and was the Vice President, Asia and Chief Representative, China from 2007 to April 2011. Mr. Chu holds a bachelor degree in commerce from University of British Columbia and is a chartered accountant in Canada.

Save as disclosed in their biographies above, all of the above proposed Directors:

- (a) have not held any directorships in any other listed companies in the last three years;
- (b) have not entered into any written service contract with the Company but they will hold office until the next annual general meeting of the Company and is subject to retirement by rotation and re-election pursuant to the memorandum and articles of association;
- (c) are not interested in and do not hold any short position in any shares of underlying shares in or any debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO;

LETTER FROM THE INVESTOR

- (d) are not connected with any Directors, senior management or substantial Shareholders or controlling Shareholders (as defined in the Listing Rules); and
- (e) save for disclosed herein, there is no information to be disclosed pursuant to the requirements of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules relating to their appointment as the Directors.

The remuneration of the above proposed Directors will be determined by the Board with reference to the prevailing market conditions.

MAINTAINING THE LISTING STATUS OF THE COMPANY

It is the intention of the Investor to maintain the listing status of the Company on the Stock Exchange upon Completion.

GENERAL INFORMATION

Your attention is drawn to the sections headed “Letter from the Liquidators”, “Letter from the Independent Financial Adviser” and the additional information as set out in the appendices to this Circular.

Yours faithfully,
For and on behalf of
Gainhigh Holdings Limited
Ko Chun Shun, Johnson
Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of the letter of advice from Investec Capital Asia Limited to the Independent Shareholders prepared for inclusion in this Circular in respect of the Restructuring Proposal, the Whitewash Waiver and the Special Deals.



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28 June 2011

*To the Independent Shareholders of
Asia TeleMedia Limited (In Liquidation)*

Dear Sirs,

**(1) PROPOSED CAPITAL RESTRUCTURING;
(2) PROPOSED SUBSCRIPTION FOR NEW SHARES AND
CONVERTIBLE NOTES;
(3) CREDITORS' SCHEME OF ARRANGEMENT;
(4) GROUP REORGANISATION; AND
(5) APPLICATION FOR WHITEWASH WAIVER AND
SPECIAL DEALS**

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Shareholders in respect of the terms of Restructuring Proposal and the transactions contemplated thereunder, details of which are set out in the letter from the Liquidators (the "Letter from the Liquidators") contained in the circular of the Company dated 28 June 2011 to the Shareholders (the "Circular"), of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular have the same meanings in this letter.

On 27 May 2011, the Company announced the Restructuring Proposal in relation to the restructuring of the Group which involves, among other things, the Capital Restructuring, the Subscription, the Scheme, the Group Reorganisation, the Whitewash Waiver and the Special Deals.

The Restructuring Proposal is subject to a number of conditions as set out in the Circular including, but not limited to, the passing of the relevant resolutions at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 7 June 2011, the Company, the Liquidators and the Investor entered into the Subscription Agreement in respect of the subscription of the Subscription Shares and the Convertible Notes pursuant to the Restructuring Agreement.

No independent board committee will be formed to advise the Independent Shareholders as the independent non-executive Directors have never responded to the Liquidators' enquiries in respect of the affairs of the Company. We have been appointed to advise the Independent Shareholders in relation to the Restructuring Proposal, Whitewash Waiver and the Special Deals.

As the independent financial adviser to the Independent Shareholders, our role is to give an independent opinion to the Independent Shareholders as to whether the Restructuring Proposal, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; whether the terms of the Restructuring Proposal, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and whether the Independent Shareholders should vote in favour of the resolutions to approve the Restructuring Proposal, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder at the EGM.

II. BASIS AND ASSUMPTIONS

In formulating our opinion, we have relied solely upon the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Liquidators for which they are solely responsible, and to their information and knowledge, were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Liquidators contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Liquidators that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all available information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Liquidators, and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, conducted any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Restructuring Proposal, the Whitewash Waiver and the Special Deals, we have taken into consideration, inter alia, the following principal factors:

1. Background to and reasons for the Restructuring Proposal

1.1 Background to the Restructuring Proposal

The Group is principally engaged in the provision of financial services – currently comprising securities broking, share placing and underwriting, corporate finance, consulting and related services. The Group is also in the process of setting up a private equity fund. As at the Latest Practicable Date, MHS is the only operating subsidiary of the Company. Trading in the Shares has been suspended since 18 March 2008 upon the filing of the Petition against the Company. The trading in the Shares has remained suspended since that time pending the submission of a viable resumption proposal to the Stock Exchange.

On 18 March 2008, the High Court of Hong Kong granted a winding up order against the Company in respect of the Petition. Pursuant to the Order of the Court dated 14 January 2009, Messrs. Edward Simon Middleton and Patrick Cowley, both of KPMG, were appointed as the joint and several liquidators of the Company. The Company was placed in the second stage of the delisting procedures with effect from 20 February 2009 pursuant to Practice Note 17 to the Rules Governing the Listing Rules as the Company could not demonstrate to the satisfaction of the Stock Exchange that it met the requirements to warrant the continued listing of the Company's shares on the Stock Exchange as set out under Rule 13.24 of the Listing Rules. On 8 July 2010, the Company was placed in the third stage of the delisting procedures by the Stock Exchange.

On 14 July 2009, the Letter of Intent was jointly issued by the Investor and its ultimate beneficial owner, Mr. Ko, and accepted by the Liquidators to in respect of the restructuring of the Group. Pursuant to the Letter of Intent, the Investor agreed that it would negotiate in good faith with the Company with a view to completing the Restructuring Proposal. The Investor agreed to pay HK\$3 million to an escrow agent as a deposit (subject to it being refundable under certain conditions), in return

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

for the Investor being given an exclusive right to negotiate the detailed terms of the Restructuring Proposal with the Company in respect of the implementation of the Restructuring Proposal: (i) for a period of nine months from the date of the Letter of Intent; or (ii) until the Investor withdraws from the negotiations on the Restructuring Proposal, whichever is earlier. In addition, the Investor has agreed to be responsible for the costs of the Restructuring Proposal subject to certain limits and conditions. The Letter of Intent was subsequently amended by a second letter of intent dated 23 July 2010, a third letter of intent dated 17 December 2010 and a side letter dated 28 February 2011 to, among other things, extend the exclusive right for the Investor to negotiate the Restructuring Proposal during the exclusivity period.

As mentioned in the Letter from the Liquidators, the Group proposed to place before the Shareholders a proposal for the Group Reorganisation, which will involve, among other things, the transfer of all the Company's subsidiaries, other than the Remaining Subsidiaries, to a nominee of the Scheme Administrators for the benefit of the Scheme Creditors. It is expected that upon completion of the Group Reorganisation, the Group will consist of the Company and the Remaining Subsidiaries, while the Excluded Companies will be held by the nominee of the Scheme Administrators.

Based on the latest information available, as at the Latest Practicable Date, total Claims of the Scheme Creditors and the Preferential Creditors amounted to approximately HK\$115.44 million, and approximately HK\$0.12 million of the Claims are related to the Preferential Creditors. The Company does not have any Secured Creditors.

Upon Completion, all the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised and discharged in full in return for a cash payment of HK\$72 million, to be distributed in accordance with the terms of the Scheme funded by the Company out of the proceeds from the Subscription.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2 *Financial information of the Company*

Set out below is a summary of the financial results of the Group, for each of the two financial years ended 31 December 2009 and 2010 as extracted from “Financial information of the Group” set out in Appendix I to the Circular.

	As at or for	
	the year ended 31 December	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)
Total assets	107,778	68,481
Total liabilities	214,869	178,082
Net (current liabilities)	(107,639)	(109,731)
Total capital deficiency	(107,091)	(109,601)
Revenue	14,041	3,769
(Loss)/profit for the year attributable to owners of the Company	2,510	(12,822)

Financial years ended 31 December 2009 and 2010

As depicted from the table above, turnover for each of the two years ended 31 December 2009 and 2010 were approximately HK\$14.0 million and HK\$3.8 million, respectively. The Group suffered a loss of approximately HK\$12.8 million for the year ended 31 December 2009 while the profit for the year ended 31 December 2010 was approximately HK\$2.5 million. The loss for the year ended 31 December 2009 is mainly due to the low level of revenue of approximately HK\$3.8 million coupled with an increase in other operating expenses to approximately HK\$14.4 million. The return to profitability in 2010 is mainly due to (i) the increase in revenue in the Group's securities brokerage and securities underwriting and placements from approximately HK\$3.8 million in 2009 to HK\$13.7 million in 2010; and (ii) the decrease in other central administrative costs from approximately HK\$13.8 million in 2009 to HK\$8.1 million in 2010.

It was also noted that the Group had net current liabilities of approximately HK\$107.6 million as at 31 December 2010, mainly comprising (i) trade payables of approximately HK\$66.9 million; and (ii) loan payables of approximately HK\$60.1 million, decreased slightly from its net current liabilities of approximately HK\$109.7 million as at 31 December 2009.

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The Group had net liabilities as at 31 December 2009 and 2010 were approximately HK\$109.6 million and HK\$107.1 million, respectively.

It is noted that the financial statements of the Group do not include any adjustments which would result from a failure to complete the Resumption Proposal and to approve the Scheme by the Company's Scheme Creditors and the Court, other approvals to be obtained from shareholders, the High Court of Hong Kong and the Hong Kong regulatory authorities. As stated in the Independent Auditor's Report for the year ended 31 December 2010, if the Resumption Proposal could not be completed, further adjustments might have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. In view of the extent of the uncertainties relating to the completion of the Resumption Proposal as at the end of the reporting period, the auditors have disclaimed their opinion in respect of material uncertainty relating to the going-concern basis. As a result, the auditors do not express an opinion on the financial statements of the Group. Based on the above, without the implementation of the Resumption Proposal, we are of the view that the financial position of the Group might be further deteriorated with additional adjustments to be made as detailed above.

Independent Shareholders should note that the auditors do not express an opinion on the financial statements of the Group. In considering the fairness and reasonableness of the Restructuring Agreement, Independent Shareholders should also consider other factors including the reasons for and benefits of the Restructuring Proposal as detailed below.

1.3 Reasons for the Restructuring Proposal

As stated in the Letter from the Liquidators, the Company has been in financial distress since late 2007. The Petition was heard by the Court on 18 March 2008 and a winding-up order was made against the Company on the same day. On 14 January 2009, Messrs Edward Simon Middleton and Patrick Cowley, both of KPMG, were appointed as joint and several liquidators of the Company by the Court. Since the Company has little realisable assets, mainly bank balances, the Liquidators decided that some form of restructuring would provide the best return for the Scheme Creditors and the Shareholders. Accordingly, the Liquidators entered into discussions and negotiations with various potential investors with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange. The Liquidators are of the view that the Restructuring Proposal submitted by the Investor represents the best way forward for the Company, its Shareholders and its Scheme Creditors.

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The Restructuring Proposal will (amongst other things) result in the Company's capital being boosted, its debts being extinguished and the permanent stay of the winding-up order against the Company.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 2:54 p.m. on 18 March 2008. According to the announcement of the Company dated 4 April 2011, the Stock Exchange informed the Company that it has allowed the Group to proceed with the Resumption Proposal, subject to prior compliance with certain conditions to the satisfaction of the Listing Division. One of the conditions is the completion of the subscription of new shares and convertible notes by the Investor, the scheme of arrangement between the Company and its creditors and all transactions under the Resumption Proposal.

The Group generates income from the provision of brokerage services for securities and the placing and underwriting services, which are highly dependent on the performance of the securities market in Hong Kong. The equity securities market in Hong Kong has grown rapidly during the past few years. The number of listed companies on the Stock Exchange increased from 975 at the end of 2006 to 1,244 at the end of 2010. The average daily trading turnover value of securities listed on the Stock Exchange increased from approximately HK\$33.7 billion in 2006 to HK\$68.6 billion in 2010, representing a compound annual growth rate ("CAGR") of approximately 19.4%. Equity funds raised on the Stock Exchange also increased significantly from approximately HK\$516.0 billion in 2006 to HK\$845.5 billion in 2010, a CAGR of approximately 13.1%.

As mentioned in the Letter from the Liquidators, the Group faces a number of risks including (i) credit and settlement risks; and (ii) the requirement of high level of liquidity and capital.

The securities brokerage clients of the Group are required to settle their securities transactions within two trading days from the transaction day, failing which the Group will be required to settle the same on behalf of its client with HKSCC with its own funds.

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A licensed corporation shall at all times maintain paid-up share capital and liquid capital not less than the specified amounts according to the FRR. For MHS, the required paid-up share capital is HK\$5 million for its existing business activities (and HK\$10 million if it were to undertake other regulated activities including margin financing activities), and the required liquid capital is the higher of HK\$3 million or 5% of the aggregate of (a) its adjusted liabilities; (b) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and (c) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

Notwithstanding the continued growth of the equity securities market in Hong Kong in recent years, we are of the view that without the implementation of the Restructuring Proposal, the Group may have difficulty in obtaining the capital required to expand its business which requires a certain level of liquidity relative to the scale of business.

In light of the above, we are of the view that (i) the Restructuring Proposal will enable the Group to reach a settlement with its indebtedness in a formal and orderly manner so that, so far as the Company is concerned, all of the Company's indebtedness and liabilities (actual and contingent) will be released and discharged; (ii) the completion of the Restructuring Agreement would fulfil one of the conditions for the resumption of trading in the Shares, which is in the interests of the Company and the Shareholders as a whole.

2. The Restructuring Proposal

The Restructuring Proposal comprises, among other things, the Capital Restructuring, the Subscription, the Scheme and the Group Reorganisation.

2.1 The Capital Restructuring

Under the Capital Restructuring, the share capital of the Company will be restructured in the following manner:

- (a) Every 50 issued and unissued Shares of HK\$0.20 each will be consolidated into 1 Consolidated Share, as a result of which 1,543,507,296 issued Shares of HK\$0.20 each will be consolidated into 30,870,145 Consolidated Shares;

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- (b) The par value of each issued and unissued Consolidated Share will be reduced from HK\$10.00 each to HK\$0.01 each and the credit arising from such reduction will be applied to eliminate the accumulated losses of the Company;
- (c) The unissued share capital in the authorised share capital of HK\$400,000,000 will, after the Share Consolidation and the Capital Reduction having become effective, be cancelled and diminished resulting in an authorised and issued share capital of the Company becoming HK\$308,701.45; and
- (d) Immediately upon the Capital Cancellation becoming effective, the authorised share capital of the Company will be increased from HK\$308,701.45 to HK\$20,000,000 divided into 2,000,000,000 New Shares.

A credit amount of approximately HK\$308.4 million arising from the Capital Reduction will be applied in a manner as permitted by the Companies Ordinance and the memorandum and articles of association of the Company, including but not limited to setting off part of the accumulated losses of the Company.

The Capital Restructuring will become effective after (i) the Court's approval; and (ii) the passing of the requisite resolutions by the Shareholders at the EGM in accordance with the provisions of the memorandum and articles of association of the Company, the Companies Ordinance, the Listing Rules and other applicable laws and regulations.

It is noted that the Capital Restructuring, being one of the conditions precedent of the Restructuring Agreement, is necessary to enable the Restructuring Agreement to proceed. Hence the Capital Restructuring forms an integral part of the Restructuring Proposal. Further, the credit balance of approximately HK\$308.4 million arising from the Capital Reduction will reduce the accumulated losses recorded by the Company, in a manner as permitted by the Companies Ordinance and the memorandum and articles of association of the Company.

Taking into account the above, we are of the view that the Capital Restructuring is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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2.2 The Subscription

Under the Subscription Agreement, the Investor has agreed to subscribe for the following:

- (a) the Subscription Shares at the subscription price of HK\$0.62 each, representing a total consideration of HK\$79.5 million; and
- (b) the Convertible Notes with a principal amount of HK\$92.5 million convertible in full into 149,193,548 New Shares at an initial conversion price of HK\$0.62 per New Share. The Convertible Notes are non-interest bearing and non-redeemable, and have a fixed term of five years.

The Subscription Shares and the CN Shares shall rank *pari passu* with all other then issued New Shares and shall have the same voting, dividend and other rights attached or accruing thereto as from Completion (in relation to the Subscription Shares) and from the date of the conversion notice (in relation to the CN Shares). The Company will submit an application for the listing of, and permission to deal in, the Subscription Shares and the CN Shares.

The total consideration payable by the Investor in respect of the Subscription is HK\$172 million. The Investor has (i) advanced HK\$51.2 million for the costs and expenses in connection with the Restructuring Proposal and for the Group's working capital; and (ii) paid HK\$3 million to the escrow agent as a deposit upon signing of the Letter of Intent. These amounts will be off-set against the total consideration payable by the Investor upon Completion.

2.2.1 The subscription price

The subscription price of HK\$0.62 per Subscription Share (the "Subscription Price") represents:

- (a) a discount of approximately 88% to the theoretical quoted price of HK\$5 per New Share (the quoted price of HK\$0.10 per Share has been adjusted to reflect the proposed consolidation of every 50 Shares to 1 Consolidated Share pursuant to the Share Consolidation) on 18 March 2008, the last trading day before the suspension of trading in the Shares since 2:54 p.m. that day; and

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- (b) a premium of approximately HK\$4.09 over the audited consolidated net liabilities per New Share of HK\$3.47 as at 31 December 2010 (based on the audited consolidated net liabilities of the Group of approximately HK\$107,091,000 as at 31 December 2010 and 30,870,145 New Shares upon the Capital Restructuring becoming effective).

The subscription price of the Subscription Shares and the conversion price of the Convertible Notes were negotiated between the Liquidators and the Investor on an arm's length basis having taken into account, among other things, the following factors:

- the Company is currently in liquidation;
- the suspension of trading in the Shares since 18 March 2008; and
- the net deficiency in assets position of the Group.

Following the suspension of trading of the Shares, the Company announced announcements relating to the winding up of the Company. Therefore, the comparison of the Subscription Price with the quoted price of the Shares prior to suspension of trading is not appropriate. The more meaningful comparison would be with the Company's financial position, which is net liabilities of approximately HK\$3.47 per New Share.

Given (i) the Group has only made a profit of approximately HK\$2.5 million for the year ended 31 December 2010 and was operating at losses before 2010; (ii) the significant net liabilities of the Company as at 31 December 2010; (iii) the urgent need to satisfy the Company's financial obligations; (iv) the business outlook of the Group and the uncertainty as to its business prospects without the Restructuring Proposal as stated in the section "1.3 Reasons for the Restructuring Proposal" above; and (v) the Subscription, being an efficient way for the Company to raise capital so as to discharge or waive; or compromise and discharge the Claims in a timely manner and at the same time to enlarge the share capital and shareholder base of the Company, we concur with the view of the Liquidators that the Subscription, including the Subscription Price and the conversion price of the Convertible Notes, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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2.3 The Group Reorganisation

Upon Completion, all the issued shares of the Excluded Companies will be transferred to a nominee of the Scheme Administrators for the benefit of the Scheme Creditors at a nominal consideration of HK\$1.00 and any guarantee or indemnity given by the Company in respect of the obligations or liabilities of each of the Excluded Companies shall be released and discharged in full upon such transfer.

As a result, the Excluded Companies will cease to be subsidiaries of the Company and their assets, liabilities and results will not be consolidated in the financial statements of the Group after Completion. The Company estimated that it will recognise a gain of approximately HK\$40,000, being the difference between the consideration of HK\$1.00 and the deficiency in net assets of the Excluded Companies (net of amounts due to the Company).

The purpose of the Group Reorganisation is to facilitate the implementation of the Scheme so that all Claims can be discharged or waived; or compromised and discharged. Upon completion of the Group Reorganisation, the Excluded Companies will cease to be subsidiaries of the Company.

It is expected that upon completion of the Group Reorganisation, the Group will consist of the Company and the Remaining Subsidiaries which are principally engaged in the provision of financial services – currently comprising securities broking, share placing and underwriting, corporate finance, consulting and related services, while the Excluded Companies will be held by a nominee of the Scheme Administrators for the benefit of the Scheme Creditors.

2.3.1 Remaining Subsidiaries

The Group is principally engaged in the provision of financial services – currently comprising securities broking, share placing and underwriting, corporate finance, consulting and related services. The Group is also in the process of setting up a private equity fund.

After Completion, the Company will retain the ownership of the Remaining Subsidiaries. It is the intention of the Investor that following Completion, the Remaining Subsidiaries will continue with its existing principal activities of the provision of financial services.

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2.3.2 The Excluded Companies

We understand that the Excluded Companies are all dormant companies. The Excluded Companies have a net deficiency of asset, net of amounts due to the Company.

Upon Completion, the Excluded Companies will cease to be subsidiaries of the Company and the Company will no longer hold any interest in the Excluded Companies.

2.4 The Scheme

As set out in the Letter from the Liquidators, the principal terms of the Scheme shall be substantially as follows:

As at the Latest Practicable Date, the total Claims of the Scheme Creditors and Preferential Creditors amounted to approximately HK\$115.44 million and approximately HK\$0.12 million was related to the Preferential Creditors. The Company does not have any Secured Creditors.

Upon Completion, all the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised and discharged in full in return for a cash payment of HK\$72 million to be distributed in accordance with the terms of the Scheme funded by the Company out of the proceeds from the Subscription. The Company estimates that it will recognise a gain of approximately HK\$31.71 million, being the Company's indebtedness to be discharged under the Scheme of HK\$103.71 million (based on the Company's books and records) less the cash payment of HK\$72 million, in the Company's statement of comprehensive income for the year ending 31 December 2011.

As (i) it is necessary for the Company to implement measures to repay or restructure its outstanding indebtedness given its financial difficulties; (ii) the Excluded Companies are all dormant companies; (iii) the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised and discharged in full in return for a cash payment of HK\$72 million, to be distributed in accordance with the terms of the Scheme; and (iv) the Company estimates that it will recognise a gain of approximately HK\$31.71 million following the Scheme becoming effective, we are of the view that the Scheme is in the interests of the Company and the Shareholders as a whole.

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2.4.1 Use of proceeds

As set out in the Letter from the Liquidators, the aggregate cash proceeds from the Subscription of HK\$172 million shall be applied as follows:

- (a) HK\$72 million to be paid to the Scheme Creditors under the Scheme to be distributed in accordance with the terms of the Scheme, including but not limited to, the discharge and compromise of the Company's indebtedness;
- (b) HK\$20 million as funding for the costs and expenses in connection with the Restructuring Proposal, of which HK\$12.5 million has already been financed by the Investor; and
- (c) HK\$80 million to finance the regulatory and general working capital as well as infrastructure investment for the Group, of which HK\$38.7 million has already been financed by the Investor.

