

**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, bank manager, solicitor, professional accountant or other professional adviser.

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

This circular is addressed to the shareholders of Magnum International Holdings Limited for the purposes of providing information in connection with the Sale and Purchase Agreement, the Capital Reduction, the increase in authorised share capital of the Company, the Compromise Deed and the Subscription Agreement. It does not constitute an invitation or offer to acquire, purchase or subscribe for shares of Magnum International Holdings Limited.

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## **Magnum International Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 305)**

### **CAPITAL REDUCTION AND INCREASE IN AUTHORISED SHARE CAPITAL**

**AND**

### **SETTLEMENT OF SHAREHOLDER'S LOAN BY ENTERING INTO THE COMPROMISE DEED (SPECIAL DEAL AND CONNECTED TRANSACTION)**

**AND**

### **SUBSCRIPTION OF CONVERTIBLE BOND BY UNICHINA ENTERPRISES LIMITED BY ENTERING INTO THE SUBSCRIPTION AGREEMENT (CONNECTED TRANSACTION)**

**Financial adviser to**

**Magnum International Holdings Limited**



**Independent financial adviser to the independent board committee of**

**Magnum International Holdings Limited**



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A letter from the Board is set out on pages 7 to 29 and a letter from the Independent Board Committee is set out on page 30 of this circular. A letter from Tai Fook Capital Limited containing its advice and recommendation to the Independent Board Committee is set out on pages 31 to 51 of this circular.

A notice convening a special general meeting of Magnum International Holdings Limited to be held at 11:00 a.m. on Friday, 24 June 2005 at Oceana Room, Lobby Floor, Hong Kong Gold Coast Hotel, No. 1 Castle Peak Road, Castle Peak Bay, Kowloon, Hong Kong is set out on pages 67 to 70 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and to return the same in accordance with the instructions printed thereon as soon as possible to Magnum International Holdings Limited's share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

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## DEFINITIONS

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

“Announcement”	the joint announcement dated 8 April 2005 published by the Company and Unichina in respect of the Sale and Purchase Agreement, the Offers, the Capital Reduction and the increase in authorised share capital of the Company, the Compromise Deed and the Subscription Agreement
“associates”	has the meaning ascribed thereto under the Listing Rules
“Balance Shareholder’s Loan”	being the balance of the Shareholder’s Loan as at the date of the Compromise Deed Completion after deduction of HK\$35 million to be payable by Unichina on behalf of the Company upon the Subscription Completion to MGL and/or its associates as directed by the Company in writing and HK\$15.6 million to be settled by issuance of the Unsecured Promissory Note by the Company to MGL and/or its associates under the terms of the Compromise Deed
“Board”	the board of Directors
“Bondholder(s)”	the person(s) who is/are for the time being the holder(s) of the Convertible Bond
“Bursa Malaysia”	Bursa Malaysia Securities Berhad (formerly known as “Malaysia Securities Exchange Berhad”)
“Business Day”	a day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “Black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
“Capital Reduction”	the proposal to effect a reduction of the issued share capital of the Company and to transfer the credit arising therefrom to the Company’s contributed surplus account
“Capital Reduction Completion”	the time at which the Capital Reduction becomes effective
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC
“Celestial Capital”	Celestial Capital Limited, a corporation licensed under the SFO to conduct types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to Unichina

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## DEFINITIONS

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“Company”	Magnum International Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange
“Composite Document”	the composite document to be issued jointly by Unichina and the Company to the Shareholders and Optionholders in respect of the Offers as the result of the acquisition of the Sale Shares by Unichina pursuant to the Sale and Purchase Agreement
“Compromise Deed”	the conditional compromise deed dated 8 April 2005 entered into among the Company, MGL and Unichina in respect of the settlement of the Shareholder’s Loan
“Compromise Deed Completion”	completion of the Compromise Deed
“Compromise Documents”	collectively the Compromise Deed, the Secured Promissory Note, the Unsecured Promissory Note and the Security Documents
“Conversion Shares”	the new Shares to be issued by the Company upon exercise by the Bondholder(s) of the conversion rights attaching to the Convertible Bond
“Convertible Bond”	the convertible bond of HK\$35,000,000 to be issued by the Company to Unichina pursuant to the Subscription Agreement
“Dao Heng Securities”	Dao Heng Securities Limited, a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities and the financial adviser to the Company
“Directors”	the directors of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Prime Rate”	the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time
“Independent Board Committee”	independent board committee of the Company constituted by the three independent non-executive Directors, comprising Messrs. Wong Ming Shiang, Lim Eng Ho and Soo Tho Him Yip

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## DEFINITIONS

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“Independent Shareholders”	for the purposes of any references in this circular to the Compromise Deed, Shareholders other than MGL, its associates and parties acting in concert with any of them and Shareholders who are involved or interested in the Compromise Deed including the transactions contemplated thereunder other than solely being Shareholders; and for the purposes of any references in this circular to the Capital Reduction, the increase in authorised share capital of the Company and the Subscription Agreement, Shareholders other than MGL and its associates
“Latest Practicable Date”	17 May 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in the circular
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MCB”	Magnum Corporation Berhad, a company incorporated in Malaysia with limited liability, the shares of which are publicly traded on Bursa Malaysia. It is the ultimate holding company of the Company and is held as to approximately 34.41% by Multi-Purpose Holdings Berhad (the shares of which are publicly traded on Bursa Malaysia) as at the Latest Practicable Date
“MGL”	Magnum (Guernsey) Limited, a company incorporated in Guernsey with limited liability, which is the immediate holding company of the Company and is wholly, beneficially and indirectly owned by MCB
“MISL”	Magnum International Securities Limited, a wholly-owned subsidiary of the Company, which is a licensed corporation under the SFO and is the holder of a trading right on the Stock Exchange
“Offers”	the Share Offer and the Option Offer
“Option(s)”	option(s) which were granted to the directors and employees of the Company pursuant to the share option scheme of the Company adopted on 11 June 2002 and remain outstanding as at the Latest Practicable Date, entitling the holders thereof to subscribe for new Shares at an exercise price of HK\$0.111 per Share
“Option Offer”	the mandatory unconditional cash offer for all outstanding Options to be made by Celestial Capital on behalf of Unichina in accordance with the Takeovers Code
“Optionholder(s)”	holder(s) of the Option(s)
“PRC”	the People’s Republic of China

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## DEFINITIONS

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“Properties”	the properties (as detailed in the table under the section headed “IV. The Compromise Deed” in the letter from the Board in this circular) to be charged to MGL by execution of the Property Charges by each of the Property Owners pursuant to the Compromise Deed
“Property Charges”	the first charges over each of the Properties to be granted in favour of MGL by each of the Property Owners pursuant to the Compromise Deed
“Property Owners”	collectively Lismore Properties Limited, Wolston Limited, Ongreat Limited and Continuous Gain Limited, which are the owners of the Properties and are indirect wholly-owned subsidiaries of the Company
“S&P Completion”	completion of the Sale and Purchase Agreement
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 8 April 2005 entered into by MGL, Unichina and MCB in relation to the acquisition of the Sale Shares by Unichina
“Sale Share(s)”	a total of 316,973,680 Shares to be acquired by Unichina pursuant to the Sale and Purchase Agreement
“Secured Promissory Note”	the promissory note with a face value equivalent to the Balance Shareholder’s Loan to be issued by the Company to MGL at Compromise Deed Completion pursuant to the Compromise Deed
“Security Documents”	collectively the Property Charges, the Share Mortgages and the Subordination Deed
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Cap. 571), Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened on Friday, 24 June 2005 to seek Independent Shareholders’ approval for the entering into of the Subscription Agreement, together with the issue of the Convertible Bond and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bond, the Compromise Deed (together with the transactions contemplated thereunder), the Capital Reduction and the increase of the Company’s authorised share capital
“Share(s)”	the ordinary share(s) having an existing nominal value of HK\$0.10 each in the share capital of the Company, and following the Capital Reduction Completion, the ordinary share(s) with a new nominal value of HK\$0.001 each
“Share Mortgages”	the share mortgages to be granted by the registered and beneficial owners of the Property Owners, all being wholly-owned subsidiaries of the Company, in favour of MGL over all of the issued shares in each of the Property Owners pursuant to the Compromise Deed

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## DEFINITIONS

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“Share Offer”	the mandatory unconditional cash offer for all the issued Shares not already owned or agreed to be acquired by Unichina or parties acting in concert with it at HK\$0.04735 per Share to be made by Celestial Capital on behalf of Unichina in accordance with the Takeovers Code
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loan”	all the outstanding shareholder’s loan (including accrued interest thereon) extended by MGL and its associates to the Group or owing by the Group to MGL and its associates immediately before repayment of HK\$35 million by the Company to MGL as at the date of the Compromise Deed Completion, which amounted to approximately HK\$117,115,000 as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subordinated Indebtedness”	an indebtedness of HK\$35 million together with all interest accrued thereon to be owed by the Company to Unichina under the Convertible Bond and any other sums to be owed by the Company to Unichina
“Subordination Deed”	the deed of subordination to be entered into among the Company, MGL and Unichina relating to the subordination of the Subordinated Indebtedness to the Company’s indebtedness under the Secured Promissory Note and the Unsecured Promissory Note
“Subscription Agreement”	the conditional subscription agreement dated 8 April 2005 entered into among the Company, Unichina and MCB in relation to the subscription of the Convertible Bond by Unichina
“Subscription Completion”	completion of the Subscription Agreement
“Tai Fook”	Tai Fook Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transaction Document(s)”	each of the Sale and Purchase Agreement, the Subscription Agreement and the Compromise Deed
“Unichina”	Unichina Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly and beneficially owned by Mr. Wong Kwong Miu
“Unsecured Promissory Note”	the promissory note with a face value of HK\$15,600,000 to be issued by the Company to MGL and/or its associates pursuant to the Compromise Deed

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## DEFINITIONS

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“Vigers”	Vigers Appraisal and Consulting Limited, an independent firm of international asset appraisal consultants
“HK\$”/“HK cents”	Hong Kong dollars/Hong Kong cents, the lawful currency of Hong Kong
“RM”	Malaysian ringgit, the lawful currency of Malaysia
“%”	per cent





# Magnum International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 305)**

*Executive Directors:*

Mr. Lim Teong Leong  
Mr. Tam Cheok Wing  
Mr. Ooi Sin Heng  
Mr. Chan Hon Ming

*Head office and principal place  
of business:*

1301A, 13/F.  
Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

*Independent Non-executive Directors:*

Mr. Wong Ming Shiang  
Mr. Lim Eng Ho  
Mr. Soo Tho Him Yip

20 May 2005

*To the Shareholders and, for information purpose only,  
the Optionholders*

Dear Sir or Madam,

**CAPITAL REDUCTION AND INCREASE IN AUTHORISED SHARE CAPITAL  
AND  
SETTLEMENT OF SHAREHOLDER'S LOAN BY ENTERING INTO THE COMPROMISE DEED  
(SPECIAL DEAL AND CONNECTED TRANSACTION)  
AND  
SUBSCRIPTION OF CONVERTIBLE BOND BY UNICHINA ENTERPRISES LIMITED  
BY ENTERING INTO THE SUBSCRIPTION AGREEMENT (CONNECTED TRANSACTION)**

## **I. INTRODUCTION**

The Company and Unichina jointly announced on 8 April 2005, among other things, that:

- (i) Unichina entered into the Sale and Purchase Agreement with MGL and MCB, pursuant to which Unichina has conditionally agreed to purchase and MGL has conditionally agreed to sell the Sale Shares for a cash consideration of HK\$15,000,000 (equivalent to approximately HK\$0.04735 per Sale Share) upon and subject to the terms and conditions of the Sale and Purchase Agreement;
- (ii) the Directors intend to put forward a proposal to the Independent Shareholders to effect the Capital Reduction and the increase in authorised share capital of the Company;
- (iii) the Compromise Deed was entered into among the Company, MGL and Unichina in respect of the settlement of the Shareholder's Loan; and

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## LETTER FROM THE BOARD

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- (iv) the Subscription Agreement was entered into among the Company, Unichina and MCB, pursuant to which, the Company has conditionally agreed to issue and Unichina has conditionally agreed to subscribe for the Convertible Bond with a face value of HK\$35 million.

Upon S&P Completion, Unichina will own approximately 51.54% of the entire issued share capital of the Company and will be required under the Takeovers Code to make the Offers. The terms of the Offers are set out in the paragraph headed “7. The Offers” under the section headed “II. The Sale and Purchase Agreement” below.

### II. THE SALE AND PURCHASE AGREEMENT

#### 1. Date of the Sale and Purchase Agreement

8 April 2005

#### 2. Parties to the Sale and Purchase Agreement

Vendor: MGL

Purchaser: Unichina, which is wholly and beneficially owned by Mr. Wong Kwong Miu. Unichina and Mr. Wong Kwong Miu are third parties independent of the Company and its connected persons. The biography of Mr. Wong Kwong Miu is set out in the section headed “XI. Proposed change of Board composition of the Company” below.

Guarantor of vendor: MCB

#### 3. Sale Shares

MGL has conditionally agreed to sell and Unichina has conditionally agreed to purchase the Sale Shares, representing approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date. At S&P Completion, the Sale Shares to be acquired by Unichina, which MGL has agreed to sell, shall be free from all claims, charges, liens, encumbrances and other third parties' rights together with all rights (including all dividends or distributions which may be paid, declared or made) attached to the Sale Shares as at the date of the S&P Completion.

#### 4. Consideration for the Sale Shares

HK\$15,000,000 (equivalent to approximately HK\$0.04735 per Sale Share), which was negotiated and determined on an arm's length basis between Unichina and MGL. The purchase price of approximately HK\$0.04735 per Sale Share represents:

- (a) a discount of approximately 56.2% to the closing price of HK\$0.108 per Share as quoted on the Stock Exchange on 7 February 2005, being the last full trading day prior to the suspension of the trading in the Shares at 9:30 a.m. on 8 February 2005 pending the publication of the Announcement;

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## LETTER FROM THE BOARD

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- (b) a discount of approximately 42.6% to the average closing price of HK\$0.0825 per Share as quoted on the Stock Exchange for the last ten consecutive full trading days prior to the suspension of the trading in the Shares at 9:30 a.m. on 8 February 2005 pending the publication of the Announcement;
- (c) a discount of approximately 40.4% to the average closing price of HK\$0.0795 per Share as quoted on the Stock Exchange for the last 30 consecutive full trading days prior to the suspension of the trading in the Shares at 9:30 a.m. on 8 February 2005 pending the publication of the Announcement; and
- (d) a discount of approximately 63.6% to the closing price of HK\$0.130 per Share as at the Latest Practicable Date.

Based on the Company's annual report for the year ended 31 December 2004, the audited consolidated net liabilities of the Company as at 31 December 2004 were approximately HK\$45,336,000, which were equivalent to approximately HK\$0.074 per Share (based on 615,024,175 Shares then in issue).

The consideration for the Sale Shares has been paid by Unichina to a deposit escrow agent and will be released to MGL upon S&P Completion.