2.4.2 Shareholding structure of the Company

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and the structure after Completion:

	Existing		Immediately upon Completion and before the Place Down		Immediately upon Completion, after the Place Down and before conversion of the Convertible Notes		Immediately upon Completion, after the Place Down and full conversion of the Convertible Notes	
	No. of Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%
Investor and parties acting in concert (including CCT)	-	-	128,225,806	80.60%	119,225,806	74.94%	268,419,354	87.07%
Lu Ruifeng and his associates (Note 1)	712,889,808	46.19%	14,257,796	8.96%	14,257,796	8.96%	14,257,796	4.62%
Evans Carrera Lowe and his associates (Note 2)	184,900,000	11.98%	3,698,000	2.32%	3,698,000	2.32%	3,698,000	1.20%
Other existing shareholders	645,717,488	41.83%	12,914,349	8.12%	12,914,349	8.12%	12,914,349	4.19%
Independent placees	-	-	-	-	9,000,000	5.66%	9,000,000	2.92%
Total	1,543,507,296	100.00%	159,095,951	100.00%	159,095,951	100.00%	308,289,499	100.00%

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Notes:

- (1) According to the disclosure of interests filing dated 28 December 2007 published on the website of the Stock Exchange, Mr. Lu Ruifeng was interested in 712,889,808 Shares comprising (i) 1,389,808 Shares held by Asia TeleMedia Holdings Limited, the entire issued share capital of which was wholly owned by Mr. Lu Ruifeng; (ii) 693,725,000 Shares held by China United Telecom Limited, 35% of the issued share capital of which was held by Asia TeleMedia Holdings Limited; and (iii) 17,775,000 Shares held by Transmedia Asia Limited, which was a wholly-owned subsidiary of China United Telecom Limited. In addition, according to the abovementioned disclosure of interests filing, Mr. Lu Ruifeng was also interested in cash settled options that represented 1,500,000 Shares. These options have lapsed and the exercise period of these options has expired on 27 December 2010. Mr. Lu Ruifeng is the chairman of the Company and an executive Director.
- (2) According to the disclosure of interests filing dated 30 October 2007 published on the website of the Stock Exchange, Mr. Evans Carrera Lowe was interested in 184,900,000 Shares of which 147,000,000 Shares were held through High Reach Assets Limited, the entire issued share capital of which was wholly owned by Mr. Lowe. Mr. Lowe is a former Director.

In order to restore the public float, the Investor will engage a placing agent to place not less than 9,000,000 New Shares from the Investor to independent third parties immediately after completion of the issue of the Subscription Shares.

2.4.3 Effects on the shareholding of existing Shareholders

We noted that the Liquidators entered into discussions and negotiations with various potential investors with a view to restructuring the Company and considered the Restructuring Proposal to be the best way forward for the Company, its Shareholders and its Scheme Creditors. Those proposals submitted to the Liquidators, including the Restructuring Proposal, represent the only viable and relevant options available to the Liquidators at the material time. As mentioned in the section “2.4.2 Shareholding structure of the Company” above, the shareholding of the Investor and parties acting in concert with it (including CCT) in the Company immediately upon Completion, after the Place Down and full conversion of the Convertible Notes would be 268,419,354 New Shares, representing approximately 87.07% of the shareholding in the Company. The shareholding of existing Shareholders would reduce from 100% of shareholding in the Company to approximately 10.01%. Notwithstanding the dilution, after taking into consideration of various factors, including but not limited to, the current financial difficulties faced by the Group, the Subscription being part and parcel of the Restructuring Proposal, we are of the view that the extent of dilution to the Independent Shareholders, as a result of the Subscription, is acceptable so far as the Independent Shareholders are concerned.

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In formulating our view in respect of the Restructuring Proposal, we did not consider the restructuring proposals of other long-suspended companies that have resumed trading on the Stock Exchange. The circumstances faced by various long-suspended companies, including but not limited to, the reason for the suspension, industry of the respective companies, scale of operations, level of debt and market conditions at the time of suspension/resumption, vary across different companies. Therefore, we consider that the terms of the restructuring proposals of other long-suspended companies will not affect our overall analysis of the terms of the Restructuring Proposal.

3. Whitewash Waiver

As at the Latest Practicable Date, the Investor and parties acting in concert with it (including CCT Asset Management) did not hold any Shares. Upon Completion, the Investor and parties acting in concert with it (including CCT Asset Management) will be interested in 128,225,806 New Shares, representing approximately 80.60% of the enlarged issued ordinary share capital of the Company and will hold the Convertible Notes which based upon the initial conversion price of HK\$0.62 per CN Share (subject to adjustment) would result in the issue of 149,193,548 CN Shares upon full conversion. If the Convertible Notes are converted in full, the shareholding of the Investor and its concert parties in the Company will increase to 87.07% after the Place Down of 9,000,000 New Shares. In the absence of the Whitewash Waiver, the Investor would be required to make an unconditional mandatory general offer for all the New Shares not already owned or agreed to be acquired by the Investor or parties acting in concert with it (including CCT Asset Management). The Investor has made an application to the Executive for the Whitewash Waiver, the granting of which will be subject to, among others, the approval of Independent Shareholders by way of poll at the EGM.

As set out in the Letter from the Liquidators, Completion is conditional upon, among other things, the approval of the Whitewash Waiver by the Independent Shareholders by way of poll at the EGM and the Whitewash Waiver having been granted by the Executive to the Investor.

If conditions precedent, including but not limited to, Whitewash Waiver being granted by the Executive and approval obtained by the Independent Shareholders, are not fulfilled, the Restructuring Agreement will not become unconditional and the Restructuring Agreement shall be terminated.

Given that the Restructuring Proposal is in the interests of the Company and the Shareholders as a whole and that the approval of the Whitewash Waiver is one of the conditions precedent of the Restructuring Agreement, we are of the view that the Whitewash Waiver is fair and reasonable.

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4. Special Deals

As at the Latest Practicable Date, there are three Scheme Creditors with an aggregate claim of approximately HK\$23.02 million who are also Shareholders. These Interested Shareholders would receive payments under the Scheme if their claims are admitted by the Scheme Administrators. Under the Group Reorganisation, the issued shares of the Excluded Companies will be transferred to the Scheme Administrators and any net cash realised from the Excluded Companies and their assets will be distributed to the Scheme Creditors under the terms of the Scheme as part of the settlement of the claims of the Scheme Creditors. This arrangement is not extended to other Shareholders who do not have an admitted Claim against the Company. Therefore, the implementation of the Scheme and the Group Reorganisation constitute Special Deals under Note 5 to Rule 25 of the Takeovers Code, and requires the consent of the Executive. An application has been made to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Scheme and the Group Reorganisation.

The terms of the Scheme will be proposed by the Liquidators to the Scheme Creditors (including those who are not Shareholders), which will be subject to approval by the Scheme Creditors at the Scheme Creditors' meeting. We understand that Preferential Creditors are those creditors who have Preferential Claims. We also understand that one of the three Scheme Creditors is a former employee of the Group who has submitted a Preferential Claim against the Company. All the Scheme Creditors who are not Preferential Creditors will receive the same amount of reduction proportion in their respective claims, while all the Preferential Creditors are expected to be repaid in full.

The Interested Shareholders, their associates and parties acting in concert with any of them and those Shareholders involved in or interested in the Restructuring Agreement, the Subscription Agreement and transactions contemplated thereunder, the Whitewash Waiver and the Special Deals shall abstain from voting for the resolutions in respect of the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deals.

Taking into account (i) the implementation of the Scheme is part of the Restructuring Proposal; (ii) all Claims against the Company will be compromised and charged under the Scheme; and (iii) the amount owed to the three Scheme Creditors who are also Shareholders will be settled on the same basis as other Scheme Creditors (other than the Shareholder who is a Preferential Creditor, who will be settled on the same basis as other Preferential Creditors) under the Scheme, we are of the view that the settlement terms are arm's length transactions on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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5. Financial effects of the Restructuring Proposal

5.1 Net assets

According to the unaudited pro forma consolidated statement of financial position of the Group set out in Appendix II to the Circular, assuming the Capital Restructuring, the Subscription and the Group Reorganisation had been completed and the Scheme had been effective on 31 December 2010, the Group's financial position would improve from net liabilities of approximately HK\$107.1 million to net assets of approximately HK\$91.7 million, which would mainly be attributable to the combined effect of the proceeds from the Subscription and Convertible Notes, the Scheme becoming effective and the entire interests in the Excluded Companies being transferred to a nominee of the Scheme Administrators. In view of such substantial improvement in the net assets of the Group, we are of the view that the Restructuring Proposal is in the interests of the Company and the Shareholders as a whole.

5.2 Indebtedness

Based on the latest information available, as at the Latest Practicable Date, the total Claims of the Scheme Creditors and Preferential Creditors amounted to approximately HK\$115.44 million, approximately HK\$0.12 million was related to the Preferential Claims. In view of the Company's financial difficulties, we understand from the Liquidators that, in absence of the Restructuring Proposal, the Company would not be in a position to repay all its outstanding indebtedness.

As noted in the Letter from the Liquidators, upon Completion, all the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised and discharged in full in return for a cash payment of HK\$72 million, which is to be distributed in accordance with the terms of the Scheme funded by the Company out of the proceeds of the Subscription. The Company estimates that it will recognise a gain of approximately HK\$31.71 million, being the Company's indebtedness to be discharged under the Scheme of HK\$103.71 million (based on the Company's books and records) less the cash payment of HK\$72 million, in the Company's statement of comprehensive income for the year ending 31 December 2011. Accordingly, we consider that the Restructuring Proposal will be able to lessen the significant indebtedness of the Group.

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5.3 Working capital

As set out in Appendix I to the Circular, the Group had bank balances (general accounts) and cash of approximately HK\$36.9 million and net current liabilities of approximately HK\$107.6 million as at 31 December 2010, which demonstrated the severe liquidity problem the Group faced.

Based on the unaudited pro forma consolidated statement of financial position of the Group as set out in Appendix II to the Circular, assuming that the Restructuring Proposal took place on 31 December 2010, the Remaining Group would have cash and bank balances (general accounts) and cash of approximately HK\$89.8 million and its net current liabilities would improved to a net current assets of approximately HK\$91.2 million.

As set out in Appendix I to the Circular, the Liquidators are of the opinion that, in the absence of unforeseen circumstances, after taking into account the financial resources available to the Group (including internally generated funds and the available banking facilities) and the net proceeds from the Subscription, the Group will have sufficient working capital for the twelve months from the date of the circular and from the date of resumption of trading in the New Shares.

6. Future prospects of the Group

As stated in the Letter from the Investor, it is the intention of the Investor to continue and expand the Group's existing businesses in the provision of financial services. The Investor's overall vision and plan for the Group is for it to develop further into a Hong Kong-based global financial powerhouse that will serve as a bridge between Chinese and Asian companies and their investors and Western counterparts. The Investor may seek to expand the Group's operations to encompass the provision of additional financial services related business, including expanding the Group's broking activities into overseas markets, expanding into the provision of equity derivatives give-up business, futures and options brokerage, wealth management, proprietary trading, direct investment, asset management, mezzanine financing, margin financing and money lending.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group is in the process of recruiting an established and successful high calibre institutional sales trading team who are expected to bring to the Group access to significant deal flow in securities trading, placings and underwriting transactions. Some or all of these people will join the existing members of the Group's senior management team. As an incentive, Mr. Ko is planning to offer some or all of the Group's senior management team equity interests in the Investor of an amount of up to 25% in aggregate of the share capital of the Investor. This group of individuals, who may obtain an equity interest in the Investor, are not Shareholders. In addition, the Group plans to recruit additional staff in the corporate finance, research, support services and middle office functions to support the Group's growth. In order to cope with the Group's business expansion, new and larger offices have been leased and the Group has relocated to the new office from 3 May 2011.

In November 2010, the immediate holding company of the Investor and CCT Asset Management entered into a cooperation framework agreement. CCT Asset Management is principally engaged in managing and operating state-owned assets and is wholly-owned by CCT Group. CCT Group was established in 1992 and is a state-owned enterprise managed by SASAC. CCT Group is principally engaged in asset management and operation, warehousing and logistics service, material distribution and paper making industry. CCT Group manages more than one hundred enterprises, including five listed companies (i) Zhongchu Development Stock Co. Ltd. (中儲發展股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600787); (ii) Foshan Huaxin Packaging Co., Ltd. (佛山華新包裝股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 200986); (iii) China Chengtong Development Group Ltd. (中國誠通發展集團有限公司), the shares of which are listed on the Stock Exchange (stock code: 217); (iv) Guangdong Guan hao High-Tech Co., Ltd. (廣東冠豪高新技術股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600433); and (v) Yueyang Paper Co., Ltd. (岳陽紙業股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600963).

Under the cooperation framework agreement, the Group will be offered priority to provide consulting, financial advisory and corporate finance services in respect of asset restructuring, merger and acquisition, industry chain integration and public listing coordinating of assets managed by CCT Asset Management. CCT Asset Management will also refer to the Group similar corporate finance business in respect of the PRC central or

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

municipal governments thereby creating deal flow for the Group. In addition, CCT Asset Management and the Group have begun work to establish a new joint venture based in Beijing with an equity investment of RMB10 million to advise CCT Group in respect of the reorganisation and the restructuring of non-core and non-performing assets. The new joint venture will be 51% and 49% owned by the Group and CCT Asset Management respectively. Upon resumption of trading in the Shares, CCT Asset Management will pay HK\$34.4 million to the Investor to acquire 20% of the share capital in the Investor. CCT Asset Management is not a Shareholder.

Both the Company and the Investor do not have any present agreement, arrangement, negotiation and/or plan to carry out any other principal businesses other than securities broking, placing and underwriting, corporate finance, consulting and the financial services related business as detailed in the Letter from the Investor within 24 months after resumption of trading in the Shares. The Investor has no intention to redeploy any fixed assets of the Group and the Investor intends to continue employment of the employees of the Group.

Apart from the proposed acquisition of a 20% shareholding interest in the Investor by CCT Asset Management and the proposed offer of shares in the Investor to the Group's senior management team, the Investor and its beneficial owner have no intention or plan to dispose of its controlling interests in the Company within 24 months after resumption of trading in the Shares, except for the Place Down with a view to maintaining the public float requirement under the Listing Rules.

IV RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, in particular that,

- (i) the Group Reorganisation and the Scheme will enable the Group to deal with its Claims in a formal and orderly manner which is essential to the Group's survival given its existing financial difficulties;
- (ii) the completion of the Restructuring Agreement would fulfil one of the conditions for the resumption of trading in the Shares;
- (iii) upon Completion, all of the Company's Claims will be compromised and discharged;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) the Scheme Creditors who are also Shareholders received the same settlement treatment as other Scheme Creditors and the Preferential Creditor who is also a Shareholder received the same settlement treatment as other Preferential Creditors; and
- (v) the future prospects of the Group,

we consider that the terms of the Restructuring Proposal, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder are arm's length transactions on normal commercial terms and are fair and reasonable and the Restructuring Proposal, the Whitewash Waiver, the Special Deals and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Restructuring Proposal, the Whitewash Waiver and the Special Deals.

Yours faithfully,

For and on behalf of

Investec Capital Asia Limited

Ambrose Lam

Chief Executive Officer

Jimmy Chung

Executive Director

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated income statements and consolidated statements of financial position of the Group for the years ended 31 December 2008, 2009 and 2010, details of which were extracted the annual reports of the Company for each of the years ended 31 December 2008, 2009 and 2010.

The financial statements for the three years ended 31 December 2010 were audited by Graham H.Y. Chan & Co. Disclaimer of opinions were issued by the auditors of the Company in relation to each of the financial years. A brief summary of the audit qualification is set out below:

Completeness of information

The winding-up order against the Company was granted on 18 March 2008 and the Liquidators were appointed on 14 January 2009. The Liquidators only have access to the books and records of the Company which were left behind by the directors and management of the Company for the purpose of preparing the financial statements. In consequence, the auditors of the Company were unable to carry out necessary auditing procedures regarding the assets, liabilities, income and expenses appearing in the financial statements. There were no satisfactory auditing procedures that the auditors could adopt to ensure the accuracy and completeness of the assets, liabilities, income and expenses of the Company and of the Group, and the adequacy of disclosures.

Loss of accounting records

The financial statements contain financial information of the Group's representative offices in Beijing and Shenzhen. The PRC representative offices have been closed and the accounting records could not be retrieved. The auditors of the Company were unable to carry out satisfactory audit procedures that they considered necessary regarding the assets and liabilities on the PRC representative office.

Directors' emoluments

The auditors of the Company were not able to carry out auditing procedures necessary to obtain adequate assurance regarding directors' emoluments.

Prior year audit scope limitation affecting opening balances

The auditor's reports on the financial statements were qualified about limitation of audit scope for the above items. Any adjustments to the comparative figures may have a consequential effect on the opening balance of accumulated losses, and the net profit/loss, where appropriate.

Material uncertainty relating to the going concern basis

The Group had incurred a net loss in 2008 and 2009, had net current liabilities and had net liabilities in 2008, 2009 and 2010. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The financial statements have been prepared on a going concern basis on the assumption that the Resumption Proposal will be successfully completed. The auditors of the Company disclaimed their opinion on material uncertainty relating to the going concern basis in view of the extent of the uncertainties about completion of the Resumption Proposal.

For each of the three years ended 31 December 2010, no dividend was declared or paid.

There are no items which are exceptional because of size, nature or incidence, as recorded by the Group for the three years ended 31 December 2010.

The Group did not record any non-controlling interests for each of the three years ended 31 December 2010, all profit/(loss) of the Group for each of the three years ended 31 December 2008, 2009 and 2010 was attributable to owners of the Company.

Consolidated Income Statements

	For the year ended 31 December		
	2010	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	14,041	3,769	3,877
Other operating income	348	270	606
Staff costs	(3,454)	(2,369)	(4,787)
Write-off of bank balances	–	–	(10,903)
Other operating expenses	(8,166)	(14,422)	(8,254)
Finance costs	(259)	(70)	(1,536)
Profit/(loss) before tax	2,510	(12,822)	(20,997)
Income tax	–	–	–
Profit/(loss) for the year	<u>2,510</u>	<u>(12,822)</u>	<u>(20,997)</u>
Basic earnings/(loss) per share	<u>0.16 cents</u>	<u>(0.83) cents</u>	<u>(1.36) cents</u>

Consolidated Statements of Financial Position

	As at 31 December		
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Assets and liabilities			
Non-current assets	548	530	992
Current assets	<u>107,230</u>	<u>67,951</u>	<u>40,194</u>
Total assets	107,778	68,481	41,186
Current liabilities	(214,869)	(177,682)	(136,465)
Non-current liabilities	<u>–</u>	<u>(400)</u>	<u>(1,500)</u>
Total liabilities	(214,869)	(178,082)	(137,965)
Total capital deficiency	<u><u>(107,091)</u></u>	<u><u>(109,601)</u></u>	<u><u>(96,779)</u></u>

2. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 December 2008. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 December 2008.

Extract of Independent Auditor's Report for the year ended 31 December 2008

We were engaged to audit the consolidated financial statements of Asia TeleMedia Limited (in Liquidation) (the "Company") set out on pages 7 to 61, which comprise the consolidated and the Company's balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Appointment of the Joint and Several Liquidators

A winding-up petition against the Company was filed on 5 June 2007, and a winding-up order was made by the High Court of Hong Kong (the "Court") on 18 March 2008. The trading in the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 18 March 2008. Messrs Edward Simon Middleton and Patrick Cowley were appointed as the Joint and Several Liquidators of the Company (the "Liquidators") on 14 January 2009, pursuant to an Order of the Court. Further explained in note 2 to the financial statements, the Liquidators have been obliged to prepare these financial statements on the basis of the books and records which came into their possession following their appointment.

Auditor's responsibility

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

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the “Basis for disclaimer of opinion” below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

1. Prior year audit scope limitations affecting opening balances

The auditor’s report on the consolidated financial statements for the year ended 31 December 2007 were also qualified in respect of limitations of audit scope similar to those described in sub-paragraphs (2) to (4) below. Any adjustments to these comparative amounts may have a consequential effect on the balance of accumulated losses of the Group and the Company as at 1 January 2008, the loss for the year ended 31 December 2008 and related disclosures in these financial statements. The specific balances written off in prior year where we could not carry out satisfactory auditing procedures are as follows:

- Write off of property, plant and equipment amounting to approximately HK\$694,000;
- Write off of a deposit with an agency of approximately HK\$28,880,000; and
- Write off of a sundry deposit of approximately HK\$254,000.

2. Completeness of information

A winding-up order was made against the Company on 18 March 2008 and the Liquidators were appointed on 14 January 2009. The Liquidators only have access to the books and records of the Company that were left behind by the directors and management of the Company for the purpose of preparing the consolidated financial statements. In consequence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements. There were no satisfactory audit procedures that we could adopt to obtain sufficient appropriate audit evidence regarding the accuracy and completeness of the assets, liabilities, income and expenses of the Company and of the Group, and the adequacy of disclosures in these financial statements.

3. *Loss of accounting records*

The consolidated financial statements and the financial statements of the Company contain financial information of the representative offices located in Beijing and Shenzhen (the “PRC representative offices”). The PRC representative offices were closed and the accounting records could not be retrieved. As a consequence, we were unable to obtain all information that we required in relation to our audit and were also unable to carry out other satisfactory auditing procedures that we considered necessary to obtain adequate assurance regarding the assets and liabilities of the PRC representative offices of approximately HK\$ nil and HK\$1,936,000 respectively and the loss contributed by the PRC representative offices for the year of approximately HK\$10,903,000, and the adequacy of disclosures in these financial statements. The specific balances that we could not carry out satisfactory auditing procedures are as follows:

- Write off of bank balance (general account) of approximately HK\$10,903,000 in current year; and
- Other payables and accrued charges of approximately HK\$1,936,000.

Any adjustments to the above balances would affect the net liabilities of the Group and the Company as at 31 December 2008 and the loss for the year then ended.

4. *Directors’ emoluments*

We were unable to carry out auditing procedures necessary to obtain adequate assurance regarding directors’ emoluments of HK\$794,000 as set out in note 10 to the financial statements. This is not in accordance with the requirements of Section 161A of the Hong Kong Companies Ordinance.

Material uncertainty relating to the going concern basis

As explained in note 2 to the financial statements, the Company submitted a resumption proposal on 17 December 2010 (updated on 25 March 2011) and subsequently amended by a written submission to the Stock Exchange on 31 March 2011 (together the “Resumption Proposal”). By a letter dated 1 April 2011, the Stock Exchange informed the Company that it has allowed to proceed with the Resumption Proposal, subject to prior compliance with the conditions to the satisfaction of Listing Division within six months from the date of the Stock Exchange’s letter. These conditions are explained in note 2 to the financial statements.

As at 31 December 2008, the Group and the Company had incurred a consolidated loss attributable to equity holders of the Company of approximately HK\$20,997,000 and HK\$17,203,000 respectively, had net current liabilities of approximately HK\$96,271,000 and HK\$106,172,000 respectively and had deficiency of shareholders' funds of approximately HK\$96,779,000 and HK\$100,867,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis on the assumption that the Resumption Proposal will be successfully completed and that in the foreseeable future and the financial position of the Group will be substantially improved as all liabilities of the Company will be discharged through the implementation of a scheme to be proposed by the Company under Section 166 of the Companies Ordinance of Hong Kong (the "Scheme").

The financial statements do not include any adjustments which would result from a failure to complete the Resumption Proposal and to approve the Scheme by the Company's Scheme Creditors and the Court; and other approvals to be obtained from shareholders, the Court and the Hong Kong regulatory authorities.

If the Resumption Proposal could not be completed, further adjustments might have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. We consider that appropriate disclosures have been made accordingly. However, in view of the extent of the uncertainties relating to the completion of the Resumption Proposal as at the balance sheet date, we disclaim our opinion in respect of material uncertainty relating to the going concern basis.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the "Basis for disclaimer of opinion" above and the "Material uncertainty relating to the going concern basis" as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2008 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Report on matters under Sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work set out in the basis for disclaimer of opinion paragraph of this report:

- We have not obtained all the information and explanations that we considered necessary for the purpose of our audit;
- We were unable to determine whether proper books of accounts have been kept; and
- We have not received proper returns adequate for our audit from representative offices not visited by us.

3. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 December 2009. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 December 2009.