### **5. Conditions of the Sale and Purchase Agreement**

The Sale and Purchase Agreement is conditional upon the following conditions being fulfilled:

- (i) the passing of resolutions of the board of directors of MGL approving the transactions contemplated under the Sale and Purchase Agreement and those resolutions not being amended or revoked;
- (ii) the passing by the Shareholders at the SGM convened of (a) an ordinary resolution for the purpose of approving the increase in the authorised share capital of the Company; and (b) a special resolution for the purpose of approving the Capital Reduction;
- (iii) the passing by the Independent Shareholders (by way of a poll) of ordinary resolutions at the SGM convened for the purpose of approving the transactions contemplated under the Subscription Agreement and the Compromise Deed;
- (iv) the receipt of approval from the SFC for the proposed change in the ultimate substantial shareholder of MISL;
- (v) the receipt of approval from Hong Kong Exchanges and Clearing Limited to the proposed change of control of MISL;
- (vi) the repayment of the overdraft banking facilities made available by lending banks to the Group which are secured by charges granted over certain of the Properties, and the release of such security;
- (vii) the Compromise Deed having become unconditional in all respects;

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## LETTER FROM THE BOARD

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- (viii) if necessary, the Bermuda Monetary Authority approving or agreeing to approve (a) the Capital Reduction; (b) the issue of the Convertible Bond pursuant to the Subscription Agreement; and (c) the allotment, issue and subsequent transfer of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bond;
- (ix) all necessary consents, authorisations or other approvals (or, as the case may be, any relevant waiver) of any kind in connection with the entering into and performance by Unichina or MGL of the terms of the Sale and Purchase Agreement or otherwise affecting the Company as a result of the transactions contemplated by the Sale and Purchase Agreement which may be required under the Listing Rules, by the Stock Exchange or any regulatory authority having been obtained; and
- (x) the current listing of the Shares not having been withdrawn, the Shares continuing to be traded on the Stock Exchange following the issue of the Announcement and prior to S&P Completion (save for any temporary suspension not exceeding ten consecutive trading days pending clearance of any announcement in connection with the Capital Reduction, the Sale and Purchase Agreement, the Subscription Agreement, the Compromise Deed and/or the Offers) and the SFC and the Stock Exchange not having indicated that the listing of the Shares on the Stock Exchange will be withdrawn or objected to and no circumstances existing based on which the SFC could exercise its powers under Rule 8 of the Securities and Futures (Stock Market Listing) Rules 2003 as amended.

If any of the conditions to the Sale and Purchase Agreement has not been fulfilled, or waived by Unichina (as to conditions (i) and (x) only) in its absolute discretion on or before 31 July 2005 (which may be extended for a further period of not less than 60 days by Unichina in writing), the Sale and Purchase Agreement shall from such date be null and void and have no effect and no party shall have any obligations and liabilities to the other party thereunder (without prejudice to the rights of any party in respect of antecedent breaches).

### **6. The S&P Completion**

The S&P Completion will take place (i) on the seventh Business Day after the satisfaction (or waiver) of the conditions to the Sale and Purchase Agreement; or (ii) at such other date as mutually agreed among the parties to the Sale and Purchase Agreement, and simultaneously with the Subscription Completion and the Compromise Deed Completion.

### **7. The Offers**

Immediately following the S&P Completion, Unichina and parties acting in concert with it will be the holders of 316,973,680 Shares, representing approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date (not taking into account the Shares held for the account of non-discretionary clients by the brokerage division of a fellow subsidiary of Celestial Capital). Under Rule 26.1 of the Takeovers Code, Unichina is required to make a mandatory unconditional cash offer for all the issued Shares other than those Shares already owned by it and parties acting in concert with it. Under Rule 13 of the Takeovers Code, Unichina is also required to make a comparable offer for all the outstanding Options.

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## LETTER FROM THE BOARD

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Following and subject to the S&P Completion, Celestial Capital will make, on behalf of Unichina, (i) the Share Offer to acquire all the issued Shares other than those already owned or agreed to be acquired by Unichina and parties acting in concert with it; and (ii) the Option Offer for all the outstanding Options, on the terms and subject to the conditions referred to in the Announcement and to be set out in the Composite Document. The offer price for each Share under the Share Offer will be HK\$0.04735 in cash, approximately the same as the consideration payable by Unichina for each Sale Share under the Sale and Purchase Agreement. The offer price for each Option under the Option Offer will be HK\$0.001, which is equivalent to the nominal value of each Share upon Capital Reduction Completion.

In respect of the Offers, Rule 8.2 of the Takeovers Code provides that an offer document should normally be posted by or on behalf of the offeror within 21 days of the date of announcement of the offer. Pursuant to Note 2 to Rule 8.2 of the Takeovers Code, Executive's consent is required if the making of an offer is subject to the prior fulfilment of a pre-condition and the pre-condition cannot be fulfilled within the time period contemplated by Rule 8.2 of the Takeovers Code and such Executive's consent has been obtained by Unichina to extend the deadline for the despatch of the relevant offer document within seven days of fulfilment of all conditions to the Sale and Purchase Agreement. Therefore, the Composite Document setting out details of the Offers (accompanied by the acceptance and transfer form) and incorporating the respective letters of advice from the Independent Board Committee and Tai Fook on the Offers will be sent to the Shareholders and the Optionholders within seven days of fulfilment of all conditions to the Sale and Purchase Agreement.

**Shareholders, Optionholders and potential investors of the securities of the Company should note that the Offers are a possibility only. The obligation of Unichina to make the Offers only arises upon S&P Completion. A further announcement will be made by the Company in respect of the Offers upon S&P Completion. Shareholders, Optionholders and potential investors of the securities of the Company should exercise caution when dealing in the securities of the Company. A copy of the Composite Document (containing the advice of the independent financial adviser to the Independent Board Committee) will be despatched to the Shareholders and Optionholders within seven days of fulfilment of all conditions to the Sale and Purchase Agreement. Shareholders and Optionholders are strongly advised to wait for receipt of the Composite Document and read the contents thereof before deciding whether or not to accept the Offers.**

### III. THE CAPITAL REDUCTION AND INCREASE IN AUTHORISED SHARE CAPITAL

#### 1. The proposal for the Capital Reduction

The Directors intend to put forward a proposal to the Independent Shareholders to effect the Capital Reduction which will involve:

- (a) the reduction of the nominal value of each Share in issue from HK\$0.10 to HK\$0.001 by cancelling the paid up capital to the extent of HK\$0.099 on each Share in issue on the date upon which the Capital Reduction becomes effective such that the nominal value of each issued Share will be reduced to HK\$0.001 and the issued share capital of the Company of approximately HK\$61,502,418 shall be reduced by approximately HK\$60,887,394 to HK\$615,024;
- (b) the subdivision of each unissued share of HK\$0.10 into 100 shares of HK\$0.001 each; and

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## LETTER FROM THE BOARD

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- (c) the transfer of the credit arising from the cancellation of paid up capital on the issued Shares to the contributed surplus account of the Company.

### 2. Conditions of the Capital Reduction

Capital Reduction Completion is conditional on the following conditions being fulfilled:

- (a) the passing by the Independent Shareholders of a special resolution to approve the Capital Reduction at the SGM;
- (b) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue following the Capital Reduction becoming effective; and
- (c) compliance with all applicable laws, including section 46 of the Companies Act 1981 of Bermuda,

and will become effective upon fulfillment of all of the above conditions on or before S&P Completion.

### 3. Impact of the Capital Reduction

As stated in the sub-paragraphs (a) and (c) under the paragraph headed “1. The proposal for the Capital Reduction” above, the Capital Reduction will involve the reduction of the issued share capital of the Company by approximately HK\$60,887,394 so that a credit of such amount will arise following the cancellation of the paid-up issued share capital of the Company. Such credit will be transferred to the contributed surplus account of the Company which, in future, may be used for such purposes as the Directors may direct (including, but not limited to, elimination of the accumulated losses of the Company) subject to the Companies Act 1981 of Bermuda and the Company’s bye-laws. The Company’s contributed surplus account will increase by approximately HK\$60,887,394 upon the Capital Reduction becoming effective.

Upon the Capital Reduction becoming effective and on the basis of 615,024,175 Shares in issue at that time, the authorised share capital of the Company will be HK\$100,000,000 divided into 100,000,000,000 Shares and its issued share capital will be approximately HK\$615,024 divided into 615,024,175 Shares.

Other than the expenses to be incurred in relation to the Capital Reduction itself, the implementation of the Capital Reduction will not, in itself, alter the underlying assets, business operations, management or financial position of the Company or affect the proportionate interests of the Shareholders.

### 4. Application for listing and share certificates

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares following the Capital Reduction becoming effective. All the share certificates for the Shares of existing nominal value of HK\$0.10 each will continue to be accepted as valid documents of title in respect of the same number of Shares of new nominal value of HK\$0.001 each for trading, settlement and registration purposes after the Capital Reduction becoming unconditional and effective. There will be no special arrangement for the exchange of share certificates or for the trading of the Shares. Subject to the Capital

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## LETTER FROM THE BOARD

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Reduction becoming effective, new share certificates will be issued in respect of any new Shares allotted and issued or transferred after the Capital Reduction Completion. New share certificates for the Shares of new nominal value will be issued in the colour of reddish orange to distinguish from the existing share certificates for the Shares of existing nominal value which are light blue in colour.

### **5. The proposal for increase in authorised share capital**

The Directors also propose to seek the approval from the Independent Shareholders at the SGM to increase the authorised share capital from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 900,000,000,000 new Shares. Such new Shares, if issued, shall rank pari passu in all respects with the existing Shares upon Capital Reduction Completion. The effectiveness of the increase in the authorised share capital will be conditional upon Capital Reduction Completion. The Capital Reduction Completion will take place on the date on which all conditions set out under the paragraph headed “2. Conditions of the Capital Reduction” above have been fulfilled on or before the S&P Completion.

### **6. Reasons for the Capital Reduction and increase in authorised share capital**

Immediately upon the Capital Reduction becoming effective, the nominal value of each of the issued and unissued Shares will be reduced from HK\$0.10 to HK\$0.001. The closing price per Share as at 7 February 2005 (being the last full trading date prior to the publication of the Announcement) was HK\$0.108. The Directors expect that the Capital Reduction will give the Company greater flexibility in pricing any issue of new Shares in future.

Upon the increase in the authorised share capital of the Company becoming effective, the authorised share capital will be increased from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 900,000,000,000 new Shares. The Directors expect that the increase in the authorised share capital of the Company will facilitate its future equity fund raising activities.

The SGM will be convened to approve, among other things, the Capital Reduction and the increase in authorised share capital of the Company. MGL and its associates will abstain from voting on the resolutions in respect of the Capital Reduction and the increase in authorised share capital of the Company.

## **IV. THE COMPROMISE DEED**

### **1. Date of and parties to the Compromise Deed:**

Date: 8 April 2005

Parties: The Company  
MGL  
Unichina

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## LETTER FROM THE BOARD

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Pursuant to the Compromise Deed, the Company, MGL and Unichina have agreed that the Shareholder's Loan owing by the Group to MGL and its associates immediately before repayment of HK\$35 million by the Company to MGL and/or its associates (as detailed below) as at the date of the Compromise Deed Completion shall be fully settled in the following manner:

- (i) as to HK\$35 million to be payable by Unichina in cash, on behalf of the Company, to MGL and/or its associates upon the Subscription Completion, as directed by the Company in writing;
- (ii) as to the Balance Shareholder's Loan (being approximately HK\$66.5 million as at the Latest Practicable Date), by issuance of the Secured Promissory Note with a face value equivalent to the Balance Shareholder's Loan to MGL, which is repayable by the Company after 12 months of its issuance and carries an interest rate of Hong Kong Prime Rate per annum, and to be secured by (a) the grant of the Property Charges over each of the Properties (as detailed under the paragraph headed "5. The Property Charges and the Share Mortgages" below) by each of the Property Owners in favour of MGL; and (b) the grant of the Share Mortgages in favour of MGL over all of the issued shares in each of the Property Owners; and
- (iii) as to HK\$15.6 million, by issuance of the Unsecured Promissory Note with a face value of HK\$15.6 million to MGL and/or its associates, which is interest-free, unsecured and is repayable after six months of its issuance.

In light of the terms of settlement of the Shareholder's Loan that have been agreed under the Compromise Deed, the Company has undertaken to MGL that it shall use all its best endeavours to raise additional funds within six months after the Compromise Deed Completion, including but without limitation, to raise funds in the equity market when market conditions allow or to secure third party commercial borrowings, for settlement of the Secured Promissory Note and the Unsecured Promissory Note.

Pursuant to the Compromise Deed, Unichina has also agreed with/undertaken to MGL to take relevant steps to facilitate the Compromise Deed Completion, among others, as follows:

- (a) to pay the subscription price of the Convertible Bond to MGL on behalf of the Company as directed by the Company (as detailed in the section headed "V. The Subscription Agreement" below);
- (b) to procure the Company to use its best efforts to make repayment of the Secured Promissory Note as soon as possible before the actual date for repayment;
- (c) no payment shall be made by the Company to Unichina until all sums owing to MGL under each of the Secured Promissory Note and the Unsecured Promissory Note have been paid in full, and the Company, MGL and Unichina shall enter into the Subordination Deed to record such agreement; and
- (d) for so long as the Secured Promissory Note and Unsecured Promissory Note remain outstanding, and the Company is unable to raise additional funds or secure third party borrowings, to provide funding to the Company, at an interest rate no higher than the interest rate presently payable on the Shareholder's Loan, to provide the



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## LETTER FROM THE BOARD

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Company with, on demand, working capital for its day-to-day normal and usual business operations and to ensure full repayment of the amounts owing under the Secured Promissory Note and Unsecured Promissory Note.

### 2. The Secured Promissory Note

The terms of the Secured Promissory Note were negotiated between the Company and MGL on an arm's length basis and the principal terms of which are summarised below:

- Principal amount: Balance Shareholder's Loan (being approximately HK\$66.5 million as at the Latest Practicable Date)
- Interest: The Secured Promissory Note will carry an interest rate equal to the Hong Kong Prime Rate per annum.
- Security: (a) The Property Charges; and  
(b) the Share Mortgages
- Repayment: MGL shall be entitled to demand in writing payment of all or any part of the amounts outstanding (including the interest accrued thereon) at any time after 12 months from the date of the issuance of the Secured Promissory Note in its discretion, whereupon all amounts demanded shall become due and payable on the third Business Day after the written demand.
- Early repayment: In the event that MGL receives from the Company the sum of HK\$32 million (together with all interest accrued thereon) for value on or before the date that falls six months after the date of issuance of the Secured Promissory Note, MGL will accept the sum of HK\$32 million (plus interest accrued thereon) as full and final settlement of the entire sum due and owing under the Secured Promissory Note (including interest accrued thereto).
- Default of payment: In the event the Company defaults in the payment of any sum due and payable under the Secured Promissory Note, the Company shall pay default interest on such sum to MGL from the due date to the date of actual payment in full calculated at the rate of 12% per annum, which shall accrue on a daily basis.

The Secured Promissory Note will be issued upon the Compromise Deed Completion.

### 3. The Unsecured Promissory Note

The terms of the Unsecured Promissory Note were negotiated between the Company and MGL and/or its associates on an arm's length basis and the principal terms of which are summarised below:

- Principal amount: HK\$15,600,000
- Interest: No interest will be charged on the Unsecured Promissory Note

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## LETTER FROM THE BOARD

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- Security: No security
- Repayment: MGL and/or its associates shall be entitled to demand in writing payment of all or any part of the amounts outstanding at any time after six months from the date of issuance of the Unsecured Promissory Note in its discretion, whereupon all amounts demanded shall become due and payable on the third Business Day after the written demand.
- Default of payment: In the event the Company defaults in the payment of any sum due and payable under the Unsecured Promissory Note, the Company shall pay default interest on such sum to MGL and/or its associates from the due date to the date of actual payment in full calculated at the rate of 12% per annum, which shall accrue on a daily basis.

The Unsecured Promissory Note will be issued upon Compromise Deed Completion.

#### **4. Conditions of the Compromise Deed**

The Compromise Deed is conditional upon the following conditions being fulfilled:

- (i) the grant by the Executive of his consent pursuant to Note 4 to Rule 25 of the Takeovers Code in relation to the arrangements contemplated by the Compromise Deed for the repayment of the Shareholder's Loan;
- (ii) the passing by the Independent Shareholders (by way of a poll) of an ordinary resolution at the SGM convened for the purpose of approving the transactions contemplated by the Compromise Documents convened in accordance with the requirements of the Listing Rules and the Company's Bye-laws;
- (iii) all other requisite consents or approvals which are required for the entry into, and implementation of, the Compromise Documents having been obtained by the Company; and
- (iv) the satisfaction of each of the conditions precedent of the Sale and Purchase Agreement (save for the condition relating to the fulfillment of the conditions under the Compromise Deed).