Extract of Independent Auditor's Report for the year ended 31 December 2009

We were engaged to audit the consolidated financial statements of Asia TeleMedia Limited (in Liquidation) (the "Company") set out on pages 7 to 59, which comprise the consolidated and Company's statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Appointment of the Joint and Several Liquidators

A winding-up petition against the Company was filed on 5 June 2007, and a winding-up order was made by the High Court of Hong Kong (the “Court”) on 18 March 2008. The trading in the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has been suspended since 18 March 2008. Messrs Edward Simon Middleton and Patrick Cowley were appointed as the Joint and Several Liquidators of the Company (the “Liquidators”) on 14 January 2009, pursuant to an Order of the Court. Further explained in note 2 to the financial statements, the Liquidators have been obliged to prepare these financial statements on the basis of the books and records which came into the possession following their appointment.

Auditor’s responsibility

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

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the “Basis for disclaimer of opinion” below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion***1. Prior year audit scope limitations affecting opening balances***

The auditor’s report on the consolidated financial statements for the year ended 31 December 2008 were also qualified in respect of limitations of audit scope similar to those described in sub-paragraphs (2) to (4) below. Any adjustments to these comparative amounts may have a consequential effect on the balance of accumulated losses of the Group and the Company as at 1 January 2009, the loss for the year ended 31 December 2009 and related disclosures in these financial statements. In prior year, we could not carry out satisfactory auditing procedures in respect of write off of bank balance (general account) of approximately HK\$10,903,000 in relation to the loss of accounting records discussed in sub-paragraph (3) below.

2. *Completeness of information*

A winding-up order was made against the Company on 18 March 2008 and the Liquidators were appointed on 14 January 2009. The Liquidators only have access to the books and records of the Company that were left behind by the directors and management of the Company for the purpose of preparing the consolidated financial statements. In consequence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements. There were no satisfactory audit procedures that we could adopt to obtain sufficient appropriate audit evidence regarding the accuracy and completeness of the assets, liabilities, income and expenses of the Company and of the Group, and the adequacy of disclosures in these financial statements.

3. *Loss of accounting records*

The consolidation financial statements and the financial statements of the Company contain financial information of the representative offices located in Beijing and Shenzhen (the “PRC representative offices”). The PRC representative offices were closed and the accounting records could not be retrieved. As a consequence, we were unable to obtain all information that we required in relation to our audit and were also unable to carry out other satisfactory auditing procedures that we considered necessary to obtain adequate assurance regarding assets, liabilities and profit or loss contributed by the PRC representative offices for the year and the adequacy of disclosures in these financial statements. In the current year, no amount is contributed from assets and profit or loss of the PRC representative offices. Liabilities contributed by the PRC representative offices amounting to HK\$1,936,000 have been included in other payables and accrued charges in the financial statements, of which we could not carry out satisfactory auditing procedures in the current year.

Any adjustments to the above balances would affect the net liabilities of the Group and the Company as at 31 December 2009 and the loss for the year then ended.

4. *Directors’ emoluments*

We were unable to carry out auditing procedures necessary to obtain adequate assurance regarding directors’ emoluments as set out in note 10 to the financial statements. This is not in accordance with the requirements of Section 161A of the Hong Kong Companies Ordinance.

Material uncertainty relating to the going concern basis

As explained in note 2 to the financial statements, the Company submitted a resumption proposal on 17 December 2010 (updated on 25 March 2011) and subsequently amended by a written submission to The Stock Exchange on 31 March 2011 (together the “Resumption Proposal”). By a letter dated 1 April 2011, the Stock Exchange informed the Company that it has allowed to proceed with the Resumption Proposal, subject to prior compliance with the conditions to the satisfaction of Listing Division within six months from the date of the Stock Exchange’s letter. These conditions are explained in note 2 to the financial statements.

As at 31 December 2009, the Group and the Company had incurred a consolidated loss attributable to owners of the Company of approximately HK\$12,822,000 and HK\$11,510,000 respectively, had net current liabilities of approximately HK\$109,731,000 and HK\$117,632,000 respectively and had deficiency of shareholders’ funds of approximately HK\$109,601,000 and HK\$112,377,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis on the assumption that the Resumption Proposal will be successfully completed and that in the foreseeable future and the financial position of the Group will be substantially improved as all liabilities of the Company will be discharged through the implementation of a scheme to be proposed by the Company under Section 166 of the Companies Ordinance of Hong Kong (the “Scheme”).

The financial statements do not include any adjustments which would result from a failure to complete the Resumption Proposal and to approve the Scheme by the Company’s Scheme Creditors and the Court; and other approvals to be obtained from shareholders, the Court and the Hong Kong regulatory authorities.

If the Resumption Proposal could not be completed, further adjustments might have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. We consider that appropriate disclosures have been made accordingly. However, in view of the extent of the uncertainties relating to the completion of the Resumption Proposal as at the end of the reporting period, we disclaim our opinion in respect of material uncertainty relating to the going concern basis.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the “Basis for disclaimer of opinion” above and the “Material uncertainty relating to the going concern basis” as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2009 and of the Group’s results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Report on matters under Sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work set out in the basis for disclaimer of opinion paragraph of this report:

- We have not obtained all the information and explanations that we considered necessary for the purpose of our audit;
- We were unable to determine whether proper books of accounts have been kept; and
- We have not received proper returns adequate for our audit from representative offices not visited by us.

4. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Set out below is the auditor's report extracted from the annual report of the Company for the year ended 31 December 2010. In this section, reference to the page numbers are those appeared in the annual report of the Company for the year ended 31 December 2010.

Extract of Independent Auditor's Report for the year ended 31 December 2010

We were engaged to audit the consolidated financial statements of Asia TeleMedia Limited (in Liquidation) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 7 to 59, which comprise the consolidated and the Company's statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Appointment of the Joint and Several Liquidators

A winding-up petition against the Company was filed on 5 June 2007, and a winding-up order was made by the High Court of Hong Kong (the "Court") on 18 March 2008. The trading in the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 18 March 2008. Messrs Edward Simon Middleton and Patrick Cowley were appointed as the Joint and Several Liquidators of the Company (the "Liquidators") on 14 January 2009, pursuant to an Order of the Court. Further explained in note 2 to the financial statements, the Liquidators have been obliged to prepare these financial statements on the basis of the books and records which came into their possession following their appointment.

Auditor's responsibility

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

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatements. Because of the matter described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

1. Prior year audit scope limitations affecting opening balances

The auditor's report on the consolidated financial statements for the year ended 31 December 2009 were also qualified in respect of limitations of audit scope similar to those described in sub-paragraphs (2) to (4) below. Any adjustments to these comparative amounts may have a consequential effect on the balance of accumulated losses of the Group and the Company as at 1 January 2010, the profit for the year ended 31 December 2010 and related disclosures in these financial statements.

2. Completeness of information

A winding-up order was made against the Company on 18 March 2008 and the Liquidators were appointed on 14 January 2009. The Liquidators only have access to the books and records of the Company that were left behind by the directors and management of the Company for the purpose of preparing the consolidated financial statements. Accordingly, the Liquidators could not provide us any written representations. In consequence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements. There were no satisfactory audit procedures that we could adopt to obtain sufficient appropriate audit evidence regarding the accuracy and completeness of the assets, liabilities, income and expenses of the Company and of the Group, and the adequacy of disclosures in these financial statements.

3. Loss of accounting records

The consolidated financial statements and the financial statements of the Company contain financial information of the representative offices located in Beijing and Shenzhen (the “PRC representative offices”). The PRC representative offices were closed and the accounting records could not be retrieved. As a consequence, we were unable to obtain all information that we required in relation to our audit and were also unable to carry out other satisfactory auditing procedures that we considered necessary to obtain adequate assurance regarding assets, liabilities and profit or loss contributed by the PRC representative offices for the year and the adequacy of disclosures in these financial statements. In the current year, no amount is contributed from assets and profit or loss of the PRC representative offices. Liabilities contributed by the PRC representative offices amounting to HK\$1,936,000 have been included in other payables and accrued charges in the financial statements, of which we could not carry out satisfactory auditing procedures in the current year.

Any adjustments to the above balances would affect the net liabilities of the Group and the Company as at 31 December 2010 and the profit for the year then ended.

4. Directors’ emoluments

We were unable to carry out auditing procedures necessary to obtain adequate assurance regarding directors’ emoluments as set out in note 11 to the financial statements. This is not in accordance with the requirements of Section 161A of the Hong Kong Companies Ordinance.

Material uncertainty relating to the going concern basis

As explained in note 2 to the financial statements, the Company submitted a resumption proposal on 17 December 2010 (updated on 25 March 2011) and subsequently amended by a written submission to The Stock Exchange on 31 March 2011 (together the “Resumption Proposal”). By a letter dated 1 April 2011, the Stock Exchange informed the Company that it has allowed to proceed with the Resumption Proposal, subject to prior compliance with the conditions to the satisfaction of Listing Division within six months from the date of the Stock Exchange’s letter. These conditions are explained in note 2 to the financial statements.

As at 31 December 2010, the Group and the Company had net current liabilities of approximately HK\$107,639,000 and HK\$123,206,000 respectively, had deficiency of shareholders' funds of approximately HK\$107,091,000 and HK\$117,954,000 respectively and had a consolidated profit attributable to owners of the Company of approximately HK\$2,510,000 and a loss of HK\$5,577,000 for the year then ended, respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis on the assumption that the Resumption Proposal will be successfully completed and that in the foreseeable future and the financial position of the Group will be substantially improved as all liabilities of the Company will be discharged through the implementation of a scheme to be proposed by the Company under Section 166 of the Companies Ordinance of Hong Kong (the "Scheme").

The financial statements do not include any adjustments which would result from a failure to complete the Resumption Proposal and to approve the Scheme by the Company's Scheme Creditors and the Court; and other approvals to be obtained from shareholders, the Court and the Hong Kong regulatory authorities.

If the Resumption Proposal could not be completed, further adjustments might have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. We consider that appropriate disclosures have been made accordingly. However, in view of the extent of the uncertainties relating to the completion of the Resumption Proposal as at the end of the reporting period, we disclaim our opinion in respect of material uncertainty relating to the going concern basis.

Disclaimer of opinion

Because of the significance of the matter described in the "Basis for disclaimer of opinion" and the "Material uncertainty relating to the going concern basis" as described above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis of an audit opinion. Accordingly, we do not express an opinion on the financial statements. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Report on matters under Sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence as set out in the basis for disclaimer of opinion paragraphs of this report:

- We have not obtained all the information and explanations that we considered necessary for the purpose of our audit;
- We were unable to determine whether proper books of accounts have been kept; and
- We have not received proper returns adequate for our audit from representative offices not visited by us.

5. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Set out below are the audited consolidated financial statements of the Group as extracted from the Company's annual report for the year ended 31 December 2010, reference to the page number is referred to the page number of the Company's annual report for the year ended 31 December 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>Note</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Revenue	<i>7</i>	14,041	3,769
Other operating income	<i>9</i>	348	270
Staff costs	<i>10</i>	(3,454)	(2,369)
Other operating expenses		(8,166)	(14,422)
Finance costs	<i>13</i>	<u>(259)</u>	<u>(70)</u>
Profit/(loss) before tax		2,510	(12,822)
Income tax	<i>14</i>	<u>–</u>	<u>–</u>
Profit/(loss) and total comprehensive income/(loss) for the year attributable to owners of the Company	<i>15, 16</i>	<u>2,510</u>	<u>(12,822)</u>
Earnings/(loss) per share	<i>18</i>		
Basic		<u>0.16 cents</u>	<u>(0.83) cents</u>
Diluted		<u>0.16 cents</u>	<u>N/A</u>

Details of dividend payable to owners of the Company are set out in note 17.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
Non-current assets			
Property, plant and equipment	19	73	100
Trading rights	21	–	–
Statutory deposits for financial services business	24(a)	475	430
		<u>548</u>	<u>530</u>
Current assets			
Trade receivables	22	34,500	26,042
Other receivables, deposits and prepayments	24(b)	353	2,489
Loan receivables	23	–	–
Bank balances – trust and segregated accounts	24(c)	35,459	34,155
Bank balances (general accounts) and cash	24(d)	36,918	5,265
		<u>107,230</u>	<u>67,951</u>
Current liabilities			
Trade payables	25	66,916	59,657
Other payables and accrued charges	24(e)	32,599	29,371
Loan payables	26	60,084	60,084
Deposits from the Investor	27	11,500	7,000
Loan from the Investor	27	23,700	–
Other borrowings – due within one year	28	–	1,500
Amounts due to directors	29	20,070	20,070
		<u>214,869</u>	<u>177,682</u>
Net current liabilities		<u>(107,639)</u>	<u>(109,731)</u>
Total assets less current liabilities		<u>(107,091)</u>	<u>(109,201)</u>
Non-current liabilities			
Other borrowings – due after one year	28	–	400
Net liabilities		<u>(107,091)</u>	<u>(109,601)</u>
Capital and reserves			
Share capital	30	308,701	308,701
Reserves		<u>(415,792)</u>	<u>(418,302)</u>
Total capital deficiency		<u>(107,091)</u>	<u>(109,601)</u>

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	<i>Note</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>19</i>	–	11
Investments in subsidiaries	<i>20</i>	5,244	5,244
Amounts due from subsidiaries	<i>20</i>	8	–
		<u>5,252</u>	<u>5,255</u>
Current assets			
Bank balances (general accounts) and cash	<i>24(d)</i>	4,253	3,660
Current liabilities			
Other payable and accruals	<i>24(e)</i>	30,575	28,908
Loan payables	<i>26</i>	60,084	60,084
Deposits from the Investor	<i>27</i>	11,500	7,000
Amounts due to subsidiaries	<i>20</i>	5,230	5,230
Amounts due to directors	<i>29</i>	20,070	20,070
		<u>127,459</u>	<u>121,292</u>
Net current liabilities		<u>(123,206)</u>	<u>(117,632)</u>
Net liabilities		<u><u>(117,954)</u></u>	<u><u>(112,377)</u></u>
Capital and reserves			
Share capital	<i>30</i>	308,701	308,701
Reserves	<i>31</i>	(426,655)	(421,078)
Total capital deficiency		<u><u>(117,954)</u></u>	<u><u>(112,377)</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Asset revaluation account <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2009	308,701	42,395	2,650	1,415	(451,940)	(96,779)
Loss and total comprehensive loss for the year	-	-	-	-	(12,822)	(12,822)
As at 31 December 2009 and 1 January 2010	308,701	42,395	2,650	1,415	(464,762)	(109,601)
Profit and total comprehensive income for the year	-	-	-	-	2,510	2,510
As at 31 December 2010	<u>308,701</u>	<u>42,395</u>	<u>2,650</u>	<u>1,415</u>	<u>(462,252)</u>	<u>(107,091)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2010*

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Operating activities		
Profit/(loss) for the year	2,510	(12,822)
Adjustments for:		
Finance costs	259	70
Impairment loss on trade receivables	20	138
Recovery of impairment loss on trade receivables	(8)	(9)
Depreciation of property, plant and equipment	78	198
Amortisation of trading rights	–	273
	<u>2,859</u>	<u>(12,152)</u>
Increase in trade receivables	(8,470)	(15,373)
Increase in statutory deposits for financial services business	(45)	–
Decrease/(increase) in other receivables, deposits and prepayments	2,136	(1,544)
Increase in bank balances – trust and segregated accounts	(1,304)	(12,155)
Increase in trade payables	7,259	27,708
Increase in other payables and accrued charges	<u>3,053</u>	<u>5,009</u>
Net cash from/(used in) operating activities	5,488	(8,507)
Interest paid	(84)	(70)
Net cash from/(used in) operating activities	<u>5,404</u>	<u>(8,577)</u>
Investing activities		
Purchase of property, plant and equipment	(51)	(9)
Net cash used in investing activities	<u>(51)</u>	<u>(9)</u>
Financing activities		
Advancement of other borrowings	–	400
Advancement of loan from the Investor	23,700	–
Repayment of other borrowings	(1,900)	–
Receipt of deposits from the Investor	<u>4,500</u>	<u>7,000</u>
Net cash from financing activities	<u>26,300</u>	<u>7,400</u>
Net increase/(decrease) in cash and cash equivalents	31,653	(1,186)
Cash and cash equivalents at 1 January	<u>5,265</u>	<u>6,451</u>
Cash and cash equivalents at 31 December represented by:		
Bank balances (general accounts) and cash	<u><u>36,918</u></u>	<u><u>5,265</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1 Corporate information

Asia TeleMedia Limited (In Liquidation) (the “Company”) is a limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) but have been suspended from trading since 18 March 2008.

The address of the registered office and the principal place of business of the Company was 2808, One Exchange Square, Central, Hong Kong. This office was surrendered to the landlord on 17 June 2008. The registered office and the principal place of business is now the office of the Joint and Several Liquidators of the Company (the “Liquidators”) at 8th Floor, Prince’s Building, 10 Chater Road, Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company, and all values are rounded to the nearest thousand except when otherwise indicated.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 20.

2 Basis of preparation of the financial statements

The Liquidators have received no cooperation from the directors of the Company who are responsible for preparing the financial statements of the Company. As a result and in the absence of such cooperation, the Liquidators have been obliged to prepare these financial statements on the basis of the books and records which came into their possession following their appointment.

The Company and its subsidiaries (the “Group”) had a consolidated profit attributable to owners of the Company of approximately HK\$2,510,000 for the year ended 31 December 2010 (2009: a consolidated loss of HK\$12,822,000) and the Company incurred a loss attributable to owners of the Company of approximately HK\$5,577,000 (2009: HK\$11,510,000). As at 31 December 2010, the Company and the Group had net current liabilities of approximately HK\$123,206,000 and HK\$107,639,000 (2009: HK\$117,632,000 and HK\$109,731,000) respectively, and deficiency of shareholders’ funds of approximately HK\$117,954,000 and HK\$107,091,000 (2009: HK\$112,377,000 and HK\$109,601,000), respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company’s and the Group’s ability to continue as a going concern. Therefore, the Company and the Group may be unable to realise their assets and discharge their liabilities in the normal course of business.

A winding-up petition was filed against the Company on 5 June 2007, and a winding-up order was granted by the High Court of Hong Kong (the “Court”) on 18 March 2008. Messrs Edward Simon Middleton and Patrick Cowley were appointed as the Joint and Several Liquidators of the Company on 14 January 2009 pursuant to an Order of the Court.

As such, the Liquidators do not have the same knowledge of the financial affairs of the Group as the directors of the Company would have, particularly in relation to the transactions entered into by the Group prior to their appointment date.

Trading in the Company’s shares on the Stock Exchange has been suspended since 18 March 2008. The Company was placed into the third stage of delisting procedures in accordance with Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) on 8 July 2010.

The Liquidators circulated an invitation for restructuring proposals to a number of potential investors and received a number of such proposals. The Liquidators have ultimately accepted the restructuring proposal of Gainhigh Holdings Limited (the “Investor”), a company incorporated in the British Virgin Islands with limited liability. On 14 July 2009, a letter of intent (the “First Letter”) jointly issued by the Investor and its controlling shareholder, Mr. Ko Chun Shun Johnson (the “Guarantor”) was accepted by the Liquidators (acting as agents for and on behalf of the Company without personal liability) to confirm their interests in a capital and debt restructuring and a subscription of new securities and convertible notes to be issued by the Company with a view to enabling the resumption of trading in the shares of the Company on the Stock Exchange (the “Proposed Restructuring”). Pursuant to the First Letter, the Liquidators granted the Investor an exclusive right to negotiate the detailed terms and implementation of the Proposed Restructuring of the Company (the “Restructuring Agreement”) for a period up to 13 April 2010.

Pursuant to a second letter of intent dated 23 July 2010 (the “Second Letter”) which was terminated and superseded by a third letter of intent dated 17 December 2010 (the “Third Letter”) and a side letter dated 28 February 2011 (the “Side Letter”), the Liquidators granted an exclusive right to the Investor to negotiate the Proposed Restructuring up to the date on which (i) the listing of the Company’s shares on the Stock Exchange is cancelled, (ii) the signing of the Restructuring Agreement, or (iii) the Investor withdraws from negotiations on the Proposed Restructuring, whichever is the earliest (the “Exclusivity Period”).

Up to the date of the publication of these financial statements, the Investor has funded (i) a sum of HK\$12.5 million to the Company to meet the professional costs and expenses incurred in connection with the Proposed Restructuring; and (ii) HK\$3 million to an escrow agent as a deposit (subject to it being refundable under certain conditions). On 22 September 2009, a facility agreement was entered into between Mansion House Financial Holdings Limited (“MHF”), a wholly-owned subsidiary of the Company, and the Investor. The Investor agreed to provide an interest-bearing term loan facility of up to HK\$8 million to the Group as secured by all the issued shares of Mansion House Securities (F.E.) Limited (“MHSFE”), which is an indirect wholly-owned subsidiary of the Company, to finance the regulatory and general working capital requirements of the Group. On 21 September 2010, the Investor approved the injection of the HK\$8 million as equity by MHF to MHSFE. MHF further entered into an Amendment Agreement dated 14 October 2010 and an Amendment and Restatement Agreement dated 23 November 2010 with the Investor to amend certain terms of the facility agreement dated 22 September 2009 and for an additional interest-bearing loan facility of up to HK\$15,700,000. The facility amount was further increased by HK\$15 million pursuant to an Amendment Agreement dated 21 February 2011 and was fully utilised as at 28 February 2011.

The Company submitted a resumption proposal on 17 December 2010 (updated on 25 March 2011) and subsequently amended by a written submission to the Stock Exchange on 31 March 2011 (together the “Resumption Proposal”). By a letter dated 1 April 2011, the Stock Exchange informed the Company that it was allowed to proceed with the Resumption Proposal, subject to prior compliance with the following conditions to the satisfaction of the Listing Division within six months from the date of the Stock Exchange’s letter:

- i) completion of the subscription of new shares and convertible notes by the Investor, the scheme of arrangement (the “Scheme”) between the Company and its creditors and all transactions under the Resumption Proposal;
- ii) recruitment of qualified institutional sales (as evidenced by the signing of binding contractual agreements);
- iii) inclusion in the circular to shareholders of a pro forma balance sheet upon completion of the transactions under the Resumption Proposal and provision of a comfort letter from the auditors under Rule 4.29 of the Listing Rules;

- iv) publication of all outstanding financial results; and
- v) permanent stay of the winding-up order and the release and discharge of the Liquidators.

The Company shall also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and the Company's place of incorporation. The Stock Exchange may modify the resumption conditions if the Company's situation changes.

On 27 May 2011, the Company announced that an agreement for the implementation of the Proposed Restructuring which comprises capital restructuring, subscription of new shares and convertible notes, the Scheme and group reorganisation, was entered into on 15 April 2011 among the Company, the Liquidators (acting as agents for and on behalf of the Company without personal liability), the Investors and the Guarantor (the said agreement as the "Restructuring Agreement"). The principal elements of the Restructuring Agreement are as follows:

a) *Capital restructuring*

The Company will undergo capital restructuring, involving share consolidation, capital reduction, capital cancellation and authorised share capital increase.

b) *Subscription of new shares and convertible notes*

Under the Restructuring Agreement, the Investor will contribute HK\$172 million to subscribe for the new shares at a subscription price of HK\$0.62 each, representing a total consideration of HK\$79.5 million and the convertible notes issued by the Company with the principal amount of HK\$92.5 million and tenure of five years bearing no interest and convertible into new shares at an initial conversion price of HK\$0.62 per new share.

c) *The Scheme*

Under the Restructuring Agreement, the Company will apply to the Court for an order to convene a creditors' meeting to consider the Scheme between the Company and its creditors (the "Scheme Creditors"). Upon completion, all the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised and discharged in full in return for a cash payment of HK\$72 million to be distributed in accordance with the terms of the Scheme. This cash payment will be funded by the Company out of the proceeds from the subscription.

d) Group reorganisation

Under the Restructuring Agreement, upon completion, all the issued shares of several subsidiaries of the Company (the “Excluded Companies”) will be transferred to a nominee of the scheme administrators for the benefit of the Scheme Creditors at a nominal consideration of HK\$1 and any guarantee or indemnity given by the Company in respect of the obligations or liabilities of each of the Excluded Companies shall be released and discharged in full upon such transfer.