MGL may waive any of the above conditions (except conditions (i) and (ii) above) to the extent it is capable of waiving at any time before the Compromise Deed Completion by notice in writing to Unichina and the Company. If any of these conditions has not been fulfilled or waived by MGL on or before 31 July 2005 (which may be extended for a further period of not less than 60 days by MGL in writing), the Compromise Deed shall from such date be null and void and have no effect and no party shall have any obligations and liabilities to the other party under the Compromise Deed (without prejudice to the rights of any party in respect of antecedent breaches).

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## LETTER FROM THE BOARD

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### 5. The Property Charges and the Share Mortgages

To facilitate the Compromise Deed Completion, the Property Owners shall execute the Property Charges in favour of MGL by way of security for the repayment of the sums due under the Secured Promissory Note. Particulars of the Properties (which are all investment properties of the Group) to be charged under the Property Charges are as follows:

Properties	Property Owner	Existing use
1. (a) Workshop A on 4th Floor and Flat Roof appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	(a) Ongreat Properties Limited	Commercial
(b) Workshop B on 4th Floor and Flat Roof appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	(b) Continuous Gain Limited	Commercial
2. 7th Floor, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	Lismore Properties Limited	Commercial
3. Office 1 on 1st Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong	Wolston Limited	Commercial
4. 4th Floor and Portions of Flat Roof on 4th Floor of Block A, Chung Mei Centre, No. 15 Hing Yip Street, Kwun Tong, Kowloon	Lismore Properties Limited	Commercial
5. (a) Apartment A on 20th Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong	(a) Lismore Properties Limited	Residential
(b) Car Parking Space No. 172 on 1st Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong	(b) Lismore Properties Limited	Car parking
6. Car Parking Space No. 1 on Ground Floor, King Yip Factory Building, No. 59 King Yip Street, Kwun Tong, Kowloon	Lismore Properties Limited	Car parking

Based on the valuation report (which is set out in Appendix I to this circular) prepared by Vigers, a property valuer independent of and not connected with the Company and its connected persons, the Properties were valued at HK\$34,700,000 as at 15 April 2005.

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## LETTER FROM THE BOARD

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In addition, the registered and beneficial owners of the Property Owners, all being wholly-owned subsidiaries of the Company, shall execute the Share Mortgages in favour of MGL by way of security for the repayment of the sums due under the Secured Promissory Note. Particulars of the issued shares in each of the Property Owners to be charged under the Share Mortgages are as follows:

<b>Name of the Property Owner</b>	<b>Registered and beneficial owners</b>	<b>Place of incorporation/ registration</b>	<b>Nominal value of issued share capital</b>	<b>Percentage of indirect equity attributable to the Company (%)</b>
Lismore Properties Limited	Watary Investments Limited	British Virgin Islands	US\$1	100
Ongreat Properties Limited	Lismore Properties Limited	British Virgin Islands	US\$1	100
Continuous Gain Limited	Lismore Properties Limited	British Virgin Islands	US\$1	100
Wolston Limited	Lismore Properties Limited	British Virgin Islands	US\$1	100

Currently, the Group has charged certain Properties (including items 1 to 5 in the table above) to its lending banks as collateral security for obtaining bank facilities. As at the Latest Practicable Date, the Group had no outstanding bank overdrafts under such bank facilities. Other than the Shareholder's Loan, all indebtedness of the Group is represented only by trade and sundry creditors. The Directors also confirm that the Group had no other bank creditor as at the Latest Practicable Date. The Property Owners, other than holding and leasing of the Properties, do not have any other business or assets.

### **6. The Subordination Deed**

In addition to the Property Charges and the Share Mortgages, the Company will also enter into the Subordination Deed with Unichina and MGL for facilitation of the Compromise Deed Completion. Pursuant to the Subordination Deed, Unichina agrees that, inter alia,

- (i) the Subordinated Indebtedness shall remain subordinated and the repayment thereof deferred to all and any rights, claims and actions which MGL and/or its associates may have against the Company in respect of the Company's indebtedness under the Secured Promissory Note and the Unsecured Promissory Note;
- (ii) it shall not claim, request, demand, sue for, take or receive any money or other property in respect of the Subordinated Indebtedness or any part thereof; and

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## LETTER FROM THE BOARD

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(iii) if any monies or other property are received in respect of the Subordinated Indebtedness by or on behalf of Unichina from the Company, Unichina shall forthwith refund the same to the Company whereupon the Company shall forthwith pay or transfer the same to MGL and/or its associates and MGL and/or its associates may apply the same in or towards satisfaction of the Company's indebtedness under the Secured Promissory Note and the Unsecured Promissory Note,

provided, however, Unichina shall be entitled to exercise its rights of conversion under the Convertible Bond.

### **7. Takeovers Code and Listing Rules implication**

The Compromise Deed, including the execution of the Security Documents, constitutes a "special deal" under Rule 25 of the Takeovers Code, and therefore requires the consent of the Executive. Such consent, if granted, will be conditional upon the approval of the Independent Shareholders voting by way of a poll. Given that MGL is the immediate controlling Shareholder, the entering into of the Compromise Deed including the execution of the Security Documents among MGL, Unichina and the Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The SGM will be convened to approve, among other things, the entering into of the Compromise Deed and the transactions contemplated thereunder. By virtue of the Listing Rules, the resolution for the connected transaction is required to be passed by the Independent Shareholders and voted on by way of a poll. MGL, its associates, parties acting in concert with any of them and Shareholders who are involved or interested in the Compromise Deed including the transactions contemplated thereunder other than solely being Shareholders will abstain from voting on the resolution in respect of the Compromise Deed at the SGM.

## **V. THE SUBSCRIPTION AGREEMENT**

### **1. Date of and parties to the Subscription Agreement**

Date: 8 April 2005

Issuer: The Company

Subscriber: Unichina

Guarantor: MCB

Subject: The Company has conditionally agreed to issue to Unichina and Unichina has conditionally agreed to subscribe for the Convertible Bond.

Completion date: The seventh Business Day following the date on which the conditions precedent to the Subscription Agreement are fulfilled and simultaneously with the S&P Completion and the Compromise Deed Completion, or such other date as the Company, Unichina and MCB may agree.

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### 2. The Convertible Bond

The terms of the Convertible Bond were negotiated between the Company and Unichina on an arm's length basis and the principal terms of which are summarised below:

Principal amount:	HK\$35,000,000
Interest:	1% per annum on the principal amount outstanding from time to time, payable annually in arrear.
Maturity:	The Company shall repay the principal amount outstanding under the Convertible Bond to the Bondholder(s) on the day which is three years from the date of issue of the Convertible Bond.
Conversion price:	HK\$0.04735 per Conversion Share, which was arrived at after arm's length negotiation between the Company and Unichina and is equivalent to the share offer price under the Share Offer.

The conversion price of the Convertible Bond is subject to adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain changes in the share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company.

If the Company determines that any adjustment to the conversion price of the Convertible Bond should be made as a result of one or more events or circumstances other than those mentioned above or as mentioned in the conditions of the Convertible Bond, the Company shall request the Company's auditors to determine as to what adjustment (if any) to the conversion price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment shall be made and shall take effect in accordance with such determination. The Company will comply with the disclosure requirement under the Listing Rules should there be any adjustment of the conversion price of the Convertible Bond.