The financial statements of the Group and the Company have been prepared on a going concern basis on the assumption that the Proposed Restructuring of the Company will be successfully completed, and that, following the restructuring, the financial position of the Group and the Company will be substantially improved. The financial statements of the Group and the Company for the year ended 31 December 2010, which have been prepared on the going concern basis, present fairly the results and state of affairs of the Group and the Company.

Should the Group and the Company be unable to achieve a successful restructuring and to continue their businesses as a going concern, adjustments would have to be made to the financial statements to adjust the value of the assets of the Group and the Company to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3 Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are effective for annual periods beginning on or after 1 January 2010.

HKFRS 1 (revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (revised)	Business Combinations
HKAS 27 (revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (revised) “Business Combinations” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interest in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current year in which HKFRS 3 (revised) and HKAS 27 (revised) are applicable, the application of HKFRS 3 (revised), HKAS 27 (revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial information of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (revised), HKAS 27 (revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the consolidated financial statements for the current or prior accounting periods.

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but were not effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁶
HKAS 24 (revised)	Related Party Disclosures ⁴
HKAS 32 (Amendments)	Classification of Rights Issues ¹
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ²
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ⁵
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets ⁵
HKFRS 9	Financial Instruments ⁷
HK (IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement ⁴
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 July 2011

⁶ Effective for annual periods beginning on or after 1 January 2012

⁷ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial Instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to the financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of the changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. It is required to be applied retrospectively, but if adopted prior to 1 January 2012, an entity will be exempt from the requirement to restate prior period comparative information. The Group is presently studying the implications of applying HKFRS 9. It is impracticable to quantify the impact of HKFRS 9 as at the date of publication of these financial statements.

The Group anticipates that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4 Significant accounting policies

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for trading rights which are measured at revalued amounts, as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company’s policies. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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, expenses and unrealised gains on transactions between Group entities are eliminated on consolidation.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses, unless the investment is classified as held for sale or included in a disposal group that is classified as held for sale.

(b) Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Business combinations that took place prior to 1 January 2010

The acquisition of subsidiaries 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 costs, 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. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of business combination, the excess is recognised immediately in profit or loss.

(c) Intangible assets

Trading rights represent right to trade on the Stock Exchange and Hong Kong Futures Exchange Limited (the "Futures Exchange"). They are stated at revalued amount and amortised using the straight-line method over their estimated useful lives.

Trading rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the trading rights' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of determining the recoverable amount of trading rights, the Group estimates the recoverable amount of smallest cash generating unit to which the trading rights belong.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accounted impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

(d) *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Computers	20%
Office equipment and furniture	20%
Leasehold improvements	Over the shorter of lease term or 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the year in which they are incurred.

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 profit or loss in the year in which the item is derecognised.

At the end of each reporting period, the Group reviews the carrying amount of its tangible 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, but so 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 in profit or loss immediately.

(e) Revenue recognition

Revenue arising from financial services are recognised on the following bases:

- Commission income for broking business is recorded as income on trade date basis.
- Underwriting fee and placing fee are recognised as income in accordance with the terms of the underwriting and placing agreements or deal mandate when the relevant significant acts have been completed.
- Arrangement, management, advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered.
- Interest income from clients is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Interest income from authorised institutions is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Service fees are recognised when the relevant services are rendered.

(f) *Operating leases*

Where the Group has assets held under operating leases, payments made under the leases are charged to profit or loss over the accounting periods covered by the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(g) *Income tax*

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 net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense 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 end of the reporting period.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future 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 assets and liabilities in a transaction that affects neither the tax 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax 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 tax is charged or credited to the profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

(h) Retirement benefit costs

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme which are defined contribution scheme are charged as expenses when employees have rendered service entitling them to the contributions.

(i) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity has become 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 (other than financial assets and financial liabilities at fair value through profit or loss) 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 as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets with the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, financial assets included in other receivables, deposits and prepayments and bank balances (trust, segregated and general accounts) and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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 affected.

For loans and receivables, 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.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and 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, 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 a trade receivable is considered uncollectible, it is 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 loss 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.

Financial liabilities and equity instruments

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.

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss and other financial liabilities. The Group classifies its financial liabilities into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities, including trade and other payables, amounts due to directors and subsidiaries, loan payables, loan from the Investor and other borrowings, are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

(j) *Cash and cash equivalents*

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, deposits held at call with banks and short-term bank deposits with an original maturity period of three months or less.

(k) 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 the respective 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 end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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.

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

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) *Related parties*

A party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Group;
 - has an interest in the company that gives it significant influence over the Group; or
 - has joint control over the Group
- (ii) the party is a member of key management personnel of the Company or its parent company;
- (iii) the party is a close member of the family of any individual referred to in (i) and (ii);
- (iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entities resides with, directly or indirectly, the individual referred to in (ii) or (iii);
- (v) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

5 Key sources of estimation uncertainty

In application of the Group's accounting policies, which are described in note 4, the Group is 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Going concern

The financial statements have been prepared on a going concern basis, the validity of which depends upon the Company being able to achieve a successful restructuring and continue its business. Details are explained in note 2 to the financial statements above.

Estimated impairment of trade and loan receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of trade and loan receivables are approximately HK\$34,500,000 and nil respectively (net of allowance for doubtful debts of approximately HK\$26,282,000 and HK\$80,843,000 respectively).

Contingent liabilities in respect of claims

The Group has been engaged in a number of claims which may affect the results of the current year. Contingent liabilities arising from these claims have been assessed by the Liquidators with reference to legal advice. Provision for the possible obligation, if appropriate, is made based on the Liquidators' best estimates and judgements.

6 Financial instruments*(a) Categories of financial instruments*

The carrying amounts of each of the categories of the Group's financial assets and liabilities as at the end of the reporting period are as follows:

Financial assets

	The Group		The Company	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans and receivables:				
Trade receivables	34,500	26,042	–	–
Financial assets included in other receivables, deposits and prepayment	46	–	–	–
Amounts due from subsidiaries	–	–	8	–
Bank balances – trust and segregated accounts	35,459	34,155	–	–
Bank balances (general accounts) and cash	36,918	5,265	4,253	3,660
	<u>106,923</u>	<u>65,462</u>	<u>4,261</u>	<u>3,660</u>

Financial liabilities

	The Group		The Company	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities measured at amortised costs:				
Trade payables	66,916	59,657	–	–
Financial liabilities included in other payables and accrued charges	28,621	25,703	27,039	25,533
Amounts due to directors	20,070	20,070	20,070	20,070
Amounts due to subsidiaries	–	–	5,230	5,230
Loan payables	60,084	60,084	60,084	60,084
Loan from the Investor	23,700	–	–	–
Other borrowings	–	1,900	–	–
	<u>199,391</u>	<u>167,414</u>	<u>112,423</u>	<u>110,917</u>

(b) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

(i) Currency risk

The Group carries out business in overseas trading and therefore is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong Dollars. Currency risk arises from future commercial transactions and recognised assets and liabilities.

The Group's net trading positions are denominated in currencies other than its functional currency and are subject to fluctuation in foreign exchange among the different currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Foreign currency risk should not be significant to the Group since substantial assets and liabilities are denominated in Hong Kong dollars during the year. The Company does not expect any significant impact of foreign exchange exposure.

(ii) Interest rate risk

The Group's exposure to cashflow interest rate risk is mainly attributable to its bank balance (general accounts) and variable-rate trade receivables. The Group's fair value interest rate risk relates primarily to fixed-rate other borrowings.

The Group currently does not have any interest rate hedging policy. The management monitors the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arises.

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points (2009: 100 basis points) in interest rates, with all other variables held constant, would have no significant impact on the Group's profit/loss and equity for the year ended 31 December 2010 and 2009.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the Group's exposure to interest rate risk for financial instruments in existence at that date. A 100 basis points (2009: 100 basis points) increase or decrease in interest rates represents management's assessment of a reasonably possible change in interest rates. The analysis is performed on the same basis for 2009.

(iii) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group are exposed to credit risk are loan receivables, trade receivables and bank balances (trust, segregated and general accounts).

Full allowance of impairment on loan receivables has been made in previous years, and thus, there is no significant credit risk on the balance of loan receivables.

In order to minimise the credit risk on trade receivables, the management of the Group is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and receivables from cash clients with shortfalls. In addition, the Group reviews the recoverable amount of each individual account receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Group's credit risk is effectively controlled and significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each client. At the end of the reporting period, the Group has a certain concentration of credit risk as 86% (2009: 97%) of the total client receivables net of allowance for impairment loss was due from the five largest clients of the Group.

Bank balances (trust, segregated and general accounts) are placed with high-credit-quality institutions and management considers that the credit risk for such is minimal.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 22.

(iv) Liquidity risk

As at 31 December 2010, the Company and the Group had net current liabilities of approximately HK\$123,206,000 and HK\$107,639,000 (2009: HK\$117,632,000 and HK\$109,731,000) respectively, and deficiency of shareholders' funds of approximately HK\$117,954,000 and HK\$107,091,000 (2009: HK\$112,377,000 and HK\$109,601,000), respectively. The maintenance of the Company and the Group as going concerns depends upon the Company being able to achieve a successful restructuring and continue its business. Details are explained in note 2 to the financial statements above.

The following table details the remaining contractual maturities at the end of the reporting period of the Company and the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the end of the reporting period) and the earliest date the Company and the Group can be required to pay:

The Group

As at 31 December 2010	Less than 1 year <i>HK\$'000</i>	1 – 2 years <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Carrying Amount <i>HK\$'000</i>
Trade payables	66,916	–	66,916	66,916
Financial liabilities included in other payables and accrued charges	28,621	–	28,621	28,621
Loan payables	60,084	–	60,084	60,084
Loan from the Investor	23,700	–	23,700	23,700
Amounts due to directors	20,070	–	20,070	20,070
	<u>199,391</u>	<u>–</u>	<u>199,391</u>	<u>199,391</u>

As at 31 December 2009	Less than 1 year <i>HK\$'000</i>	1 – 2 years <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Carrying Amount <i>HK\$'000</i>
Trade payables	59,657	–	59,657	59,657
Financial liabilities included in other payables and accrued charges	25,703	–	25,703	25,703
Loan payables	60,084	–	60,084	60,084
Other borrowings	1,569	408	1,977	1,900
Amounts due to directors	20,070	–	20,070	20,070
	<u>167,083</u>	<u>408</u>	<u>167,491</u>	<u>167,414</u>

The Company

As at 31 December 2010	Less than 1 year <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Carrying Amount <i>HK\$'000</i>
Financial liabilities included in other payables and accrued charges	27,039	27,039	27,039
Loan payables	60,084	60,084	60,084
Amounts due to subsidiaries	5,230	5,230	5,230
Amounts due to directors	20,070	20,070	20,070
	<u>112,423</u>	<u>112,423</u>	<u>112,423</u>
	<u>112,423</u>	<u>112,423</u>	<u>112,423</u>
As at 31 December 2009	Less than 1 year <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Carrying Amount <i>HK\$'000</i>
Financial liabilities included in other payables and accrued charges	25,533	25,533	25,533
Loan payables	60,084	60,084	60,084
Amounts due to subsidiaries	5,230	5,230	5,230
Amounts due to directors	20,070	20,070	20,070
	<u>110,917</u>	<u>110,917</u>	<u>110,917</u>
	<u>110,917</u>	<u>110,917</u>	<u>110,917</u>

(c) Fair value estimation

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

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair values of other financial assets and financial liabilities determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input.

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their respective fair values.

7 Revenue

Revenue represents the net amounts received and receivable during the year. An analysis of the Group's revenue for the year is as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Brokerage and commission income	8,723	3,607
Placing, underwriting and sub-underwriting commission income	4,801	–
Consultancy and advisory fee income	346	–
Interest income	171	162
	<u>14,041</u>	<u>3,769</u>

The analysis of revenue by major products and services is set out in note 8 below.

8 Segment information

The operating segments have been determined based on the reports reviewed by the directors of the Group's principal operating subsidiary and the Liquidators of the Company that are used to make strategic decisions. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other operating segments.

The Group is currently organised into three operating segments, namely (i) securities brokerage, (ii) securities underwriting and placements, and (iii) consultancy and advisory services. In the current year, the Group started to engage in securities underwriting and placements, and consultancy and advisory services. Accordingly, these two segments have been separately reported for the current year. In prior year, the Group only operated in one operating segment and no segment information was presented. For consistency, comparative information has been restated to conform to current year presentation.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment revenue represents the revenue generated by each operating segment from external customers. There were no significant inter-segment transactions during the year.

Segment profit for securities brokerage represents the profit earned by the segment without allocation of staff costs other than commission paid to staff and other central administrative costs, other income, finance costs, depreciation, amortisation and taxation. No costs are allocated to other segments as the amounts involved are insignificant. This is the measure reported to the directors of the Group's principal operating subsidiary and the Liquidators of the Company for the purposes of resource allocation and performance assessment.

Segment revenue and results

For the year ended 31 December 2010

	Securities brokerage <i>HK\$'000</i>	Securities underwriting and placements <i>HK\$'000</i>	Consultancy and advisory services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>8,894</u>	<u>4,801</u>	<u>346</u>	<u>14,041</u>
Segment profit	8,717	4,801	346	13,864
Other income				348
Staff costs other than commission paid to staff				(3,303)
Finance costs				(259)
Depreciation				(78)
Other central administrative costs				<u>(8,062)</u>
Profit for the year				<u>2,510</u>

For the year ended 31 December 2009

	Securities brokerage <i>HK\$'000</i>	Securities underwriting and placements <i>HK\$'000</i>	Consultancy and advisory services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	3,769	–	–	3,769
Segment profit	3,447	–	–	3,447
Other income				270
Staff costs other than commission paid to staff				(2,198)
Finance costs				(70)
Depreciation				(198)
Amortisation				(273)
Other central administrative costs				(13,800)
Loss for the year				(12,822)

Segment assets and liabilities

As the assets and the liabilities are regularly reviewed by the directors of the Group's principal operating subsidiary and the Liquidators of the Company for the Group as a whole, the measure of total assets and liabilities by operating segment is therefore not presented.

*Other segment information***For the year ended 31 December 2010**

	Securities underwriting and Securities brokerage <i>HK\$'000</i>	Securities and placements <i>HK\$'000</i>	Consultancy and advisory services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Interest income from cash clients	168	–	–	168
Other interest income	3	–	–	3
Impairment loss on trade receivables	20	–	–	20
Recovery of impairment loss on trade receivables	(8)	–	–	(8)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

For the year ended 31 December 2009

	Securities underwriting and Securities brokerage <i>HK\$'000</i>	Securities and placements <i>HK\$'000</i>	Consultancy and advisory services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Interest income from cash clients	146	–	–	146
Other interest income	16	–	–	16
Impairment loss on trade receivables	138	–	–	138
Recovery of impairment loss on trade receivables	(9)	–	–	(9)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Geographical information

The Group's capital expenditures are located in Hong Kong. The Group's turnover was derived from Hong Kong where the customers are located.

Information about major customers

The Group's revenue to external customers which accounted for 10% or more of its total revenue are as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Customer A	2,751	1,836
Customer B	N/A	723
Customer C	2,963	N/A
Customer D	2,047	N/A
	<u>7,761</u>	<u>2,559</u>

Revenue derived from customers A, B and C is included in the segment of securities brokerage and revenue derived from customer D is included in the segment of securities underwriting and placements.

9 Other operating income

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Management, handling fee and nominee services	266	196
Miscellaneous income	82	74
	<u>348</u>	<u>270</u>

10 Staff costs

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Staff costs (including directors' remuneration)		
– salaries and allowances	3,179	2,068
– commission paid	151	171
– contributions to defined contribution retirement plan	124	130
	<u>3,454</u>	<u>2,369</u>
Total staff costs	<u><u>3,454</u></u>	<u><u>2,369</u></u>

11 Directors' emoluments

No emoluments were paid to directors of the Company for the years ended 31 December 2010 and 2009.

12 Employees' emoluments

Of the five individuals with the highest emoluments in the Group, none (2009: none) was a director of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the five individuals (2009: five) were as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Salaries and other benefits	2,155	1,294
Retirement benefits scheme contribution	52	56
	<u>2,207</u>	<u>1,350</u>
	<u><u>2,207</u></u>	<u><u>1,350</u></u>

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by emolument range is as follows:

	Number of employees	
	2010	2009
Not exceeding HK\$1,000,000	4	5
Exceeding HK\$1,000,000 but not exceeding HK\$1,500,000	1	–
	<u> </u>	<u> </u>

During the years ended 31 December 2009 and 2010, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join the Group or as compensation for loss of office. In addition, during the years ended 31 December 2009 and 2010, no directors waived any emoluments.

13 Finance costs

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on other loans, wholly repayable within five years	259	70
	<u> </u>	<u> </u>

14 Income tax

No provision for Hong Kong Profits Tax was made for the year ended 31 December 2010 as the Group had an allowable tax loss brought forward which exceeded its estimated assessable profit for the year.

No provision for Hong Kong Profits Tax was made for the year ended 31 December 2009 as the Group had no assessable profits arising in Hong Kong for the year.

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The tax charge for the year can be reconciled to the profit/(loss) before tax per the consolidated statement of comprehensive income as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit/(loss) before taxation	<u>2,510</u>	<u>(12,822)</u>
Tax at applicable Hong Kong profits tax rate of 16.5% (2009: 16.5%)	413	(2,115)
Tax effect of non-deductible expenses	1,148	1,961
Tax effect of non-taxable income	(1)	–
Tax effect of utilisation of tax losses previously not recognised	(1,560)	–
Tax effect of tax losses not recognised	<u>–</u>	<u>154</u>
Tax charge for the year	<u>–</u>	<u>–</u>

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK\$278 million (2009: HK\$287 million) available to set off against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams, and no deferred tax liability in respect of accelerated depreciation allowance has been recognised as the amount involved is insignificant.

15 Profit/(loss) for the year

Profit/(loss) for the year has been arrived at after charging/(crediting) the following:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Auditors' remuneration	580	315
Amortisation of trading rights	–	273
Impairment loss on trade receivables	20	138
Recovery of impairment loss on trade receivables	(8)	(9)
Depreciation	78	198
Rental in respect of office premises	709	770
Liquidators' remuneration	<u>3,210</u>	<u>7,174</u>

16 Profit/(loss) attributable to owners of the Company

The consolidated profit attributable to owners of the Company includes a loss of HK\$5,577,000 (2009: HK\$11,510,000) which has been dealt with in the financial statements of the Company.

17 Dividends

No dividend was paid or proposed for the year ended 31 December 2010 (2009: nil), nor has any dividend been proposed since the end of the reporting period.

18 Earnings/(loss) per share**(a) Basic earnings/(loss) per share**

The calculation of basic earnings per share is based on the profit for the year of HK\$2,510,000 (2009: loss for the year of HK\$12,822,000) and 1,543,507,296 (2009: 1,543,507,296) shares in issue during the year.

(b) Diluted earnings/(loss) per share

The earnings and the weighted average number of ordinary shares used in the calculation of diluted earnings per share for the year ended 31 December 2010 are the same as those for the basic earnings per share, as outlined above.

Diluted loss per share for the year ended 31 December 2009 has not been presented as the effect of any dilution is anti-dilutive.

19 Property, plant and equipment

The Group

	Computers <i>HK\$'000</i>	Office equipment and furniture <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 January 2009	532	325	192	1,049
Additions	–	9	–	9
Disposals	(337)	(23)	–	(360)
At 31 December 2009 and 1 January 2010	195	311	192	698
Additions	51	–	–	51
At 31 December 2010	246	311	192	749
Accumulated depreciation and impairment				
At 1 January 2009	454	252	54	760
Charge for the year	56	45	97	198
Eliminated on disposals	(337)	(23)	–	(360)
At 31 December 2009 and 1 January 2010	173	274	151	598
Charge for the year	9	28	41	78
At 31 December 2010	182	302	192	676
Net book value				
At 31 December 2010	<u>64</u>	<u>9</u>	<u>–</u>	<u>73</u>
At 31 December 2009	<u>22</u>	<u>37</u>	<u>41</u>	<u>100</u>

The Company

	Computers <i>HK\$'000</i>	Office equipment and furniture <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	76	202	278
Accumulated depreciation and impairment			
At 1 January 2009	53	164	217
Charge for the year	23	27	50
At 31 December 2009 and 1 January 2010			
Charge for the year	–	11	11
At 31 December 2010	76	202	278
Net book value			
At 31 December 2010	–	–	–
At 31 December 2009	–	11	11

20 Investments in subsidiaries and amounts due from/to subsidiaries

	The Company	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	13,460	13,460
Impairment loss recognised	<u>(8,216)</u>	<u>(8,216)</u>
	<u>5,244</u>	<u>5,244</u>
Amounts due from subsidiaries	78,722	78,714
Impairment loss recognised	<u>(78,714)</u>	<u>(78,714)</u>
	<u>8</u>	<u>–</u>
Amounts due to subsidiaries	<u>5,230</u>	<u>5,230</u>

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. The carrying amount at the end of the reporting period approximates their fair value.

Due to the continue losses incurred by the subsidiaries, the Company reassessed the recoverable amounts of the investment costs of the subsidiaries and the amounts due from subsidiaries based on discounted future cash flow from the subsidiaries and recognised an impairment of HK\$8,216,000 (2009: HK\$8,216,000) and HK\$78,714,000 (2009: HK\$78,714,000) respectively.

There is no movement in the allowance for impairment as of 31 December 2010 and 2009.

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Details of the Company's subsidiaries which principally affected the results or assets of the Group as at 31 December 2010 are all operating in Hong Kong and are as follows:

Name of company	Place of incorporation	Paid up share capital	Class of shares held	Percentage of nominal values of issued share capital held by the Company		Principal activities
				Directly %	Indirectly %	
Mansion House Financial Holdings Limited	British Virgin Islands	955,000 shares of US\$1 each	Ordinary	100	–	Investment holding
Mansion House Securities (F.E.) Limited	Hong Kong	51,000,000 shares of HK\$1 each (2009: 30,000,000 shares of HK\$1 each)	Ordinary	–	100	Securities broking, securities underwriting and placements, and corporate finance and advisory services
Mansion House Asset Management Limited	Hong Kong	1,000,000 shares of HK\$1 each	Ordinary	–	100	Inactive
Mansion House (Nominee) Limited	Hong Kong	100 shares of HK\$1 each	Ordinary	–	100	Nominee service and investment holding
MHS Futures Limited	Hong Kong	6,000,000 shares of HK\$1 each	Ordinary	100	–	Investment holding

21 Trading rights

	The Group <i>HK\$'000</i>
Revalued amount	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	6,000
Accumulated amortisation	
At 1 January 2009	5,727
Provided for the year	273
At 31 December 2009 and 1 January 2010	6,000
Provided for the year	–
At 31 December 2010	6,000
Net book value	
At 31 December 2010	–
At 31 December 2009	–

The Group holds two trading rights at the Stock Exchange and one trading right at the Futures Exchange. These trading rights were revalued as at 31 December 2001 and are amortised over 8 years from 2002.

Had the trading rights been carried at cost less accumulated amortisation, they would have been fully amortised as at 31 December 2010 and 31 December 2009.

22 Trade receivables

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Margin clients (<i>note (ii)</i>)	26,126	26,134
Cash clients	30,871	26,079
Broker, dealers and clearing houses	3,785	99
	<u>60,782</u>	<u>52,312</u>
<i>Less: allowance for doubtful debts (note (ii))</i>	<u>(26,282)</u>	<u>(26,270)</u>
	<u><u>34,500</u></u>	<u><u>26,042</u></u>

Note (i)

The Group allows the settlement terms of trade receivables arising from the business of dealing in securities to be two days after trade date. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the end of the reporting period:

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	34,416	25,838
Within 31 – 90 days	1	126
More than 90 days	83	78
	<u>34,500</u>	<u>26,042</u>

The Group has procedures and policies to assess the potential client's credit quality and defines credit limits for each client. All client acceptance and credit limit are approved by designated approvers according to the client's credit worthiness. Most of the trade receivables that are neither past due nor impaired have good repayment history in prior years.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK\$2,680,000 (2009: HK\$329,000) which are past due at the end of the reporting period in respect of which the Group has not provided for impairment loss.

Ageing analysis of trade receivables which are past due but not impaired is as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 30 days	2,597	128
More than 30 days	<u>83</u>	<u>201</u>
	<u><u>2,680</u></u>	<u><u>329</u></u>

No impairment loss was provided for these balances as the Group holds securities collateral for those balances with fair values over the past due amounts.

The Group has policy for allowance for doubtful debts which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment including the creditworthiness, collaterals and the collection history of each client.

Note (ii)

The Group ceased providing margin financing services in 2004 and the balance represented the past due amount due from margin clients brought forward from the year 2004. A substantial amount of impairment has been provided. During the year ended 31 December 2009, the Group started to provide impairment loss on trade receivables arising from the business of dealing in securities. The movement of the allowance for doubtful debts during the year is as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Balance at beginning of the year	26,270	26,141
Amount recovered during the year	(8)	(9)
Impairment losses recognised on trade receivables	<u>20</u>	<u>138</u>
Balance at end of the year	<u><u>26,282</u></u>	<u><u>26,270</u></u>

Included in the allowance for doubtful debts were individually impaired trade receivables which have financial difficulties and defaults in payments. Among the allowance for doubtful debts, approximately HK\$26,124,000 (2009: HK\$26,132,000) relates to individually impaired margin clients trade receivable while HK\$158,000 (2009: HK\$138,000) relates to individually impaired trade receivables arising from the business of dealing in securities. Consequently, specific allowance for doubtful debts was recognised. The Group does not hold any collateral over these balances.

Included among the margin clients trade receivables, the Group granted HK\$17,154,000 (2009: HK\$17,154,000) margin loans to the companies controlled by family members of an ex-director, which were fully provided. Details of the loans are set out in note 35(c).

23 Loan receivables

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan receivables	80,843	80,843
<i>Less: allowance for doubtful loans</i>	<u>(80,843)</u>	<u>(80,843)</u>
	<u>–</u>	<u>–</u>

Details of the loan receivables are set out in note 35.

24 Other assets and liabilities***(a) Statutory deposits for financial services business***

Statutory deposits for financial services business represent deposits with various exchanges and clearing houses. The amounts are non-interest bearing and have no fixed terms of repayment.

(b) Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments are on demand collateral deposits with the Hong Kong Securities Clearing Company Limited (“HKSCC”) as the Group maintains a net long Continuous Net Settlement position as at the end of the reporting period, which amounts to HK\$118,000 (2009: HK\$2,266,000). The settlement terms of the deposits are the same as that of the trade receivables arising from the business of dealing in securities, which is two days after trade day.

(c) Bank balances – trust and segregated accounts

From the Group's ordinary business, it receives and holds money deposited by clients and other institutions in the course of the conduct of the regulated activities. These clients' monies are maintained in one or more segregated bank accounts. The Group has classified the bank balances – trust and segregated accounts under current assets in the consolidated statement of financial position and recognised the corresponding account payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

(d) Bank balances (general accounts) and cash

The amounts comprise cash held by the Group.

(e) Other payables and accrued charges

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued loan interest payable in respect of:		
– loan payables as set out in note 26	16,477	16,477
– loan from the Investor as set out in note 27	175	–
Other accrued operating expenses	<u>15,947</u>	<u>12,894</u>
	<u><u>32,599</u></u>	<u><u>29,371</u></u>

	The Company	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued loan interest payable in respect of:		
– loan payables as set out in note 26	16,477	16,477
Other accrued operating expenses	<u>14,098</u>	<u>12,431</u>
	<u><u>30,575</u></u>	<u><u>28,908</u></u>

25 Trade payables

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash clients	66,915	54,276
Broker, dealers and clearing houses	1	5,381
	<u>66,916</u>	<u>59,657</u>

Included in trade and other payables are payables to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities, which amount to HK\$35,459,000 (2009: HK\$34,155,000). Details of bank balances – trust and segregated accounts are set out in note 24(c) above.

The ageing analysis of the Group's trade payables at the end of the reporting period, based on the settlement due date, is within 30 days.

26 Loan payables

	The Group and the Company	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan payables	<u>60,084</u>	<u>60,084</u>

Included in the loan payables is an amount due to a lender with carrying amount of HK\$2,000,000 (2009: HK\$2,000,000) which does not carry interest as at 31 December 2010. Interest at a rate of 8% per annum will be charged in the event of default. As a winding-up order was made against the Company by the Court on 18 March 2008, such loan has been classified as repayable on demand and no interest was charged for the default.

The remaining amount represents the loan payables which carries interest at 7% per annum. The Company was in default in repayment of the loan in prior year. As a consequence, a winding-up petition against the Company was filed by the lender on 5 June 2007 and a winding-up order was made by the Court on 18 March 2008.

27 Deposits and loan from the Investor

As at 31 December 2010, the Investor has deposited a total sum of HK\$11,500,000 (2009: HK\$7,000,000) to meet the costs and expenses in relation to the restructuring of the Company in accordance with the terms stated in the First Letter, the Second Letter, the Third Letter and the Side Letter as described in note 2 above.

On 22 September 2009, MHF entered into a facility agreement with the Investor pursuant to which the Investor agreed to provide an interest-bearing loan facility of up to HK\$8,000,000 to MHF to finance the regulatory and general working capital requirements of MHSFE. On 21 September 2010, the Investor approved the injection of the HK\$8,000,000 as equity by MHF to MHSFE. MHF further entered into an Amendment Agreement dated 14 October 2010 and an Amendment and Restatement Agreement dated 23 November 2010 with the Investor and to amend certain terms of the facility agreement dated 22 September 2009 and for an additional interest-bearing loan facility of up to HK\$15,700,000. On 1 December 2010, the Investor advanced funds of HK\$15,700,000 to MHF. The loan facility is secured by way of first fixed charge on all interests and dividends from all the issued shares of MHSFE. It carries a fixed interest rate of 5% per annum and is repayable upon completion of the Restructuring Agreement. The total borrowings from the Investor amounted to HK\$23,700,000 as at 31 December 2010.

28 Other borrowings

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	1,500
In more than one year, but not more than two years	–	400
	<u>–</u>	<u>1,900</u>

At 31 December 2009, the Group's other borrowings of HK\$1,900,000 were due to a director of a subsidiary of the Group, which carried an interest rate of 5% per annum and were unsecured. The interest expenses for the first quarter of 2009 were waived by the lender. The Securities and Futures Commission (the "SFC") has agreed to treat these borrowings as approved subordinated loans for the purpose of compliance by the Group with the Financial Resources Rules. During the year ended 31 December 2010, pursuant to the approval granted by the SFC, the Group has fully settled the amount.

29 Amounts due to directors

The amounts due to directors are unsecured, interest free and repayable on demand.

30 Share capital**(a) Authorised and issued share capital**

	2010		2009	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.20 each				
<i>Authorised:</i>				
At 1 January and 31 December	<u>2,000,000,000</u>	<u>400,000</u>	<u>2,000,000,000</u>	<u>400,000</u>
<i>Issued and fully paid:</i>				
At 1 January and 31 December	<u>1,543,507,296</u>	<u>308,701</u>	<u>1,543,507,296</u>	<u>308,701</u>

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2009 and 2010.

(b) Capital management

Capital comprises of share capital and reserves stated on the Group's and the Company's statements of financial position. The Company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company manages capital by regularly monitoring its current and expected liquidity requirements rather than using debt/equity analyses.

Neither the Company nor its subsidiaries, except for MHSFE, is subject to externally imposed capital requirements.

MHSFE, is regulated by the SFC and is required to comply with certain minimum capital requirements according to Hong Kong Securities and Futures Ordinance.

MHSFE manages its capital requirements by assessing shortfalls, if any, between the reported and the required capital levels on daily basis. The management monitors the MHSFE's liquid capital daily to ensure they meet the minimum liquid capital requirement in accordance with the Securities and Futures (Financial Resources) Rules ("FRR") adopted by the SFC. Under the FRR, the MHSFE must maintain its liquid capital in excess of HK\$3 million or 5% of their total adjusted liabilities whichever is higher. The required information is filed with the SFC on a monthly basis. MHSFE had no non-compliance with the capital requirements imposed by FRR during the year except that it failed to comply with the liquid capital requirement under the FRR on 21 September 2010 with a required liquid capital deficit of HK\$4.6 million. The breach was rectified on 22 September 2010 after its immediate holding company, MHF, injected cash of HK\$8 million as share capital into MHSFE.

31 Share premium and reserves

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 10 of the financial statements.

	Share premium account <i>HK\$'000</i> <i>(note i)</i>	Warrant reserve <i>HK\$'000</i> <i>(note ii)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Company				
As at 1 January 2009	42,395	1,415	(453,378)	(409,568)
Total comprehensive loss for the year	<u>–</u>	<u>–</u>	<u>(11,510)</u>	<u>(11,510)</u>
As at 31 December 2009 and 1 January 2010	42,395	1,415	(464,888)	(421,078)
Total comprehensive loss for the year	<u>–</u>	<u>–</u>	<u>(5,577)</u>	<u>(5,577)</u>
As at 31 December 2010	<u><u>42,395</u></u>	<u><u>1,415</u></u>	<u><u>(470,465)</u></u>	<u><u>(426,655)</u></u>

Note (i)

The share premium account represents the excess of proceeds received over the nominal value of the Company's shares issued, less share issue expenses. The application of share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

Note (ii)

On 31 January 2008, the Company issued 154,000,000 unlisted warrants at HK\$0.01 per warrant. The issuance resulted in a net proceed of approximately HK\$1,415,000 to the Company.

Principal terms of the warrants are as follows:

- (a) The exercise period commences on the date of issue of warrants and it will end three years from the date of issuance. Warrants that are not exercised during the exercise period will thereafter lapse and cease to be valid.
- (b) The warrants are issued in registered form and constituted by a Deed Pool on 31 January 2008.
- (c) The exercise price will be HK\$0.25 payable in full in respect of each new share of the Company issued upon the exercise of the warrant. Each warrant carries the entitlement to subscribe for one new ordinary share of the Company.
- (d) In the event of an issue of shares or other securities convertible to shares by the Company, the warrant holders shall not have any participating right in respect of such issue although the exercise price and the number of additional warrants to be issued shall be adjusted, calculated and determined as per the Deed Pool, unless otherwise resolved by the Company in a general meeting.

During the years ended 31 December 2009 and 2010, none of the warrants issued was exercised.

32 Operating lease commitment

Minimum lease payments paid under operating leases in respect of land and buildings during the year amounted to approximately HK\$709,000 (2009: HK\$770,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	196	240

Operating lease payments represent rentals payable by the Group for certain of its office premises with remaining lease terms of approximately 4 months (2009: 4 months) and rentals are fixed throughout the lease periods. The Group does not have an option to purchase the leased assets at the expiry of the lease periods.

33 Retirement benefit schemes

The Group participates in both a defined contribution retirement benefits schemes which is registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) and a mandatory provident fund scheme established under the Mandatory Provident Fund Ordinance in December 2000. Contributions are made based on the lower of (i) a percentage of the employee’s salaries and (ii) statutory ceiling, if any.

Contributions paid to retirement benefits schemes for Directors and staff are charged to profit or loss for the year ended 31 December 2010 and amounted to HK\$124,000 (2009: HK\$130,000). Any forfeited employer contributions in respect of employees who leave the ORSO Scheme prior to such contributions vesting fully will be used by the Group to reduce contributions. There was no forfeited contribution utilised by the Group in 2010 and 2009.

34 Pledge of assets

As at 31 December 2009 and 2010, MHSFE’s shares were pledged to the Investor as the security for the loan from the Investor. The loan facility granted by the Investor was not utilised as at 31 December 2009.

Details of the loan from the Investor are set out in note 27 above.

35 Related party transactions

The Group had the following significant related party transactions:

- (a) Details of investments and outstanding amounts with subsidiaries, other borrowings from a director of a subsidiary and amounts with directors were disclosed in notes 20, 28 and 29 to the financial statements respectively.
- (b) The Group granted the following related party loans on 20 October 1998 to enable the borrowers to reduce the outstanding balances in their margin accounts. These loans were approved by shareholders in the extraordinary general meeting held on 23 July 1999 as required by the Listing Rules.

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. SO Shu Ching, Jason, brother of an ex-director, Ms. SO Wai Yin, Irene	Company controlled by Ms. SO Wai Kwan, Sheila, sister of an ex-director, Ms. SO Wai Yin, Irene
Lender:	A wholly owned subsidiary, Mansion House Capital Limited	A wholly owned subsidiary, Mansion House Capital Limited
Term of loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Partially secured by marketable securities and unlisted shares	Partially secured by marketable securities and unlisted shares
– repayment terms	By 14 equal instalments payable semi-annually with the last instalment due in May 2006	By 14 equal instalments payable semi-annually with the last instalment due in May 2006
Balance at 31 December 2009 and 2010	<u>HK\$73,769,000</u>	<u>HK\$7,074,000</u>
Allowance at 31 December 2009 and 2010	<u>HK\$73,769,000</u>	<u>HK\$7,074,000</u>

These loans were rescheduled in 1999 with the last instalment due in May 2006. However, the loans have been in default since 2000 and a total allowance of approximately HK\$80,843,000 (2009: HK\$80,843,000) has been made.

(c) The Group provided margin financing to the following related parties:

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. SO Shu Ching, Jason, brother of an ex-director, Ms. SO Wai Yin, Irene	Company controlled by Ms. SO Wai Kwan, Sheila, sister of an ex-director, Ms. SO Wai Yin, Irene
Lender:	A wholly owned subsidiary, Mansion House Securities (F. E.) Limited	A wholly owned subsidiary, Mansion House Securities (F. E.) Limited
Term of loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Marketable securities	Marketable securities
Balance at 31 December 2009 and 2010	<u>HK\$8,795,000</u>	<u>HK\$8,359,000</u>
Allowance at 31 December 2009 and 2010	<u>HK\$8,795,000</u>	<u>HK\$8,359,000</u>

The loans have been in default and a total allowance of approximately HK\$17,154,000 (2009: HK\$17,154,000) has been made.

(d) Compensation of key management personnel

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Short-term benefits	2,349	1,350
Post-employment benefits	<u>61</u>	<u>57</u>
	<u><u>2,410</u></u>	<u><u>1,407</u></u>

36 Contingent liabilities

- (a) At the time when the winding-up order was made, several staff of the Company filed claims of unpaid staff costs against the Company amounting to approximately HK\$738,000, which relate to prior periods. Such claims have not been admitted by the Liquidators up to the date of this report.
- (b) In March 2008, The Hongkong Land Property Company Limited filed a Proof of Debt against the Company on the basis of the Company's alleged breach of the tenancy agreement dated 25 June 2007. The claim amounts to approximately HK\$11 million which comprises the outstanding rental, accrued charges, damages and losses as a result of the breach.

The Liquidators are of the view that it will be premature to make any provision in respect of the alleged claims before their legitimacy and the amount of any liabilities can be determined.

37 Events after the end of the reporting period

- (a) On 22 February 2011, the Investor advanced funds of HK\$15 million to MHF, of which HK\$13 million was injected to MHSFE as equity and HK\$2 million was retained by MHF for general corporate purposes.
- (b) On 28 February 2011, the Side Letter was issued by the Investor and the Guarantor and accepted by the Liquidators, under which the Liquidators further extended the Exclusivity Period as set out in note 2 above.

- (c) On 1 April 2011, the Stock Exchange informed the Company that it was allowed to proceed with the Resumption Proposal, subject to prior compliance with the conditions to the satisfaction of the Listing Division within six months from the date of the Stock Exchange's letter. These conditions are set out in note 2 above.

- (d) On 15 April 2011, the Company, the Liquidators (acting as agents for and on behalf of the Company without personal liability), the Investor and the Guarantor entered into the Restructuring Agreement. The principal elements of the Restructuring Agreement are set out in note 2 above.

6. INDEBTEDNESS

Outstanding liabilities

At the close of business on 30 April 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total indebtedness of approximately HK\$153.16 million, comprising loan from the Investor and the corresponding interest payable of approximately HK\$39.41 million, deposits paid by the Investor of approximately HK\$11.50 million, amount due to the Investor of approximately HK\$1.92 million, amount due to directors of approximately HK\$20.07million, loan and interest payables relating to Scheme Creditors of approximately HK\$76.56 million, and other amounts relating to Scheme and Preferential Creditors of approximately HK\$3.70 million.

Pledge of assets

The loan from the Investor is secured by all the issued shares of MHS. There were no unutilised borrowings facilities as of 30 April 2011.

Foreign currency

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on the latest practicable date for the purpose of indebtedness statement.

Contingent liabilities

- (a) At the time when the winding up order was granted, several staff of the Company filed claims of unpaid staff costs against the Company amounting to approximately HK\$738,000, which relate to prior periods. Such claims have not been admitted by the Liquidators up to 30 April 2011.

- (b) In March 2008, The Hongkong Land Property Company Limited filed a proof of debt against the Company on the basis of the Company's alleged breach of the tenancy agreement dated 25 June 2007. The claim amounts to approximately HK\$11 million which comprises the outstanding rental, accrued charges, damages and losses as a result of the breach.

The Liquidators are of the view that it will be premature to make any provision in respect of the alleged claims before their legitimacy and the amount of any liabilities can be determined.

Save as disclosed above or as otherwise mentioned herein and apart from intra-group liabilities and normal trade payables and accrued expenses arising in the ordinary course of business, as at the close of business on 30 April 2011, the Group did not have any outstanding debt securities, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, mortgages, charges, guarantees or other material contingent liabilities.

7. WORKING CAPITAL

The Liquidators are of the opinion that, in the absence of unforeseen circumstances, after taking into account the financial resources available to the Group (including internally generated funds and the available banking facilities) and the net proceeds from the Subscription, the Group will have sufficient working capital for the twelve months from the date of this circular and from the date of resumption of trading in the New Shares.

8. MATERIAL CHANGES

The terms and effects of the Restructuring Agreement dated 15 April 2011 and the Subscription Agreement dated 7 June 2011 have been set out in this circular. In particular, Shareholders may refer to the unaudited pro forma statement of the Group's financial position in Appendix II to this circular for the financial effect of the Restructuring Proposal on the Group's assets and liabilities. Up to the Latest Practicable Date, the Liquidators confirm that there is no material change in the financial or trading position or outlook of the Group since 31 December 2010, the date to which the latest audited financial statements of the Company were made up.

UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION OF THE GROUP**(A) INTRODUCTION TO THE UNAUDITED PRO FORMA STATEMENT OF
FINANCIAL POSITION OF THE GROUP**

The unaudited pro forma statement of financial position of the Group (“the Statement”) was prepared in accordance with Rule 4.29 of the Listing Rules. Set out below is an illustration of the effect of the Capital Restructuring (comprising the Share Consolidation, the Capital Reduction, the Capital Cancellation and the Authorised Share Capital Increase), the Subscription, the Scheme and the Group Reorganisation on the financial position of the Group.

The Statement is based on the audited consolidated statement of financial position of the Group as at 31 December 2010 as extracted from the latest published annual report of the Company for the year ended 31 December 2010 as if the Capital Restructuring, the Subscription and the Group Reorganisation had been completed and the Scheme had been effective on 31 December 2010.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Because of its hypothetical nature, it may not give a true picture of the financial position of the Group following Completion.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendix I, “Financial Information of the Group”, and other financial information included elsewhere in this circular.

APPENDIX II
**UNAUDITED PRO FORMA STATEMENT OF
FINANCIAL POSITION OF THE GROUP**
(B) THE STATEMENT

	Audited consolidated statement of financial position as at 31 December 2010 HK\$'000	Pro forma adjustments						Unaudited pro forma statement of financial position of the Group upon Completion HK\$'000	
		HK\$'000 (note 1)	HK\$'000 (note 2)	HK\$'000 (note 2)	HK\$'000 (note 3)	HK\$'000 (note 4)	HK\$'000 (note 5)		HK\$'000 (note 6)
Non-current assets									
Property, plant and equipment	73							73	
Trading rights	-							-	
Statutory deposits for financial services business	475							475	
	<u>548</u>							<u>548</u>	
Current assets									
Trade receivables	34,500							34,500	
Other receivables, deposits and prepayments	353							353	
Bank balances – trust and segregated accounts	35,459							35,459	
Bank balances (general accounts) and cash	36,918		44,300	92,500	(72,000)	(1)	(10,967)	(983)	89,767
	<u>107,230</u>								<u>160,079</u>
Current liabilities									
Trade payables	66,916								66,916
Other payables and accrued charges	32,599				(23,553)	(43)	(7,022)		1,981
Loan payables	60,084				(60,084)				-
Deposits from the Investor	11,500		(11,500)						-
Loan from the Investor	23,700		(23,700)						-
Amounts due to directors	20,070				(20,070)				-
	<u>214,869</u>								<u>68,897</u>
Net current (liabilities)/assets	<u>(107,639)</u>								<u>91,182</u>
Total assets less current liabilities	<u>(107,091)</u>								<u>91,730</u>
Net (liabilities)/assets	<u>(107,091)</u>	<u>-</u>	<u>79,500</u>	<u>92,500</u>	<u>31,707</u>	<u>42</u>	<u>(3,945)</u>	<u>(983)</u>	<u>91,730</u>
Capital and reserves									
Share capital	308,701	(308,393)	1,282						1,590
Reserves	(415,792)	308,393	78,218	92,500	31,707	42	(3,945)	(983)	90,140
Total (capital deficiency)/ equity attributable to owners of the Company	<u>(107,091)</u>	<u>-</u>	<u>79,500</u>	<u>92,500</u>	<u>31,707</u>	<u>42</u>	<u>(3,945)</u>	<u>(983)</u>	<u>91,730</u>

(C) NOTES TO THE STATEMENT

- (1) The Capital Restructuring shall comprise the Share Consolidation, the Capital Reduction, the Capital Cancellation and the Authorised Share Capital Increase:
- (i) Every 50 issued and unissued Shares of HK\$0.20 each will be consolidated into 1 Consolidated Share as a result of which, 1,543,507,296 issued Shares of HK\$0.20 each will be consolidated into 30,870,145 Consolidated Shares of HK\$10 each;
 - (ii) The par value of each issued and unissued Consolidated Share will be reduced from HK\$10 each to HK\$0.01 each and the credit arising from the Capital Reduction of approximately HK\$308,393,000 will be applied to eliminate the accumulated losses of the Company;
 - (iii) The unissued share capital in the authorised share capital of HK\$400,000,000 will be cancelled and diminished resulting in an authorised and issued share capital of the Company of HK\$308,701; and
 - (iv) The Company's authorised share capital will be increased from HK\$308,701 to HK\$20,000,000 divided into 2,000,000,000 New Shares.