Conversion Shares:	Assuming exercise in full of the conversion rights attaching to the Convertible Bond at the conversion price of HK\$0.04735 per Conversion Share, a total number of 739,176,346 new Shares will be issued, which represents approximately 120.2% and 54.6% of the Shares in issue as at the Latest Practicable Date and the total number of issued Shares as enlarged by the issuance of the Conversion Shares respectively.
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## LETTER FROM THE BOARD

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- Conversion period: The Bondholder(s) will have the right to convert the whole or part (in an amount or integral multiple of HK\$1,000,000) of the outstanding principal amount of the Convertible Bond into Conversion Shares at any time and from time to time following the date of issue of the Convertible Bond up to the third anniversary of the issue of the Convertible Bond in amounts of not less than HK\$1,000,000 on each conversion, save that if at any time, the principal outstanding amount of the Convertible Bond is less than HK\$1,000,000, the whole (but not part only) of the principal amount of the Convertible Bond may be converted.
- Redemption: The outstanding amount under the Convertible Bond may be repaid or redeemed by the Company.
- Ranking of the Conversion Shares: New Shares to be issued upon conversion shall rank *pari passu* in all respects with all other existing Shares outstanding at the date of the conversion notice and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion notice.
- Transferability: The Convertible Bond may be freely transferable subject to compliance with all applicable laws and regulations.
- Voting: The Bondholder(s) will not be entitled to attend or vote at any meeting of the Company by reason of being the Bondholder(s).
- Listing: No application will be made for the listing of the Convertible Bond on the Stock Exchange. An application has been made to the Stock Exchange for the listing of the Conversion Shares to be issued on exercise of the conversion rights attaching to the Convertible Bond.

The conversion price of HK\$0.04735 per Conversion Share under the Convertible Bond is approximately the same as the price agreed to be paid by Unichina to MGL for each Sale Share under the Sale and Purchase Agreement and the same as the share offer price under the Share Offer, and represents:

- (a) a discount of approximately 56.2% to the closing price of HK\$0.108 per Share as quoted on the Stock Exchange on 7 February 2005, being the last complete trading day prior to the suspension of the trading in the Shares at 9:30 a.m. on 8 February 2005 pending the publication of the Announcement;
- (b) a discount of approximately 42.6% to the average closing price of HK\$0.0825 per Share as quoted on the Stock Exchange for the last ten consecutive complete trading days prior to the suspension of the trading in the Shares at 9:30 a.m. on 8 February 2005 pending the publication of the Announcement;

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- (c) a discount of approximately 40.4% to the average closing price of HK\$0.0795 per Share as quoted on the Stock Exchange for the last 30 consecutive complete trading days prior to the suspension of the trading in the Shares at 9:30 a.m. on 8 February 2005 pending the publication of the Announcement; and
- (d) a discount of approximately 63.6% to the closing price of HK\$0.130 per Share as at the Latest Practicable Date.

The shareholding structure of the Company upon full conversion of the Convertible Bond by Unichina is set out in the section headed “VII. Shareholding structure” below.

### 3. Conditions of the Subscription Agreement

The Subscription Completion will occur simultaneously with the S&P Completion and the Compromise Deed Completion. The Subscription Completion shall be subject to the satisfaction of the following conditions:

- (i) the passing of resolutions of the Board approving the terms and execution of the Subscription Agreement, the issue and allotment of all the Conversion Shares that may be required to be issued pursuant to the Subscription Agreement, and those resolutions not being amended or revoked;
- (ii) the passing of resolutions of the board of directors of Unichina approving the transactions contemplated under the Subscription Agreement, and those resolutions not being amended or revoked;
- (iii) the passing of resolutions of the board of directors of MCB approving the terms and execution of the Subscription Agreement, and those resolutions not being amended or revoked;
- (iv) the passing by the Independent Shareholders (by way of a poll) of ordinary resolutions at the SGM approving the transactions contemplated under the Subscription Agreement and the Compromise Deed in accordance with the requirements of the Listing Rules and the Company’s memorandum and bye-laws;
- (v) the receipt of approval from the SFC for the proposed change in the ultimate controlling shareholder of MISL;
- (vi) the receipt of approval from Hong Kong Exchanges and Clearing Limited to the proposed change of control of MISL;
- (vii) the repayment of the overdraft banking facilities made available by lending banks to the Group which are secured by charges granted over certain of the Properties, and the release by the lending banks of such security;
- (viii) the Sale and Purchase Agreement and the Compromise Deed having become unconditional in all respects;



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- (ix) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares which may be issued or required to be issued pursuant to the Convertible Bond, and such permission and listing not subsequently being revoked;
- (x) if necessary, the Bermuda Monetary Authority approving or agreeing to approve (a) the Capital Reduction; (b) the issue of the Convertible Bond; and (c) the allotment, issue and subsequent transfer of the Conversion Shares upon exercise of the Convertible Bond;
- (xi) the Capital Reduction having become unconditional in all respects; and
- (xii) all other requisite consents or approvals of any government and/or regulatory authorities in Hong Kong or elsewhere which are required or appropriate for the entry of and implementation of the Subscription Agreement having been obtained by the Company.

If the conditions precedent to the Subscription Agreement are not fulfilled on or before 31 July 2005 or such later date as may be agreed between Unichina and the Company, the Subscription Agreement will lapse and become null and void and the parties to the Subscription Agreement will be released from all obligations thereunder (without prejudice to the rights of any party in respect of antecedent breaches). Pursuant to the Subscription Agreement, the Subscription Agreement shall terminate at any time on or before its completion in the event that the Sale and Purchase Agreement and/or the Compromise Deed are/is terminated pursuant to the terms therein.

#### **4. Listing Rules implications**

As Unichina entered into the Sale and Purchase Agreement with MGL and will become the controlling Shareholder upon S&P Completion and whilst the Subscription Completion will take place simultaneously with the S&P Completion, the issuance of the Convertible Bond under the Subscription Agreement will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules which requires the approval of the Independent Shareholders voting by way of a poll. MGL and its associates will abstain from voting on the resolution in respect of the Subscription Agreement at the SGM.

Application has been made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Conversion Shares. All necessary arrangements will be made for the Conversion Shares to be admitted into CCASS.

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

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### VI. REASONS FOR THE ENTERING INTO OF THE COMPROMISE DEED AND THE SUBSCRIPTION AGREEMENT

The Directors consider that it is beneficial to and in the interest of the Company to enter into the Subscription Agreement and the Compromise Deed for the purpose of settlement of the Shareholder's Loan, as the Compromise Deed is to be completed at the same time as the Sale and Purchase Agreement. Given the Group's current financial position and the thin trading volume of the Shares (the average daily trading volume for the month up to and including 7 February 2005 was approximately 0.03% of the total issued Shares as at the Latest Practicable Date), the Directors consider that the entering into of the Compromise Deed together with the issue of the Convertible Bond to Unichina by the Company under the Subscription Agreement, is an appropriate way for settlement of the Shareholder's Loan.

The Group recorded net losses attributable to Shareholders for each of the five years ended 31 December 2004, and has recorded net liabilities since 31 December 2001. The total unaudited consolidated liabilities of the Group as at 31 January 2005 amounted to approximately HK\$127.9 million, of which approximately HK\$115.2 million were intercompany advances from MGL, the immediate controlling Shareholder, and the associates of MGL. As at the Latest Practicable Date, the Shareholder's Loan amounted to approximately HK\$117,115,000. The interest rates payable on the Shareholder's Loan are based on the lender's cost of funds, which ranges from approximately 6.5% to 8% per annum presently. MGL has provided financial support to the Group to enable it to operate as a going concern. Along with the change in holder of the controlling stake in the Company from MGL to Unichina pursuant to the Sale and Purchase Agreement, on 8 April 2005, the Company entered into the Compromise Deed. Based on the Balance Shareholder's Loan as at the Latest Practicable Date, the Directors estimate that the Company will benefit from a gain of approximately HK\$38.8 million (subject to audit) for the year ending 31 December 2006 as a result of the interest saving deriving from the arrangements under the Compromise Deed and the Subscription Agreement as compared with the existing interest expenditure on the Shareholder's Loan in the future 12 months (assuming the Hong Kong Prime Rate at 5.25% throughout the period) and in the event that the Company repays by making early repayment of HK\$32 million (together with interest thereon) and repayment of HK\$15.6 million pursuant to the terms of the Secured Promissory Note and Unsecured Promissory Note respectively on or before the date falling six months after the issuance of the Secured Promissory Note and Unsecured Promissory Note (which are expected to be issued on or before 31 July 2005).