The adjustment reflects the effect of Capital Restructuring that capital reduction of approximately HK\$308,393,000 will be credited to set off against the accumulated losses of the Group.

- (2) The Subscription shall comprise issue of the New Shares of nominal value HK\$0.01 each and the non-interest-bearing non-redeemable Convertible Notes. The adjustment represents the estimated gross proceeds from the Subscription of approximately HK\$172 million, which comprise 128,225,806 New Shares of the Company at a subscription price of HK\$0.62 per New Share and the non-interest-bearing non-redeemable Convertible Notes in the aggregate principal amount of approximately HK\$92.5 million to be issued to the Investor. Amongst the estimated proceeds from the Subscription, HK\$23.7 million and HK\$11.5 million have been received by the Company as loan from the Investor and deposits from the Investor as at 31 December 2010, respectively.

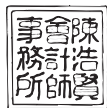
- (3) Pursuant to the Scheme, all indebtedness of the Company due to the Scheme creditors will be discharged for a cash settlement of HK\$72 million out of the proceeds of the Subscription. Other than the loan from the Investor of HK\$23.7 million, the indebtedness of the Company amounted to approximately HK\$127,459,000 as at 31 December 2010, of which HK\$7,022,000 represents the accrued restructuring costs and HK\$11,500,000 represents the deposits from the Investor. Having excluded the accrued restructuring costs and the deposits from the Investor, the discharge of the liabilities will give rise to a gain of approximately HK\$31,707,000.

The following sets out the details of the indebtedness of the Company as at 31 December 2010:

	<i>HK\$'000</i>
Other payable and accruals	30,575
Deposits from Investor	11,500
Loan payables	60,084
Amounts due to subsidiaries	5,230
Amounts due to directors	20,070
	<u>127,459</u>
<i>Less: amounts due to subsidiaries which are eliminated on consolidation</i>	<i>(5,230)</i>
<i>Less: deposits from Investor</i>	<i>(11,500)</i>
<i>Less: accrued restructuring costs</i>	<i>(7,022)</i>
	<u><u>103,707</u></u>

- (4) Pursuant to the Restructuring Agreement, upon Completion, all the issued share capitals of the Excluded Companies will be transferred to a nominee of the Scheme Administrators for the benefit of the Scheme Creditors at a nominal consideration of HK\$1.00 and any guarantee or indemnity given by the Company in respect of the obligations or liabilities of each of the Excluded Companies shall be released and discharged in full upon such transfer. A gain of approximately HK\$42,000 will be recognised, being the difference between the consideration of HK\$1.00 and the net liabilities of the Excluded Companies (net of amounts due to the Remaining Group).

- (5) The adjustment represents the settlement of professional costs and expenses of the implementation of the Restructuring proposal of up to HK\$20 million, of which HK\$16,055,000 has been incurred before the year ended 31 December 2010.
- (6) The adjustment represents the cash value of the assets realised by the Liquidators of the Company. The proceeds will be utilised by the Liquidators for settlement of liquidation expenses other than those included in the restructuring cost of HK\$20 million.

**GRAHAM H.Y. CHAN & CO.**CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)
HONG KONGUnit 1, 15/F., The Center
99 Queen's Road Central
Hong Kong**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF FINANCIAL
POSITION OF THE GROUP****To the Joint and Several Liquidators of Asia TeleMedia Limited (in liquidation)**

We report on the unaudited pro forma statement of financial position of Asia TeleMedia Limited (In Liquidation)(the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the Joint and Several Liquidators of the Company, for illustrative purposes only, to provide information about how the capital restructuring, the subscription of shares and convertible notes, the scheme of arrangement and the group reorganisation might have affected the historical financial information in respect of the Group presented for inclusion in Appendix II to the circular dated 28 June 2011 (the "Circular") issued by the Company. The basis of preparation of the unaudited pro forma statement of financial position of the Group is set out in Appendix II to the Circular.

Respective Responsibilities of Joint and Several Liquidators of the Company and Reporting Accountants

It is the responsibility of the Joint and Several Liquidators of the Company to prepare the unaudited pro forma statement of financial position of the Group in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by Rule 4.29 (7) of the Listing Rules, on the unaudited pro forma statement of financial position of the Group 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 statement of financial position of the Group 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 statement of financial position of the Group with the Joint and Several Liquidators of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of financial position of the Group has been properly compiled by the Joint and Several Liquidators 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 statement of financial position of the Group as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The unaudited pro forma statement of financial position of the Group is for illustrative purpose only, based on the judgements and assumptions of the Joint and Several Liquidators 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 31 December 2010 or any future date.

Opinion

In our opinion:

- a. the unaudited pro forma statement of financial position of the Group has been properly compiled by the Joint and Several Liquidators 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 purpose of the unaudited pro forma statement of financial position of the Group as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Graham H.Y. Chan & Co.

Certified Public Accountants (Practising)

Hong Kong

28 June 2011

THE STOCK MARKET IN HONG KONG

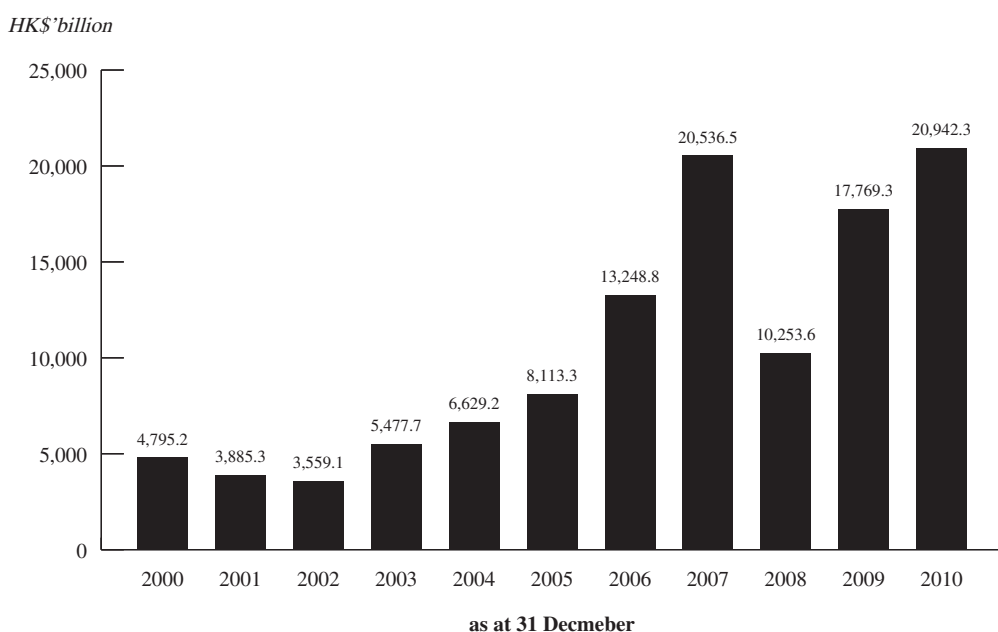
Introduction

For the year 2010, the Hong Kong securities market achieved a sustainable recovery in the second year after the global financial crisis in 2008/09. According to the HKEx Fact Book 2010, the total market capitalisation of the securities market (including the Main Board and the Growth Enterprise Market (“GEM”)) at the end of 2010 was HK\$21,077.0 billion, 18% higher than the year-end total market capitalisation in 2009. At the end of 2010, there were 592 Mainland enterprises listed on the Main Board and the GEM, constituting 57% by market capitalisation and 66% by annual turnover value. In 2010, total equity funds raised was HK\$858.7 billion, with 113 newly listed companies on the Main Board and the GEM raising HK\$449.5 billion. Both the funds raised by initial public offers and the total equity funds raised in the year were record highs.

Securities trading

The two markets operated by the Stock Exchange for securities trading in Hong Kong are the Main Board and the GEM. The Main Board is a platform for larger and more established companies with a trading record of at least three financial years. As at 31 March 2011, there were 1,258 companies listed on the Main Board. The market capitalisation of the Main Board as at 31 March 2011 was HK\$21,259.1 billion. The GEM was introduced in November 1999 in order to provide opportunity for growth companies from all industries and with all sizes to get listed. As at 31 March 2011, 168 companies were listed on the GEM. The GEM’s market capitalisation as at 31 March 2011 amounted to HK\$137.8 billion.

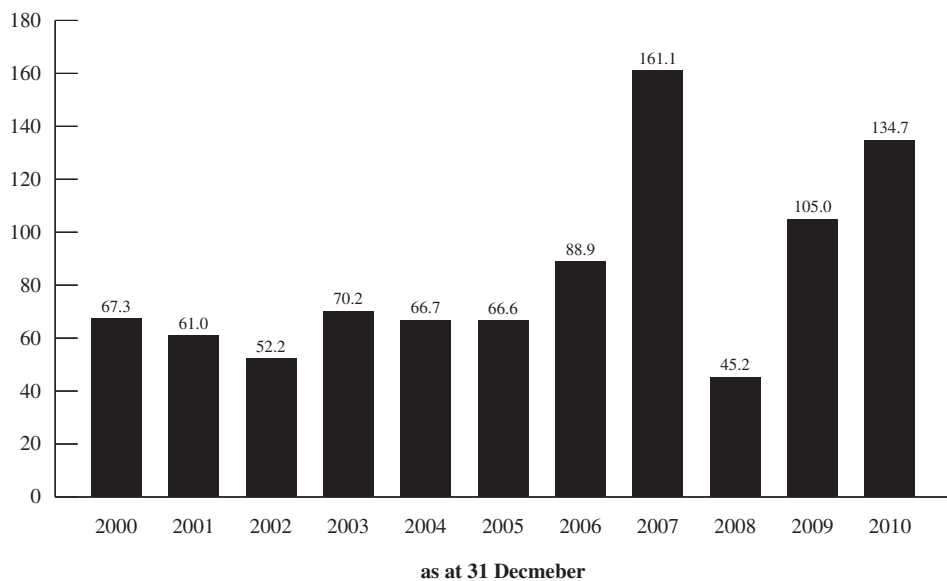
Market capitalisation of companies listed in Hong Kong (Main Board) (2000-2010)



Source: SFC

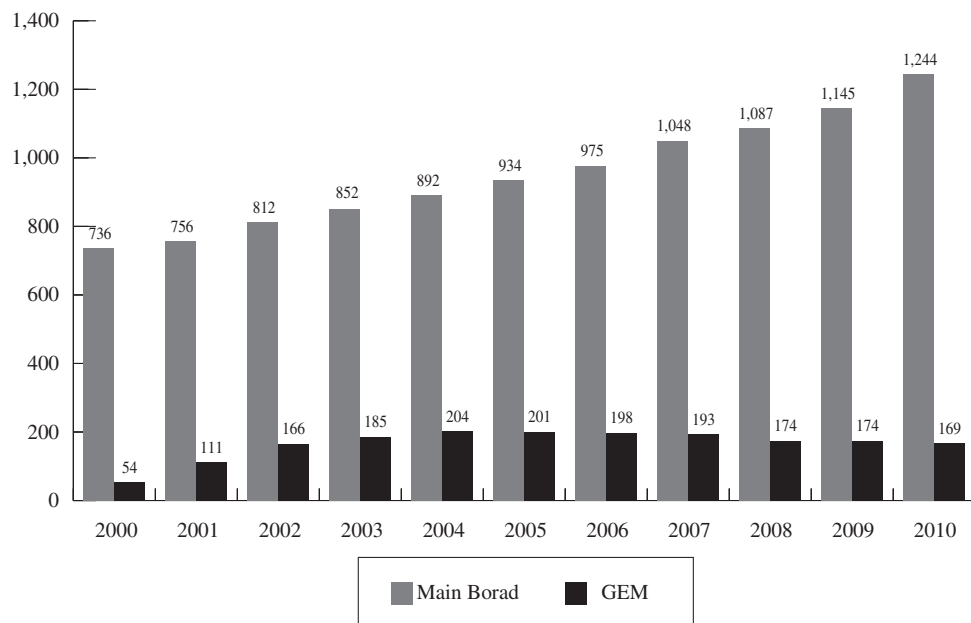
Market capitalisation of companies listed in Hong Kong (GEM) (2000-2010)

HK\$'billion



Source: SFC

Number of listed companies in Hong Kong (2000-2010)



Source: SFC

Stock Exchange Participants

A person who wishes to trade listed securities on or through the facilities of the Stock Exchange must be a Stock Exchange Participant holding a Stock Exchange trading right. A Stock Exchange Participant must be a holder of a Stock Exchange trading right, a limited company incorporated in Hong Kong which is registered with the SFC as a licensed corporation to carry out Type 1 (dealing in securities) regulated activity under the SFO. An Exchange Participant is required to maintain good financial standing and integrity and meet the FRR and the requirements of the Stock Exchange.

Stock Exchange Participants are classified into three categories:

- Category A – the 14 largest firms by market turnover;
- Category B – the 15th to 65th largest firms by market turnover; and
- Category C – other stockbrokers in the market.

Category A firms are engaged mainly in institutional trading, predominantly serving large overseas institutional clients. Category B firms are engaged in a mixture of overseas and local institutional trading and retail trading. Category C firms have historically captured a majority of the retail trading in Hong Kong, but are gradually being squeezed out of the market by Category A and Category B firms.

As at 31 May 2011, there were a total of 548 Stock Exchange Trading Right holders, of which 493 were trading Stock Exchange Participants, 33 were non-trading Stock Exchange Participants and 22 were non-Stock Exchange Participants. Below is the distribution of market participants' market shares from 2006 to 2010:

Year	Category A	Category B	Category C
2006	52.04%	35.61%	12.35%
2007	50.37%	37.75%	11.85%
2008	53.02%	36.30%	10.68%
2009	52.02%	35.34%	12.64%
2010	51.09%	36.15%	12.76%

Source: HKEx fact book 2010

Note: The table includes all Stock Exchange Participant firms that had paid transaction levy, investor compensation levy (if applicable) and trading fee to the Stock Exchange.

Trading and settlement

All securities listed on the Stock Exchange are traded through Automatic Order Matching and Execution System (“AMS”). The Stock Exchange currently adopts the third generation of AMS (“AMS/3”) for its electronic trading platform. AMS/3 has extensive capabilities in various areas, including market model, trading methods, market access and trading facilities and investor access channels. It uses auto-matching as core mode for trading. In addition, AMS/3 also features new methods such as single price auction and quote-based market-making. Other new order types, such as enhanced limit order and special limit order have been introduced to support different investors’ needs. Trades executed on AMS/3 are automatically transferred to CCASS for clearing for settlement among the Stock Exchange Participants on two trading days from the transaction days.

CCASS is a computerised book-entry clearing and settlement system. It accepts share certificates from its participants and holds them in the CCASS depository, and posts electronic share credits to the stock accounts of the depositing participants. Settlement is recorded electronically by HKSCC as net increases or decreases in participants’ stock account balances, without any physical transfer of share certificates. HKSCC also facilitates payments through the use of electronic money transfers between the participants’ designated banks. Stock Exchange Participants are required to settle all their trades in eligible securities through CCASS.

THE CORPORATE FINANCE INDUSTRY IN HONG KONG**Introduction**

Under the SFO, any corporation or institution that intends to carry on advising on corporate finance must be licensed by or registered with the SFC for Type 6 regulated activity. As at 31 March 2011, the number of licensed corporation (corporation not being an authorised financial institution⁽¹⁾ which is granted a licence to carry on one or more than one regulated activity under section 116 of the SFO) and registered institution (authorised financial institution⁽¹⁾ which is registered to carry on one or more than one regulated activity under section 119 of the SFO) licensed or registered to conduct Type 6 regulated activity (advising on corporate finance) were 255 and 38 respectively. Activities undertaken by corporations licensed or institution registered to conduct Type 6 regulated activity (advising on corporate finance), subject to their respective conditions, include providing financial advisory services in various corporate finance transactions, including takeovers and mergers for Hong Kong listed corporations.

¹ *Authorised financial institution means an authorised institution as defined in section 2(1) of the Banking Ordinance (i.e. a bank, a restricted licence bank or a deposit-taking company).*

Mergers and acquisitions in Hong Kong

Based on statistics available from Bloomberg, for the year ended 31 December 2010, there were 529 deals completed (with (i) targets, acquirers or sellers in Hong Kong and (ii) targets, acquirers or sellers listed in Hong Kong) with a total deal value of approximately US\$47.28 billion (equivalent to approximately HK\$368.9 billion). The global economic crisis in the second half of 2008 had also adversely affected the merger and acquisition market, with only 934 and 753 completed deals with total deal values of US\$49.73 billion and US\$42.56 billion (equivalent to approximately HK\$387.9 billion and HK\$332.0 billion) for the years ended 31 December 2008 and 2009 respectively, representing decreases in terms of total deal value of approximately 31.8% and 41.7% respectively as compared to that in 2007 of 1,163 completed deals with total value of US\$72.97 billion (equivalent to approximately HK\$569.2 billion).

COMPETITION AND MARKET ENVIRONMENT

A main entry barrier in Hong Kong's brokerage business and corporate finance business is the paid-up share capital, liquid capital and licensing requirements under the SFO. Securities dealing and corporate finance are regulated activities under the SFO. New entrants who wish to conduct such regulated activities must be licensed by the SFC to become a licensed corporation. Each licensed corporation must have not less than two Responsible Officers to directly supervise the conduct of each regulated activity. These Responsible Officers must have direct relevant experience and educational background in the respective area they are being licensed for, before they are deemed fit and proper to be licensed. Depending on the type(s) of regulated activity/activities, licensed corporations have to at all times maintain the paid-up share capital and liquid capital of not less than the specified amounts according to the FRR. Please also refer to the section headed "Regulations of securities market and corporate finance industry in Hong Kong" below for details.

The rapid increase in the transaction size and the transaction value of the stock market in Hong Kong has created a growing attraction and strong demand to the local brokerage industry and has led to fierce competition in the local brokerage industry during these years in terms of business as well as human capital. Local banks and multinational financial institutions with global network and a local presence in Hong Kong compete for both traditional telephone and online based clients within Hong Kong.

Both local and international licensed corporations compete for fees and commissions. Minimum brokerage commission rates in respect of securities and commodities trading in Hong Kong have been deregulated with effect from 1 April 2003, and therefore brokerage commissions are subject to market forces and negotiations with clients and may become susceptible to downward pressure from time to time. Market participants have to adapt to this more competitive commission regime. Apart from pricing, market participants also compete on client relationship, brand recognition, human resources and technical competence.

FUTURE OPPORTUNITIES AND CHALLENGES

Based on the information disclosed in the website of Hong Kong Exchanges and Clearing Limited, there were 1,437 companies listed on the Main Board and the GEM Board as at 31 May 2011. In addition, China is a huge country, full of opportunities and risk for business development executives. Existing sources of information may often be misleading, incomplete, and not focused on the precise investors are interested in. These create opportunities as well as challenges for securities brokers and market participants.

REGULATIONS OF SECURITIES MARKET AND CORPORATE FINANCE INDUSTRY IN HONG KONG

Introduction

The securities markets and corporate finance industry in Hong Kong are regulated by the SFC. The SFC is an independent non-governmental statutory body outside the civil service system. The SFC also regulates other financial intermediaries and the representatives from these financial intermediaries, i.e. licensed corporations in Hong Kong who are not necessarily members of the Stock Exchange.

The SFO stipulates nine types of regulated activities that can be carried on by intermediaries:

- Type 1 – dealing in securities;
- Type 2 – dealing in futures contracts;
- Type 3 – leveraged foreign exchange trading;
- Type 4 – advising on securities;
- Type 5 – advising on futures contracts;
- Type 6 – advising on corporate finance;
- Type 7 – providing automated trading services;
- Type 8 – securities margin financing; and
- Type 9 – asset management.

Responsible Officers

All participants, corporations or individuals, carrying on any regulated activities have to be licensed by or registered with the SFC. Each licensed corporation must appoint at least two Responsible Officers to directly supervise the conduct of each regulated activity and for each regulated activity, the licensed corporation shall have at least one Responsible Officer available at all times to supervise the business. The same individual may be appointed to be a Responsible Officer for more than one regulated activity provided that he is fit and proper to be so appointed and there is no conflict in the roles assumed.

In addition, at least one of the Responsible Officers must be an executive director as defined under the SFO who is a director of the licensed corporation and actively participates in or is responsible for directly supervising the business of a regulated activity for which the licensed corporation is licensed.

Source: Licensing Information Booklet published by the SFC

Minimum capital requirements and liquid capital

Licensed corporations have to maintain at all times paid-up share capital and liquid capital not less than the specified amounts under the FRR. If a licensed corporation conducts more than one type of regulated activity, the minimum paid-up share capital and liquid capital that it must maintain shall be the higher or the highest amount required amongst those regulated activities.

The following table summarises the minimum paid-up capital and liquid capital that a licensed corporation is required to maintain for Types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance), 7 (providing automated trading services) and 9 (asset management) regulated activities:

Regulated activities	Minimum paid-up share capital	Minimum liquid capital
Type 1 – Dealing in securities		
(a) in the case where the corporation provides securities margin financing	HK\$10,000,000	HK\$3,000,000
(b) in any other case	HK\$5,000,000	HK\$3,000,000

Regulated activities	Minimum paid-up share capital	Minimum liquid capital
Type 4 – Advising on securities		
(a) in the case where in relation to Type 4 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	HK\$100,000
(b) in any other case	HK\$5,000,000	HK\$3,000,000
Type 6 – Advising on corporate finance		
(a) in the case where in relation to Type 6 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	HK\$100,000
(b) in any other case	HK\$5,000,000	HK\$3,000,000
Type 7 – Providing automated trading services	HK\$5,000,000	HK\$3,000,000
Type 9 – Asset management		
(a) in the case where in relation to Type 9 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	\$100,000
(b) in any other case	HK\$5,000,000	HK\$3,000,000

Source: Licensing Information Booklet published by the SFC

Pursuant to the FRR, a licensed corporation shall maintain the higher of the minimum liquid capital or 5% of the aggregate of (a) its adjusted liabilities; (b) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and (c) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements. Adjusted liabilities means the licensed corporation's on-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities but excluding amounts stipulated in the definition of "adjusted liabilities" under the FRR.

For the purpose of this Appendix, “Share” shall mean shares of the Company from time to time.

The principal terms of the Share Option Scheme proposed to be adopted at the EGM are as follows:

1. PURPOSE OF THE SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time.

2. BASIS OF ELIGIBILITY OF THE PARTICIPANTS

- (a) The Board may from time to time grant Options to any employees (whether full-time or part-time), directors or consultants of each member of the Group, provided that the Board may have absolute discretion to determine whether or not one falls within the above category.
- (b) In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

3. CONDITIONS

The Share Option Scheme is conditional upon: (1) the passing of an ordinary resolution approving the adoption of the Share Option Scheme by the Shareholders at a general meeting and authorising the Directors to grant Options to Participants and to allot and issue Shares pursuant to the exercise of any Options granted under the Share Option Scheme; and (2) the Stock Exchange granting approval of the listing of and permission to deal in the Shares to be issued under the Share Option Scheme.