Given that (i) the Company has undertaken to use all its best endeavours to raise additional funds within six months after the Compromise Deed Completion, including but without limitation, to raise fund in the equity market when market conditions allow or to secure third party commercial borrowings, for settlement of the Secured Promissory Note and the Unsecured Promissory Note, and (ii) Unichina agreed, for so long as the Secured Promissory Note and Unsecured Promissory Note remain outstanding, and the Company is unable to raise additional funds or secure third party borrowings, to provide funding to the Company, at an interest rate no higher than the interest rate presently payable on the Shareholder's Loan, to provide the Company with, on demand, working capital for its day-to-day normal and usual business operations and to ensure full repayment of the amounts owing under the Secured Promissory Note and the Unsecured Promissory Note, Shareholders should note that the Company may raise fund in the equity market and seek third party borrowings within the six months and the twelve months upon the Compromise Deed Completion in order to facilitate the repayment of the Unsecured Promissory Note and the Secured Promissory Note and may not be able to repay the Unsecured Promissory Note and the Secured Promissory Note in the event that it fails to raise sufficient fund from the equity market and/or

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secure sufficient third party borrowings and Unichina fails to provide sufficient funding to the Company when the Unsecured Promissory Note and the Secured Promissory Note become due and repayable.

### VII. SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (based on the information received by the Company and notified pursuant to Part XV of the SFO as at the Latest Practicable Date) (i) immediately before the S&P Completion; (ii) upon S&P Completion (assuming that there are no changes other than those contemplated in the Sale and Purchase Agreement); and (iii) upon the full conversion of the Convertible Bond by Unichina:

Shareholder	Before S&P Completion		Upon S&P Completion		Upon full conversion of the Convertible Bond by Unichina	
	(Shares)	(%)	(Shares)	(%)	(Shares)	(%)
MGL	316,973,680	51.54	—	—	—	—
Unichina	—	—	316,973,680	51.54	1,056,150,026	77.99
Public	<u>298,050,495</u>	<u>48.46</u>	<u>298,050,495</u>	<u>48.46</u>	<u>298,050,495</u>	<u>22.01</u>
Total	<u>615,024,175</u>	<u>100.00</u>	<u>615,024,175</u>	<u>100.00</u>	<u>1,354,200,521</u>	<u>100.00</u>

Assuming no part of the Convertible Bond is converted upon S&P Completion, Unichina will become the controlling Shareholder holding 316,973,680 Shares, being approximately 51.54% of the entire issued share capital of the Company, while the public float of the Company will be approximately 48.46% immediately upon S&P Completion. However, if the Convertible Bond is fully converted upon S&P Completion, Unichina's shareholding will increase by 739,176,346 Shares (which represents approximately 120.2% and 54.6% of the Shares in issue as at the Latest Practicable Date) to 1,056,150,026 Shares, being approximately 77.99% of the entire enlarged issued share capital of the Company, and the public float of the Company will be reduced to approximately 22.01% immediately upon S&P Completion. Unichina has undertaken to the Company that it will not convert or procure not to convert any part of the Convertible Bond into Conversion Shares if such conversion would result in a failure to maintain the minimum public float of the Shares on the Stock Exchange as required under the Listing Rules.

As the Company foresees the future dilution effect on the Shareholders in relation to the exercise of the conversion rights attaching to the Convertible Bond, the Company will keep the Shareholders informed of the level of dilution effect and all relevant details of the conversion in the following manner:

- (a) the Company will make a monthly announcement on the website of the Stock Exchange. Such regular announcement will be made on or before the fifth Business Day of each calendar month for the last calendar month including the following details in a table form:
  - (i) whether there is any conversion of the Convertible Bond. If yes, details of the conversion (including the conversion date, number of Conversion Shares issued, conversion price for each conversion). If there is no conversion during the month, a negative statement will be stated;

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- (ii) the outstanding principal amount of the Convertible Bond after the conversion, if any;
  - (iii) total amount of changes in the issued share capital of the Company pursuant to other transactions (including exercise of options pursuant to any share option scheme of the Group and repurchases of Shares by the Company), if any; and
  - (iv) total issued share capital of the Company at the commencement and the last day of each relevant month,
- (b) in addition to the regular announcement as mentioned in (a) above, should the cumulative amount of Conversion Shares issued pursuant to the conversion of the Convertible Bond reach 5% of the issued share capital of the Company as disclosed in the last regular announcement or a special announcement (as mentioned below), as the case may be (and thereafter in a multiple of such 5% threshold), the Company will make a special announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the last regular announcement or special announcement, as the case may be, up to the date the total number of Conversion Shares issued pursuant to the conversion amounts to 5% of the issued share capital of the Company as disclosed in the last regular announcement or special announcement, as the case may be.

As at the Latest Practicable Date, save for the Options, the Company has no outstanding options, warrants, derivatives or other securities that are convertible into Shares.

### VIII. INFORMATION ON THE GROUP

The Company is a company incorporated in Bermuda with limited liability and has been listed on the main board of the Stock Exchange since 23 November 1992. The Group is principally engaged in investment holding, property investment, securities dealing and brokerage, money lending and margin finance.

The following sets out the financial information of the Group for each of the three years ended 31 December 2004:

	<b>For the year ended 31 December</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Turnover	8,015	7,826	9,920
Net (loss) from ordinary activities attributable to Shareholders	(6,258)	(11,596)	(22,041)

The Company had audited consolidated net liabilities of about HK\$45,336,000 as at 31 December 2004. As at the same date, the Group had total assets of about HK\$80,484,000 and total liabilities of about HK\$125,820,000. As at 31 December 2004, the total borrowings (including interest payables) of the Group amounted to about HK\$115,290,000 including the Shareholder's Loan of approximately HK\$114,702,000 and bank loans and overdrafts of approximately HK\$589,000 (such bank loans and overdrafts of approximately HK\$589,000 were subsequently repaid by the Group in April 2005).

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## LETTER FROM THE BOARD

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### IX. INFORMATION ON UNICHINA

Unichina is an investment holding company incorporated in the British Virgin Islands with limited liability on 2 January 2002 and the entire issued share capital of which is owned by Mr. Wong Kwong Miu. Mr. Wong Kwong Miu is also the sole director of Unichina.

None of Unichina, its beneficial owner and parties acting in concert with any of them has dealt in any Shares or any options, warrants, derivatives or securities convertible into Shares during the period commencing on the date falling six months prior to the date of the Sale and Purchase Agreement and up to the Latest Practicable Date, save for (i) the entering into of the Sale and Purchase Agreement and the Subscription Agreement by Unichina; (ii) the entering into of a sale and purchase agreement on 18 February 2005 whereby MGL agreed to sell and Unichina agreed to purchase the Sale Shares upon and subject to the terms and conditions of such sale and purchase agreement, which was subsequently terminated on 8 April 2005; (iii) the entering into of an option agreement on 18 February 2005 to facilitate the settlement of the Shareholder's Loan, which was subsequently terminated on 8 April 2005; and (iv) dealings in the Shares for the account of non-discretionary clients by the brokerage division of a fellow subsidiary of Celestial Capital.

### X. UNICHINA'S INTENTION REGARDING THE GROUP

Unichina intends to continue the existing businesses of the Group and will, following the S&P Completion, conduct a more detailed review of the operations of the Group with a view to developing a corporate strategy to enhance its existing businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing businesses into or divesting of loss-making operations of the Group should appropriate opportunities arise. However, Unichina has no immediate plan of injecting any of its assets into the Group upon S&P Completion.

It is the intention of Unichina to maintain the listing of the Company on the Stock Exchange. **The Stock Exchange has stated that it will closely monitor the dealing in the Shares on the Stock Exchange. The Stock Exchange has also stated that, if less than 25% of the issued Shares are in public hands following the Subscription Completion, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.**

**The Stock Exchange has stated that if the Company remains as a listed company, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to its shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions of assets by the Company and any such acquisitions may result in the Company being treated as if it were a new listing applicant and subject to the requirements of new listing applications as set out in the Listing Rules.**

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## LETTER FROM THE BOARD

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### XI. PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

It is expected that all of the existing executive Directors, namely, Messrs. Lim Teong Leong, Tam Cheok Wing, Ooi Sin Heng and Chan Hon Ming will resign and that such resignations will take effect on the closing date of the Offers in compliance with Rule 7 of the Takeovers Code. It is expected that the existing independent non-executive Directors will remain on the Board. In addition, Unichina at present intends to nominate two new executive Directors, namely Messrs. Wong Kwong Miu and Wong Kwong Lung, Terence. The appointment of additional Directors nominated by Unichina will not take effect earlier than the date of posting of the Composite Document in compliance with Rule 26.4 of the Takeovers Code. A further announcement will be made by the Company and Unichina on any further proposed change of the composition of the Board and new appointment of Directors.