4. DURATION AND ADMINISTRATION

Subject to the fulfilment of the conditions in paragraph 3 and the termination provisions in paragraph 16, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further Options will be issued. Subject to the compliance with the provisions of Chapter 17 under the Listing Rules, the provisions of the Share Option Scheme shall remain in full force and effect, and Options which are granted during the life of the Share Option Scheme may continue to be exercisable for a period of 6 months from the date of expiry of the Share Option Scheme in accordance with their terms of issue. The period within which the Shares must be taken up under the Option, must not be more than 10 years from the date of grant of the Option.

5. GRANT OF OPTIONS

- 5.1 On and subject to the requirements of the Listing Rules and the terms of the Share Option Scheme, the Board shall be entitled at any time, within 10 years after the Adoption Date to make a Share Option Offer to any Participant as the Board may in its absolute discretion select and subject to any such conditions as the Board may at its absolute discretion think fit, to subscribe for such number of Shares as the Board may (subject to paragraphs 9 and 10) determine at the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option pursuant to paragraph 6 (the “Option Subscription Price”).
- 5.2 No Share Option Offer shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Board (as such date is first notified by the Company to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no Option may be granted.
- 5.3 A Share Option Offer shall be made to a Participant by letter (the “Share Option Offer Letter”) in such form as the Board may from time to time determine specifying the number of Shares, the Option Period, Option Subscription Price and the other relevant terms and conditions of the Option and requiring the Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and all other conditions attaching to the Share Option Offer.

- 5.4 A Share Option Offer must be made on a day on which the Stock Exchange is open for business of dealing in securities (“trading day”) and shall remain open for acceptance by the Participant concerned for a period of not less than ten business days from the date of the Share Option Offer, except that in case a Share Option Offer is made within the last three business days of the duration of the Share Option Scheme, the Share Option Offer shall remain open for acceptance on a business day by the Participant concerned for a period of not exceeding the duration of the Share Option Scheme. No Share Option Offer shall be capable of or open for acceptance after the 10th anniversary of the Adoption Date or after the Share Option Scheme has been terminated in accordance with the provisions thereof, whichever is earlier.
- 5.5 A Share Option Offer shall be deemed to have been accepted by the Grantee and the Option to which the Share Option Offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the Share Option Offer Letter comprising acceptance of the Share Option Offer duly signed by the Grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the granting thereof is received by the Company within the period as stipulated above, and the Option to which the Share Option Offer relates shall be deemed to have been granted on the date of the Share Option Offer (the “Share Option Offer Date”). Such remittance shall in no circumstances be refundable or be considered as part of the Option Subscription Price.

6. OPTION SUBSCRIPTION PRICE

Subject to any adjustments made pursuant to paragraph 11 hereof, the Option Subscription Price in respect of each Share issued pursuant to the exercise of Options granted hereunder shall be a price solely determined by the Board and notified to a Participant and shall be at least the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange’s daily quotation sheet on the Share Option Offer Date, which must be a trading day;
- (b) a price being the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the 5 trading days immediately preceding the Share Option Offer Date; and
- (c) the nominal value of a Share.

7. EXERCISE OF OPTIONS

- 7.1 An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests (legal or beneficial) in favour of any third party over or in relation to any Option or attempt to do so.
- 7.2 Unless otherwise determined by the Board and specified in the Share Option Offer Letter (as defined in sub-paragraph 5.3) at the time of the Share Option Offer, there is neither any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised. An Option may be exercised in whole or in part by the Grantee (or his personal representative(s)) giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the total Option Subscription Price for the Shares and the remittance in respect of which the notice is given.
- 7.3 Subject to paragraph 3 and as hereinafter provided and subject to the terms and conditions upon which such Option was granted, the Option may be exercised by the Grantee at any time during the Option Period provided that:
- (a) in the event of the Grantee ceases to be a Participant for any reason other than on the Grantee's death or the termination of the Grantee's employment, directorship, office or appointment on one or more of the grounds specified in sub-paragraph 8.1(d), the Grantee may exercise the Option up to the Grantee's entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of 3 months (or such longer period as the Board may determine) following the date of such cessation, which date shall be the last actual working day with the relevant company whether salary is paid in lieu of notice or not, or the last date of office or appointment as director of, as consultant, professional or other advisers to the relevant company, as the case may be, in the event of which, the date of cessation as determined by a resolution of the board of directors or governing body of the relevant company shall be conclusive;

- (b) in the event the Grantee dies before exercising the Option in full and none of the events which would be a ground for termination of the Grantee's employment, directorship, office, appointment or engagement under subparagraph 8.1(d) arises, the personal representative(s) of the Grantee shall be entitled within a period of 6 months or such longer period as the Board may determine from the date of death, to exercise the Option up to the entitlement of such Grantee as at the date of death (to the extent which has become exercisable and not already exercised);

- (c) if a general or partial offer by way of take-over or share repurchase offer or scheme of arrangement or otherwise in like manner is made to all the Shareholders (other than by way of scheme of arrangement pursuant to subparagraph 7.3(d)) (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and if such offer becomes or is declared unconditional, the Board shall forthwith give the relevant notice to the Grantee, the Grantee (or his personal representative(s)) may by notice in writing to the Company within 14 days after the date on which the offer becomes or is declared unconditional exercise the Option (to the extent which has become and remains exercisable on the date of the notice of the offeror and not already exercised) to its full extent or to the extent specified in such notice;

- (d) if a compromise or arrangement between the Company and its Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies (other than a general offer or a scheme of arrangement contemplated in sub-paragraphs 7.3(c)), the Company shall give notice thereof to the Grantee on the same date as it despatches the notice which is sent to each Shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the Grantee (or his personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of 2 months thereafter and the date on which such compromise or arrangement is sanctioned by the

court of competent jurisdiction, exercise any of his Options (to the extent which has become exercisable and not already been exercised) whether in full or in part, but the exercise of an Option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. Upon such compromise or arrangement becoming effective, all Options shall lapse except insofar as previously exercised under the Share Option Scheme. The Company may thereafter require the Grantee (or his personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of Options in these circumstances so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement;

- (e) in the event a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind up the Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it despatches such notice to convene the Shareholders' meeting, give notice thereof to all Grantees. Each Grantee (or his legal personal representative(s)), subject to the provisions of all applicable laws, may by notice in writing to the Company (such notice to be received by the Company not later than 5 business days prior to the proposed general meeting of the Company) exercise the Option (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice, such notice to be accompanied by a payment for the full amount of the aggregate Option Subscription Price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid. If such resolution is duly passed, all Options shall, to the extent that they have not been exercised, thereupon cease and determine; and

- (f) The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the memorandum and articles of association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue, provided always that when the date or exercise of the Option falls on a date upon which the register of Shareholders is closed then the exercise of the Option shall become effective on the first business day in Hong Kong on which the register of Shareholders is re-opened.

8. LAPSE OF OPTION

- 8.1 An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:
- (a) the expiry of the Option Period;
 - (b) the expiry of the periods referred to in sub-paragraph 7.3(a) or (b);
 - (c) subject to the scheme of compromise or arrangement becoming effective, the expiry of the period referred to in sub-paragraph 7.3(d);
 - (d) the date on which the Grantee ceases to be a Participant by reason of the termination of his employment, directorship, office or appointment on the grounds that he has been guilty of misconduct, or has been in breach of material term of the relevant employment contract, service contract or engagement contract (as the case may be), or appears either to be unable to pay or have no reasonable prospect to be able to pay debts within the meaning of any applicable legislation in relation to bankruptcy or insolvency, or has become bankrupt or insolvent, or has been served a petition for bankruptcy or winding-up, or has made any arrangements or composition with his creditors generally,

or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board or the board of the relevant company, as the case may be) on any other ground on which an employer, a sourcing party or an engaging party would be entitled to terminate his employment, directorship, office or appointment at common law or pursuant to any applicable laws or under the Grantee's employment contract, service contract or engagement contract (as the case may be) with the relevant company (as the case may be), in the event of which a resolution of the board of directors of the Group (as the case may be) to the effect that the employment, directorship, office or appointment of a Grantee has or has not been terminated on one or more of the grounds specified in this sub-paragraph 8.1(d) shall be conclusive;

- (e) the date of the commencement of the winding-up of the Company;
- (f) the date on which the Grantee commits a breach of sub-paragraph 7.1; or
- (g) the date on which the offer referred to in sub-paragraph 7.3(c) above closes.

The Company shall owe no liability to any Grantee for the lapse of any Option under this paragraph 8.

- 8.2 The outstanding Options granted may not be exercised if all or part of the exercise of the Option will result in the holding of the total issued Shares by the public falling below 25% (or such other percentage stipulated under the Listing Rules).

9. MAXIMUM NUMBER OF SHARES AVAILABLE FOR SUBSCRIPTION

9.1 Subject to sub-paragraph 9.2:

- (a) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 10% of the total number of Shares as at the date of passing of the resolution of the Shareholders approving the Share Option Scheme, unless the Company obtains an approval from its Shareholders pursuant to sub-paragraph 9.1(b). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating such 10% limit.
- (b) The Company may seek approval of its Shareholders in general meeting for refreshing the 10% limit set out in sub-paragraph 9.1(a) under the Share Option Scheme such that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company (or its subsidiary) under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. Options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes or exercised options) will not be counted for the purpose of calculating such limit as refreshed. In such a case, the Company shall send a circular to its Shareholders containing the information required under the Listing Rules.
- (c) The Company may seek separate approval of its Shareholders in general meeting for granting Options beyond the 10% limit provided that the Options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. In such a case, the Company shall send a circular to its Shareholders containing, amongst other terms, a generic description of the specified Participant(s) who may be granted such Options, the number of Shares subject to the Options to be granted, the terms of the Options to be granted, the purpose of granting Options to the specified Participant(s), an explanation as to how the terms of these Options serve such purpose and such other information as required under the Listing Rules.

9.2 Notwithstanding any provision in paragraph 9.1 and subject to paragraph 11, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company (or its subsidiary) if this will result in such limit being exceeded.

10. MAXIMUM ENTITLEMENT OF SHARES OF EACH PARTICIPANT

10.1 (a) Subject to sub-paragraphs 10.1(b), (c) and (d), the total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

(b) Notwithstanding sub-paragraph 10.1(a), where any further grant of Options to a Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such Participant and his associates abstaining from voting. The number and terms (including the Option Subscription Price) of the Options to be granted to such Participant shall be fixed before the Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the Option Subscription Price. In such a case, the Company shall send a circular to its Shareholders containing, amongst other terms, the identity of such Participant, the number and the terms of the Options to be granted (and options previously granted to such Participant) and such other information as required under the Listing Rules.

(c) In addition to paragraph 9 and sub-paragraphs 10.1(a) and 10.1(b), any grant of Options to a Participant who is a Director, chief executive of the Company or substantial Shareholder or their respective associates must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the Grantee).

- (d) In addition to paragraph 9 and sub-paragraphs 10.1(a) and 10.1(b), where the Board proposes to grant any Option to a Participant who is a substantial Shareholder or an independent non-executive Director, or any of their respective associates, which would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate more than 0.1% of the total number of Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

such proposed grant of Options must be approved by the Shareholders in general meeting. In such a case, the Company shall send a circular to its Shareholders containing all those terms as required under the Listing Rules. The Participant concerned and all connected persons of the Company must abstain from voting in favour of the resolution at such general meeting. Any vote taken at the meeting to approve the grant of such Options must be taken on a poll.

- 10.2 Subject to sub-paragraphs 9.1, 9.2 and 10.1, in the event of any alteration in the capital structure of the Company whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company or otherwise howsoever (other than as a result of an issue of Shares as consideration in a transaction or a placing or subscription of Shares in Cash), the maximum number of Shares referred to in sub-paragraphs 9.1, 9.2 and 10.1 will be adjusted in such manner as an independent financial adviser or the auditors for the time being of the Company (the “Auditors”) (acting as experts and not as arbitrators) shall confirm to the Directors in writing to be fair and reasonable and in compliance with the requirements under the Listing Rules.

11. ALTERATION OF CAPITAL STRUCTURE

In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalization issue, rights issue, subdivision, consolidation, or reduction of the share capital of the Company or otherwise howsoever in accordance with the applicable legal requirements and requirements of the Stock Exchange (excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party or a placing or subscription of Shares in cash), such corresponding alterations (if any) shall be made to:

- (i) the number or nominal amount of Shares subject to the Option so far as unexercised; and/or
- (ii) the Option Subscription Price; and/or
- (iii) the method of exercise of the Option (if applicable),

as an independent financial adviser or the Auditors shall at the request of the Board certify in writing to the Directors, either generally or as regards any particular Grantee, to be in their opinion fair and reasonable and that any such alterations shall satisfy the requirements set out in the note to Rule 17.03(13) of the Listing Rules and shall give a Grantee as nearly as possible the same proportion of the issued share capital of the Company as that to which the Grantee was previously entitled, provided that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value (in which case the subscription price shall be reduced to the nominal value) and/or to the advantage in respect of the Grantee without specific prior Shareholders' approval. The capacity of the independent financial adviser or the Auditors in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the Grantees. The costs of the independent financial adviser or the Auditors shall be borne by the Company.

12. SHARE CAPITAL

The exercise of any Option shall be subject to the Shareholders in a general meeting approving any necessary increase in the authorised share capital of the Company. Subject thereto, the Board shall make available sufficient authorised but unissued share capital of the Company to meet subsisting requirements on the exercise of Options.

13. DISPUTES

Any dispute arising in connection with the Share Option Scheme (whether as to the number of Shares the subject of an Option, the amount of the Option Subscription Price or otherwise) shall be referred to the decision of the Board whose decision shall be final, conclusive and binding.

14. ALTERATION OF THE SHARE OPTION SCHEME

- 14.1 The provisions of the Share Option Scheme may be altered in any respect by resolution of the Board at its absolute discretion except that the provisions of the Share Option Scheme as to all such matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of the Participants except with the prior approval of the Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted prior to such alteration.
- 14.2 Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of the Options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- 14.3 The amended terms of the Share Option Scheme or the Options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.
- 14.4 Any change to the authority of the Directors or scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

15. CANCELLATION OF THE OPTIONS GRANTED

The Board may at any time at its absolute discretion cancel any Option granted but not exercised. Where the Company cancels Options and makes a Share Option Offer of the grant of new Options to the same Option holder, the Share Option Offer of the grant of such new Options may only be made, under the Share Option Scheme with available Options (to the extent not yet granted and excluding the cancelled Options) within the limit approved by the Shareholders as mentioned in paragraph 9.

16. TERMINATION OF THE SHARE OPTION SCHEME

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. Upon such termination, details of the Options granted (including options exercised or outstanding) under the Share Option Scheme are required under the Listing Rules to be disclosed in the circular to the Shareholders seeking approval of the first new scheme established thereafter. All outstanding Options granted before termination of the Share Option Scheme shall continue to be valid and exercisable for a period of 6 months from the date of the termination of the Share Option Scheme in accordance with the Share Option Scheme.

17. MISCELLANEOUS

The Share Option Scheme and all Options granted hereunder shall be governed by and construed in accordance with the Listing Rules and the laws of Hong Kong in force from time to time.

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to among other things, the Group, the Restructuring Agreement, the Subscription Agreement and the transaction contemplated thereunder, the Whitewash Waiver, the Special Deals and the Investor.

The Liquidators, as agents of the Company, jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that in relation to the Investor, CCT Asset Management and CCT Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Investor) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

Further, the Liquidators, as agents of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The sole director of the Investor, Mr. Ko, accepts full responsibility for the accuracy of the information contained in this circular (other than those in relation to the Group or the Liquidators) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Company or the Liquidators) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

As trading in the Shares has been suspended since 2:54 p.m. on 18 March 2008, information about the closing prices of the Shares on the Stock Exchange on the Latest Practicable Date, on the last business day immediately preceding the date of the Joint Announcement and at the end of each of the calendar months during the Relevant Period is not available, and neither are the highest and lowest closing prices of the Shares during the Relevant Period. The last closing price before the Suspension was HK\$0.1 on 18 March 2008

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors and chief executives of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”), were as follows:

Name of Director	Nature of interest	Number of Shares held	
		Long position	Percentage of shareholding
Mr. LU Ruifeng	Held by controlled corporations (<i>Note</i>)	712,889,808	46.19%

Note: According to the disclosure of interests filing dated 28 December 2007 published on the website of the Stock Exchange, Mr. Lu Ruifeng was interested in 712,889,808 Shares comprising (i) 1,389,808 Shares held by Asia TeleMedia Holdings Limited, the entire issued share capital of which was wholly owned by Mr. Lu Ruifeng; (ii) 693,725,000 Shares held by China United Telecom Limited, 35% of the issued share capital of which was held by Asia TeleMedia Holdings Limited; and (iii) 17,775,000 Shares held by Transmedia Asia Limited, which was a wholly-owned subsidiary of China United Telecom Limited. In addition, according to the abovementioned disclosure of interests filing, Mr. Lu Ruifeng was also interested in cash settled options that represented 1,500,000 Shares. These options have lapsed and the exercise period of these options expired on 27 December 2010.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or the Model Code, or which were required to be entered on the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required to be disclosed herein pursuant to the Takeovers Code or the Model Code.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than the Directors and chief executive of the Company) had or were deemed to have interests or short positions in the shares and underlying shares of the Company which are required 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 nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any member of the Group or any option thereof:

Name of shareholder	Nature of interest	Number of shares held (long position)	Approximate % of the issued share capital
Shares (before Capital Restructuring becoming effective)			
China United Telecom Limited (<i>Note 1</i>)	Beneficial owner	693,725,000	44.95%
	Interest of controlled corporation	17,775,000	1.15%
Asia TeleMedia Holdings Limited (<i>Note 2</i>)	Interest of controlled corporation	711,500,000	46.10%
	Beneficial owner	1,389,808	0.09%
High Reach Assets Limited	Beneficial owner	184,370,000	11.94%
Mr. Evans Carrera LOWE (<i>Note 3</i>)	Interest of controlled corporation	184,370,000	11.94%
New Shares (after Capital Restructuring becoming effective)			
Mr. Ko (<i>Note 4</i>)	Interest of controlled corporation	277,419,354	898.67%
Kwan Wing Holdings Limited (<i>Note 4</i>)	Interest of controlled corporation	277,419,354	898.67%
The Investor (<i>Note 4</i>)	Beneficial owner	277,419,354	898.67%

Notes:

- China United Telecom Limited, through its wholly-owned subsidiary, Transmedia Asia Limited, was deemed to be interested in 17,775,000 Shares by virtue of the SFO.

2. Asia TeleMedia Holdings Limited owned 35% of the entire issued share capital of China United Telecom Limited, and was therefore deemed, by virtue of the SFO, to be interested in the totalling 711,500,000 shares deemed held by China United Telecom Limited.
3. The entire issued share capital of High Reach Assets Limited was beneficially owned by Mr. Evans Carrera LOWE and was therefore deemed, by virtue of the SFO, to be interested in the 184,370,000 shares held by High Reach Assets Limited.
4. These shares represent the (i) 128,225,806 Subscription Shares to be allotted and issued to the Investor upon completion of the Subscription Agreement; and (ii) the 149,193,548 CN Shares to be allotted and issued to the Investor upon the exercise in full of the conversion rights attaching to the Convertible Notes. Mr. Ko is beneficially interested in the entire issued share capital of Kwan Wing Holdings Limited, which in turn is beneficially interested in the entire issued share capital of the Investor. Accordingly, Mr. Ko and Kwan Wing Holdings Limited are deemed to be interested in the New Shares which the Investor are interested in. The percentage of shareholding has taken into account the effect of the Share Consolidation, assuming the same had taken effect on the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Liquidators, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were required to be disclosed herein pursuant to the Takeovers Code or the Model Code.

(c) The Investor

As at the Latest Practicable Date, none of the Investor, its sole director, its ultimate beneficial owner and parties acting in concert with any one of them had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, other than the agreement to subscribe for the New Shares and the Convertible Notes by the Investor pursuant to the Restructuring Agreement and the Subscription Agreement.

(d) Others

As at the Latest Practicable Date:

- (i) none of the subsidiaries of the Company, nor any pension funds of the Company and of any of its subsidiaries, nor the Liquidators or any advisers to the Company as specified in class (2) of the definition of associate (as defined in the Takeovers Code) including, among others, Graham H.Y. Chan & Co. and Investec Capital Asia Limited owned or controlled any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

- (ii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Investor, parties acting in concert with it, the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associates as defined in the Takeovers Code;
- (iii) no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company;
- (iv) no persons, prior to the posting of this circular, had irrevocably committed themselves to vote for or against the Restructuring Proposal, the Whitewash Waiver or the Special Deals in respect of their shareholdings in the Company; and
- (v) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company had been borrowed or lent by the Directors, the Investor and its ultimate beneficial owner and parties acting in concert with any of them during the Relevant Period, save that the Directors have not responded to any communication from the Liquidators so the Liquidators have no actual knowledge in respect of the Directors.

4. DEALINGS IN SECURITIES OF THE COMPANY

(a) The Directors

Since none of the Directors have responded to the Liquidators' enquiries, the Liquidators cannot assert whether or not any of the Directors or parties acting in concert with any of them has dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period. However, the Liquidators are not aware of any such dealing.

(b) The Investor

None of the Investor, its sole director, its ultimate beneficial owner and parties acting in concert with any of them had dealt in any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period save for the Letter of Intent, the Restructuring Agreement and the Subscription Agreement.

5. INTERESTS AND DEALINGS IN THE INVESTOR

Neither the Directors nor the Company had any interest in the shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Investor as at the Latest Practicable Date nor had any of them dealt in any shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Investor during the Relevant Period.

6. ARRANGEMENTS AFFECTING THE DIRECTORS

As at the Latest Practicable Date:

- (a) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Investor or parties acting in concert with it and any of the Directors or recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the outcome of the Restructuring Agreement, (including, among other things, the Subscription) the Whitewash Waiver or the Special Deals or otherwise connected therewith;
- (b) Mr. Lu Ruifeng and Mr. Yiu Hoi Ying, executive Directors, and Mr. Li Chun, an independent non-executive Director, are Scheme Creditors who will receive settlement of their debts due by the Company from the Scheme if their Claims are admitted, details of which are set out in the “Letter from the Liquidators”. Save as aforesaid, the Liquidators are not aware of any agreement, arrangement or understanding between any Director and any other person which is conditional on or dependent upon the outcome of the Restructuring Agreement, the Whitewash Waiver or the Special Deals or otherwise connected therewith, and the Liquidators cannot make any assertion in this regard;
- (c) there was no benefit to be given to any Director as compensation for loss of office in connection with the Restructuring Agreement, the Whitewash Waiver or the Special Deals or otherwise connected therewith;
- (d) save as disclosed in (b) above, there was no material contracts that had been entered into by the Investor in which the Directors have material personal interests; and
- (e) as at the Latest Practicable Date, so far as was known to the Liquidators, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Company subsisting at the Latest Practicable Date which is significant in relation to the business of the Group, save for the Restructuring Agreement, the Subscription Agreement and the Special Deals.

7. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors, the proposed Directors or experts as referred to in this circular had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31 December 2010, the date to which the latest published audited financial statements of the Group were made up.

8. DIRECTORS' SERVICE CONTRACTS

The Liquidators have not been able to locate any contracts entered into between the Company and its Directors from the books and records available to them.

As at the Latest Practicable Date, none of the Directors have entered into any service contracts with the Company or any of its subsidiaries or associated companies:

- (a) which (including both continuous and fixed term contracts) have been entered into or amended within the Relevant Period;
- (b) which are continuous contracts with a notice period of twelve months or more; or
- (c) which are fixed term contracts with more than twelve months to run irrespective of the notice period.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained or referred to in this circular:

Name	Qualification
Graham H.Y. Chan & Co.	Certified Public Accountants (Practising), Hong Kong
Investec Capital Asia Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, none of Graham H.Y. Chan & Co. and Investec Capital Asia Limited had any shareholding interest in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

Graham H.Y. Chan & Co. and Investec Capital Asia Limited have given, and have not withdrawn, their respective written consents to the issue of this circular with the inclusion of their reports or letters and reference to their names, as the case may be, in the form and context in which they respectively appear.

10. LITIGATION

The Company is in liquidation pursuant to an order of the Court dated 18 March 2008. Pursuant to section 186 of the Companies Ordinance, no action or proceeding shall be proceeded with or commenced against the Company except by leave of the Court. All liabilities of the Company (whether certain or contingent) and as stated in the proofs of debts duly lodged with the Liquidators by the Creditors will be dealt with under the Scheme. Under the Scheme, admissible claims include all liabilities (subject to adjudication) and creditors with the benefit of claims against the Company that arose on or before the date of the winding up order. If the Restructuring Proposal is successfully implemented, all liabilities of the Company will be compromised and discharged in full pursuant to the Scheme. As such, the Company is not engaged in any litigation or arbitration of material importance and no material litigation or claim of material importance is pending or threatened against the Company.

As set out in the section “Financial information on the Group” (Appendix I), the Group has the following contingent liabilities:

- (a) At the time when the winding up order was granted, several staff of the Company filed claims of unpaid staff costs against the Company amounting to approximately HK\$738,000, which relate to prior periods. Such claims have not been admitted by the Liquidators up to 30 April 2011.
- (b) In March 2008, The Hongkong Land Property Company Limited filed a proof of debt against the Company on the basis of the Company’s alleged breach of the tenancy agreement dated 25 June 2007. The claim amounts to approximately HK\$11 million which comprises the outstanding rental, accrued charges, damages and losses as a result of the breach.

The Liquidators are of the view that it will be premature to make any provision in respect of the alleged claims before their legitimacy and the amount of any liabilities can be determined.

Save as disclosed above or as otherwise mentioned herein and apart from intra-group liabilities and normal trade payables and accrued expenses arising in the ordinary course of business, as at the close of business on 30 April 2011, the Group did not have any outstanding debt securities, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, mortgages, charges, guarantees or other material contingent liabilities.

Save as disclosed above in this section, none of the members of the Group was engaged in any litigation or arbitration of material importance and no material litigation or claim of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date.

11. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business carried on or intend to be carried on by the Group, have been entered into by the Group after the date two years before the date of the Joint Announcement and up to and including the Latest Practicable Date.

- (a) the Subscription Agreement;
- (b) the Restructuring Agreement;
- (c) the Letter of Intent;
- (d) the escrow agreement dated 14 July 2009 as amended by the second escrow agreement dated 17 December 2010 and the supplemental escrow agreement dated 16 June 2011 between the Company and the Investor whereby the Investor agreed to pay a deposit of HK\$3 million to an escrow agent in return for an exclusive right to consider the terms and conditions of the Restructuring Proposal;
- (e) the escrow letter dated 14 July 2009 as amended by the second escrow letter dated 17 December 2010 and the supplemental escrow letter dated 16 June 2011 between the Company and an escrow agent in respect of the appointment of the escrow agent for the HK\$3 million deposit; and
- (f) the facility agreement dated 22 September 2009, the amendment agreement dated 14 October 2010, the amendment and restatement agreement dated 23 November 2010 and the amendment agreement dated 21 February 2011 entered into between the Investor and MHF in respect of the loan facility for a total of HK\$38.7 million provided by the Investor.

12. CORPORATE INFORMATION**The Company**

Registered office

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Investor and principal members acting in acting with the Investor

The Investor

*Registered office and
Principal correspondence address:*
3901, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

CCT Asset Management

*Registered office and
Principal correspondence address:*
Yufangyuan, Huaxiang,
Fengtai District, Beijing, China

China Chengtong Holdings Group Limited

*Registered office and
Principal correspondence address:*
Building 18, Section 6,
No.188 Nansihuanxilu,
Fengtai District, Beijing, China

Other parties

Financial adviser

OSK Capital Hong Kong Limited
12th Floor World-Wide House
19 Des Voeux Road Central,
Hong Kong

Independent Financial Adviser	Investec Capital Asia Limited Room 3609-3613 36/F Two International Finance Centre 8 Finance Street, Central, Hong Kong
Auditor	Graham H.Y. Chan & Co. Unit 1, 15th Floor The Center, 99 Queen's Road Central Hong Kong
Legal adviser to the Liquidators and the Company	Linklaters 10/F, Alexandra House Chater Road Central Hong Kong
Share registrar	Computershare Hong Kong Investor Services Limited 17M, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong
Principal banker	Standard Chartered Bank (Hong Kong) Limited 4-4A Des Voeux Road Central Hong Kong

13. PARTICULARS OF DIRECTORS AND PROPOSED DIRECTORS**(a) Name and address of Directors***Executive Directors:*

Mr. Lu Ruifeng	Flat 508, 1#, Tongfa Garden 29 Xinxu Lu, Luohu Shenzhen 518002, China
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Mr. Yiu Hoi Ying
20/F, B4
Wah Hoi Mansion
254-280 Electric Road
Hong Kong

Independent non-executive Directors:

Mr. Li Chun
17/F.,
Electric Science and
Technology Building
Shennan Zhong Road, Shenzhen
China

Mr. Lu Ning
3 Tianguangqiao Shaoxing, Zhejiang
China

The addresses of the Directors are based on the books and records of the Company made available to the Liquidators.

(b) Name and address of proposed Directors

Proposed executive Directors

Mr. Ko Chun Shun, Johnson
3901, Far Fast Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Mr. Tsoi Tong Hoo, Tony
9/F., Liven House
61-63 King Yip Street
Kwun Tong
Kowloon

Miss Ko Wing Yan, Samantha
3901, Far Fast Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Ms. Angelina Kwan

Suites 1102-1103,
Far Fast Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Mr. Zhang Binghua

Cheng Tong Office Building
22 Yufangyuan
Huaxiang
Fengtai District
Beijing 100070
China

Mr. Chen Shengjie

Cheng Tong Office Building
22 Yufangyuan
Huaxiang
Fengtai District
Beijing 100070
China

Proposed independent non-executive Directors:

Mr. Liu Zhengui

People's Government
Financial Affairs Office
Shandong Province
No.1 Shi Fu Qian Jie
Jinan City, Shandong Province
China

Mr. Ding Hebai

No. 37, Nanxiange Street
Guanganmen, Xicheng District
Beijing 100053, China

Mr. Chu Chung Yue, Howard

Suites 1102-1103
Far Fast Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any weekday (except Saturday afternoon and public holiday) at the Liquidators' office, 27th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong from the date of this circular up to and including the date of the EGM, i.e. 21 July 2011, in accordance with Note 1 to Rule 8 of the Takeovers Code and will be displayed on the website of the SFC at www.sfc.hk and on the website of the Company at www.irasia.com/listco/hk/asiatelemedia/:

- (a) the memorandum and articles of association the Company;
- (b) the memorandum and articles of association the Investor;
- (c) the letter from the Liquidators, the text of which is set out on pages 12 to 45 of this circular;
- (d) the letter from the Investor, the text of which is set out on pages 46 to 57 of this circular;
- (e) the annual reports of the Company for each of the three years ended 31 December 2008, 2009 and 2010;
- (f) the interim reports of the Company for each of the six months ended 30 June 2008, 2009 and 2010;
- (g) the report from Graham H.Y. Chan & Co. on unaudited pro forma statement of the financial position of the Group dated 28 June 2011, the text of which is set out in Appendix III to this circular;
- (h) the letter of advice from the Independent Financial Adviser as set out on pages 58 to 79 of this circular;
- (i) the Share Option Scheme document;
- (j) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and
- (k) all material contracts referred to in the paragraph headed "Material Contracts" in this appendix.

15. SHARE CAPITAL

- (a) As at the Latest Practicable Date, the Company had an authorised share capital of HK\$400,000,000 divided into 2,000,000,000 Shares and an issued fully paid up share capital of HK\$308,701,459.2 comprising 1,543,507,296 Shares.
- (b) All Shares rank pari passu in all respects, including as to dividends, voting rights and capital. The Subscription Shares and the Conversion Shares, when allotted and issued, will rank pari passu in all respect with all other existing New Shares outstanding at the date of such allotment and issue and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of such allotment and issue.
- (c) The Company has not issued any new Shares since 31 December 2010.
- (d) Other than the Shares, there were no other options, derivatives, warrants or other securities convertible or exchangeable into Shares which are issued by the Company as at the Latest Practicable Date.

16. MAJOR CUSTOMERS

For the year ended 31 December 2010, approximately 70% of the Group's revenue was attributable to the Group's five largest customers. In particular, the largest customer of the Group accounted for approximately 21% of the Group's total revenue for the year.

None of the Directors, their associates, and any Shareholder (which to the knowledge of the Liquidators owns more than 5% of the share capital of the Company) has any interest in the customers disclosed above.

17. MISCELLANEOUS

The English version of this circular and form of proxy shall prevail over the Chinese text in case of inconsistency.

NOTICE OF THE EGM



ASIA TELEMEDIA LIMITED

(In Liquidation)

亞洲電信媒體有限公司

(清盤中)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Asia TeleMedia Limited (In Liquidation) (the “Company”) will be held at the Auditorium, Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong on 21 July 2011 at 11:30 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

HOLDING OF ANNUAL GENERAL MEETING

1. “**THAT** this EGM be treated as the annual general meeting of the Company for the four years ended 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010.”

APPROVAL OF AUDITED FINANCIAL STATEMENTS

2. “To receive and consider the audited financial statements and the reports of Messrs Edward Simon Middleton and Patrick Cowley (the “**Joint and Several Liquidators**”, being the joint and several liquidators of the Company) and auditors for the four years ended 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010.”

APPOINTMENT OF AUDITORS

3. “To ratify the appointment of auditors of the Company and the remuneration of the auditors for the four years ended 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010.”

NOTICE OF THE EGM

4. “To re-appoint auditors of the Company and authorise the Joint and Several Liquidators and (after the release and discharge of the Joint and Several Liquidators by the Court) the directors of the Company (the “**Directors**”) to fix their remuneration.”

RESTRUCTURING AGREEMENT

5. “**THAT**
 - a. the restructuring agreement (the “**Restructuring Agreement**”), a copy of which has been produced to this meeting marked “A”, and signed by the chairman of this meeting for identification purpose) dated 15 April 2011 and entered into among the Company, the Joint and Several Liquidators, Gainhigh Holdings Limited (the “**Investor**”) and Mr. Ko Chun Shun Johnson in relation to the restructuring of the Company, the transactions contemplated thereunder, and the performance thereof by the Company be and are hereby approved, confirmed and ratified; and
 - b. the Joint and Several Liquidators and (after the release and discharge of the Joint and Several Liquidators by the Court) the Directors be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to the terms of the Restructuring Agreement, including without limiting the foregoing, to complete the transactions contemplated under the Restructuring Agreement.”

CAPITAL RESTRUCTURING

6. “**THAT** conditional upon the resolution numbered 14 as set out in this notice being passed, the relevant sanction from the Court in relation to the Capital Reduction (as defined in resolution numbered 14 as set out in this notice) having been obtained, and the grant of the listing of and permission to deal in the Consolidated Shares (as defined below) and the New Shares (as defined in resolution numbered 14 below) by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”):
 - a. every fifty issued and unissued ordinary shares of the Company of HK\$0.20 each (“**Shares**”) be consolidated into one ordinary share of HK\$10 each (“**Consolidated Shares**”) (“**Share Consolidation**”);
 - b. subject to the Share Consolidation and the Capital Reduction (as defined in resolution numbered 14 as set out in this notice) having become effective, the unissued share capital in the authorised share capital of HK\$400,000,000 be cancelled and diminished resulting in an authorised and issued share capital of HK\$308,701.45 (“**Capital Cancellation**”);

NOTICE OF THE EGM

- c. immediately upon the Capital Cancellation becoming effective, the Company's authorised share capital be increased from HK\$308,701.45 to HK\$20,000,000 divided into 2,000,000,000 New Shares;
- d. fractional entitlements as a result of the capital restructuring as set out in the foregoing paragraphs of this resolution will be aggregated and sold for the benefit of the Company. The net proceeds from such sale will be used as additional working capital of the Company;
- e. all of the New Shares (as defined in resolution numbered 14 as set out in this notice) in the capital of the Company after completion of the capital restructuring as set out in the foregoing paragraphs of this resolution shall rank pari passu in all respects with each other and have the same rights and privileges and be subject to the restrictions contained in the memorandum and articles of association of the Company; and
- f. the Joint and Several Liquidators be and are hereby authorised to do all such other things and acts and execute all such other documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to or implementing any of the foregoing."

SUBSCRIPTION AGREEMENT

7. "THAT:

- a. the subscription agreement (the "**Subscription Agreement**", a copy of which has been produced to this meeting marked "B", and signed by the chairman of this meeting for identification purpose) dated 7 June 2011 and entered into among the Company, the Joint and Several Liquidators and the Investor in relation to (i) the issue of 128,225,806 New Shares (as defined in resolution numbered 14 as set out in this notice) to the Investor at the aggregate consideration of HK\$79,500,000 (equivalent to approximately HK\$0.62 per New Share (as defined in resolution numbered 14 as set out in this notice) (the "**Subscription Shares**")); and (ii) the issue of non-interest bearing, non-redeemable 5-year to mature convertible notes of aggregate principal amount of HK\$92,500,000 with the initial conversion price of HK\$0.62 per New Share (as defined in resolution numbered 14 as set out in this notice) (the "**Investor Convertible Notes**") and the transactions contemplated thereunder, and the performance thereof by the Company be and are hereby approved, confirmed and ratified;

NOTICE OF THE EGM

- b. the allotment and issue of the Subscription Shares pursuant to the terms of the Subscription Agreement be and are hereby approved;
- c. the creation and issue of the Investor Convertible Notes pursuant to the terms of the Subscription Agreement and the allotment and issue of New Shares upon the exercise of the conversion rights attaching to the Investor Convertible Notes pursuant to the terms thereof be and are hereby approved; and
- d. the Joint and Several Liquidators and (after the release and discharge of the Joint and Several Liquidators by the Court) the Directors be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to the terms of the Subscription Agreement, including without limiting the foregoing, to complete the transactions contemplated under the Subscription Agreement.”

WHITEWASH WAIVER

- 8. “**THAT**, the waiver (the “**Whitewash Waiver**”), granted or to be granted by the Executive Director (the “**Executive**”) of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of the Investor and parties acting in concert with it, to make a general offer for all the issued shares of the Company not already owned or agreed to be acquired by them pursuant to the Restructuring Agreement and the Subscription Agreement and the transactions contemplated therein, be and is hereby approved, and the Joint and Several Liquidators be and are hereby authorised to the extent that they have authority so to act, to do all such things and take all such action and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) as they may consider to be necessary or desirable to give effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

SPECIAL DEALS

- 9. “**THAT** subject to the Executive, or any delegate of the Executive giving consent to the Special Deals (as defined in the circular of the Company dated 28 June 2011 (the “**Circular**”)), (the “**Consent**”), a copy of which has been produced to the EGM marked “C” and signed by the chairman of this meeting for identification purpose and the satisfaction of any condition attached to such Consent, the Special Deals on terms and conditions as set out in the Circular be and is hereby approved.”

NOTICE OF THE EGM

REMOVAL OF ALL EXISTING DIRECTORS

10. “**THAT**, conditional upon completion of the Restructuring Agreement and with effect thereof,
 - a. Mr. Lu Ruifeng and Mr. Yiu Hoi Ying be and are hereby removed as the executive Directors of the Company; and
 - b. Mr. Lu Ning and Mr. Li Chun be and are hereby removed as independent non-executive Directors of the Company and that the register of directors be amended to note such removal of Directors.”

APPOINTMENT OF DIRECTORS

11. “**THAT**, conditional upon the completion of the Restructuring Agreement and with effect thereof:
 - a. Mr. Ko Chun Shun, Johnson, Mr. Tsoi Tong Hoo, Tony, Miss Ko Wing Yan, Samantha, Ms Angelina Kwan, Mr. Zhang Binghua and Mr. Chen Shengjie be and are hereby appointed as executive Directors of the Company;
 - b. Mr. Liu Zhengui, Mr. Ding Hebai and Mr. Chu Chung Yue, Howard be and are hereby appointed as independent non-executive Directors of the Company; and
 - c. the board of directors of the Company be authorised to fix remuneration of the Directors and that the register of directors of the Company be amended to note such appointment of Directors as set out above.”

GENERAL MANDATE

12. “**THAT**, conditional upon the completion of the Restructuring Agreement and with effect thereof:
 - a. Subject to paragraph (b) below, the Directors be and are hereby generally and unconditionally authorised to exercise during the Relevant Period (as defined below) all powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options which would or might require the exercise of any such powers during or after the end of the Relevant Period;

NOTICE OF THE EGM

- b. The aggregate nominal amount of shares of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) above, other than pursuant to (i) a Rights Issue (as defined below); (ii) an issue of ordinary shares of the Company upon the exercise of rights of subscription or conversion under the terms of any securities which are convertible into ordinary shares of the Company; (iii) an issue of ordinary shares by way of scrip dividend pursuant to the articles of association of the Company from time to time; or (iv) the exercise of any option granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to eligible participants of the Company and/or its subsidiaries, of options to subscribe for, or rights to acquire, shares of the Company; shall not exceed 20% of the issued share capital of the Company as at the date of passing this resolution;
- c. For the purpose of this resolution, “**Relevant Period**” means the period from completion of the Restructuring Agreement until the earliest of the following:
- i. the conclusion of the next annual general meeting of the Company; or
 - ii. the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
 - iii. the date on which the authority set out under this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

“**Rights Issue**” means an offer of shares of the Company open for a period fixed by the Company made to holders of shares in the capital of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or requirements of, any recognised body or any stock exchange in, any territory outside Hong Kong).”

NOTICE OF THE EGM

SHARE OPTION SCHEME

13. “**THAT**, conditional upon and with effect from the completion of the Restructuring Agreement, the rules of the share option scheme (the “**Share Option Scheme**”), a copy of which has been produced to the EGM marked “D” and signed by the chairman of this meeting for identification purpose, be and is hereby approved and adopted and the Directors be and are hereby authorised to grant options to subscribe for shares of the Company thereunder and to allot and issue new shares of the Company pursuant thereto and to take all such steps and attend all such matters, approve and execute (whether under hand or under seal) such documents and do such other things, for and on behalf of the Company, as the Directors may consider necessary, desirable or expedient to effect and implement the Share Option Scheme, including without limitation,
- a. administering the Share Option Scheme;
 - b. modifying and/or amending the Share Option Scheme from time to time provided that such modification and/or amendment was effected in accordance with the provisions of the Share Option Scheme relating to modification and/or amendment and the requirements of the Listing Rules;
 - c. granting options under the Share Option Scheme and allotting and issuing from time to time any new shares of the Company pursuant to the exercise of the options that may be granted under the Share Option Scheme with an aggregate number not exceeding 10% of the total nominal value of the share capital of the Company in issue as at the date of passing this resolution; and
 - d. making application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any new shares of the Company or any part thereof that may hereafter from time to time be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme.”

SPECIAL RESOLUTIONS

CAPITAL REDUCTION

14. “**THAT**, conditional upon the resolutions numbered 5 and 6 as set out in this notice being passed, the grant of the listing of and permission to deal in the Consolidated Shares (as defined in resolution numbered 6 as set out in this notice) and the New Shares (as defined below) by the Stock Exchange and upon the Share Consolidation (as defined in resolution numbered 6 as set out in this notice) having become effective:

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- a. the par value of each issued and unissued Consolidated Share (as defined in resolution numbered 6 as set out in this notice) be reduced from HK\$10.00 to HK\$0.01 (“**New Shares**”) and the credit arising from such cancellation and reduction will be applied to eliminate the accumulated losses of the Company (“**Capital Reduction**”);
- b. the amount which shall arise as a result of Capital Reduction be applied in such manner as permitted by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and the memorandum and articles of association of the Company; and
- c. the Joint and Several Liquidators be and are hereby authorised to do all such other things and acts and execute all such other documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to or implementing any of the foregoing.”

AMENDMENT OF ARTICLES OF ASSOCIATION

15. “**THAT** the articles of association of the Company be amended as follows:

- a. Article 94 be deleted in its entirety and replaced by the following:

“94. The Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.”
- b. the words ‘to his knowledge’ be deleted in the first sentence of Article 102(B) (v);

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c. Article 103(A) be deleted in its entirety and replaced by the following:

‘103(A). Subject to the manner of retirement by rotation of directors of the Company as from time to time prescribed under the rules and regulations governing the listing of securities on the Stock Exchange and notwithstanding any contractual or other terms on which any Director may be appointed or engaged, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.’

d. The following Articles 158A and 158B be added immediately after Article 158:

‘158A. Without prejudice to the rights of the Company under Article 158, the Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

158B. The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of member who is untraceable, but no such sale shall be made unless:

- (i) all cheques or warrant, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of the Company have remained uncashed provided that during the relevant period the Company has paid at least three dividends (whether interim or final) and no dividend in respect of such shares has been claimed by the person entitled to it;
- (ii) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; or

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- (iii) the Company has caused any advertisement to be inserted in English in an English language newspaper and in Chinese in a Chinese language newspaper giving notice of its intention to sell such shares and has notified the Stock Exchange of such intention and a period of three months has lapsed since the date of such advertisement.

For the purpose of the foregoing, “relevant period” means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (iii) of this Article and ending on the expiry of the period referred to in that paragraph.

To give effect to any such sale the Board may authorise any person to transfer the said shares and instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall be valid and effective notwithstanding that the member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.”

For and on behalf of
Asia TeleMedia Limited
(In Liquidation)
Edward Simon Middleton
Patrick Cowley
Joint and Several Liquidators
acting as agents without personal liability

Hong Kong, 28 June 2011

NOTICE OF THE EGM

Notes:

- 1 A shareholder entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
- 2 Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the company in respect of such Shares shall alone be entitled to vote in respect thereof.
- 3 In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, (if any), under which it is signed or a certified copy thereof must be delivered to the share registrar the Company, Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment meeting (as the case may be).
- 4 Completion and return of the form of proxy shall not preclude shareholders from attending and voting in person at the EGM or at any adjourned meeting (as the case may be) or upon the poll concerned if they so wish. In such event, the instrument appointing the proxy shall be deemed to be revoked.
- 5 Shareholders whose names are held through Central Clearing and Settlement System or licensed securities dealer should contact their nominees if they would like to vote.
- 6 In relation to resolution numbered 12 above, approval is being sought from the shareholders of the company for the grant to the Directors of a general mandate to authorise the allotment, issue and dealing with additional shares in the capital of the Company under the Listing Rules.
- 7 Resolutions numbered 5, 7 to 9 shall be voted by way of a poll of the Independent Shareholders (as defined in the Circular).