The following is the brief information on the proposed executive Directors as currently intended to be nominated by Unichina:

Mr. Wong Kwong Miu, aged 35, has extensive experience in property development and investment in Hong Kong and the PRC. Mr. Wong is a member of the National Committee of the Chinese People's Political Consultative Conference and a member of the Shenzhen City Political Consultative Standing Committee. Mr. Wong was the chairman of Asia Resources Holdings Limited, the shares of which are listed on the Stock Exchange.

Mr. Wong Kwong Lung, Terence, aged 42, has over 14 years of experience in property development and investment in Hong Kong and the PRC. Mr. Wong was an executive director of Asia Resources Holdings Limited and an independent non-executive director of renren Holdings Limited. The shares of both of these two companies are listed on the Stock Exchange.

### XII. LISTING STATUS OF THE COMPANY

Unichina intends that the Company will remain listed on the Stock Exchange after the close of the Offers and does not intend to exercise any rights to compulsorily acquire all the Shares. The sole director of Unichina and the new Directors to be appointed will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that the minimum public float requirement under the Listing Rules is complied with by the Company.

**The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25%, of the Shares are held by the public, or if the Stock Exchange believes that:**

- (a) a false market exists or may exist in trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares. The Stock Exchange will also closely monitor all acquisitions or disposals of assets by the Company. Under the Listing Rules, the Stock Exchange has the power pursuant to the Listing Rules to aggregate a series of transactions and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirement for new applicants as set out in the Listing Rules.

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## LETTER FROM THE BOARD

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### XIII. FUND RAISING IN THE PAST TWELVE MONTHS

The Company has not carried out any fund raising activities within the last 12 months prior to the Latest Practicable Date.

### XIV. SGM

Set out on pages 67 to 70 in this circular is a notice convening the SGM which will be held at 11:00 a.m. on Friday, 24 June 2005 at Oceana Room, Lobby Floor, Hong Kong Gold Coast Hotel, No. 1 Castle Peak Road, Castle Peak Bay, Kowloon, Hong Kong at which resolutions will be proposed to approve, among other things, (i) the Subscription Agreement, together with the issue of the Convertible Bond and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bond; (ii) the Compromise Deed (together with the transactions contemplated thereunder); (iii) the Capital Reduction; and (iv) the increase in authorised share capital of the Company. The form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and to return the same in accordance with the instructions printed thereon as soon as possible to the Company's share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the SGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so desire.

### XV. ADDITIONAL INFORMATION

Dao Heng Securities has been appointed as the financial adviser to the Company. The Independent Board Committee comprising Messrs. Wong Ming Shiang, Lim Eng Ho and Soo Tho Him Yip, all being the independent non-executive Directors, has been established to consider the terms of the Compromise Deed and the Subscription Agreement and advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Compromise Deed and the Subscription Agreement. Following the S&P Completion, the Independent Board Committee will also consider the terms of the Offers and advise the Shareholders and Optionholders as to the fairness and reasonableness of the terms of the Offers and whether or not to accept the Offers. The Company has retained Dao Heng Securities as the financial adviser in respect of the Offers. Tai Fook has been appointed to act as the independent financial adviser to the Independent Board Committee on the terms of the Compromise Deed and the Subscription Agreement and, following the S&P Completion, the terms of the Offers.

### XVI. RECOMMENDATIONS

The Directors believe that the resolutions approving the Capital Reduction and the increase in authorised share capital in the Company are in the interests of the Company and recommend the Independent Shareholders to vote in favour of such resolutions to be proposed at the SGM.

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from Tai Fook and the additional information set out in the appendices in this circular.

Yours faithfully,  
For and on behalf of the Board  
**Ooi Sin Heng**  
*Director*



# Magnum International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 305)**

20 May 2005

*To the Independent Shareholders*

Dear Sir or Madam,

**SETTLEMENT OF SHAREHOLDER'S LOAN BY ENTERING INTO THE COMPROMISE DEED  
(SPECIAL DEAL AND CONNECTED TRANSACTION)**

**AND**

**SUBSCRIPTION OF CONVERTIBLE BOND BY UNICHINA ENTERPRISES LIMITED  
BY ENTERING INTO THE SUBSCRIPTION AGREEMENT (CONNECTED TRANSACTION)**

As the Independent Board Committee, we have been appointed to advise you in connection with the Compromise Deed and the Subscription Agreement, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 20 May 2005 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Tai Fook has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect. Details of its recommendation and principal factors taken into consideration in arriving at its recommendation are set out in the letter of advice from Tai Fook on pages 31 to 51 of the Circular.

Having considered the terms of the Compromise Deed and the Subscription Agreement and the advice of Tai Fook in relation thereto, we are of the opinion that the terms of the Compromise Deed and the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the resolutions to be proposed at the SGM to approve (i) the Subscription Agreement, together with the issue of the Convertible Bond and the allotment and issue of the Conversion Shares upon conversion of the Convertible Bond; and (ii) the Compromise Deed (together with the transactions contemplated thereunder).

Yours faithfully,

The Independent Board Committee

**Wong Ming Shiang    Lim Eng Ho    Soo Tho Him Yip**

*Independent non-executive Directors*



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## LETTER FROM TAI FOOK

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*The following is the text of a letter of advice from Tai Fook in respect of the Compromise Deed and the Subscription Agreement and is prepared for the purpose of inclusion in this circular.*



大福融資有限公司  
TAI FOOK CAPITAL LIMITED

25th Floor  
New World Tower  
16–18 Queen’s Road Central  
Hong Kong

20 May 2005

*To the Independent Board Committee and  
the Independent Shareholders*

Magnum International Holdings Limited

Dear Sirs,

### **SETTLEMENT OF SHAREHOLDER’S LOAN BY ENTERING INTO THE COMPROMISE DEED (SPECIAL DEAL AND CONNECTED TRANSACTION)**

**AND**

### **SUBSCRIPTION OF CONVERTIBLE BOND BY UNICHINA ENTERPRISES LIMITED BY ENTERING INTO THE SUBSCRIPTION AGREEMENT (CONNECTED TRANSACTION)**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the terms of the Compromise Deed and the Subscription Agreement, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 20 May 2005 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

On 8 April 2005, the Board and the sole director of Unichina jointly announced that on 8 April 2005, Unichina entered into the Sale and Purchase Agreement with MGL (an indirectly wholly owned subsidiary of MCB) and MCB, pursuant to which Unichina conditionally agreed to purchase and MGL conditionally agreed to sell the Sale Shares for a cash consideration of HK\$15 million. Upon the S&P Completion and assuming no changes to the issued share capital and the shareholding structure of the Company other than the sale and purchase of the Sale Shares contemplated by the Sale and Purchase Agreement from the Latest Practicable Date to the S&P Completion, Unichina and parties acting in concert with it will own in aggregate approximately 51.54% of the entire issued share capital of the Company and will be required under Rule 26.1 and Rule 13 of the Takeovers Code to make mandatory unconditional cash offers for all the issued Shares not already owned or agreed to be acquired by Unichina and parties acting in concert with it and all the outstanding Options. Details of the terms of the Sale and Purchase Agreement and the Offers are set out in the “Letter from the Board” of the Circular.

It was further announced that on 8 April 2005, the Company, MGL and Unichina entered into the Compromise Deed in relation to the settlement of the Shareholder’s Loan, and the Company, Unichina and MCB entered into the Subscription Agreement in relation to the subscription of the Convertible Bond by Unichina. The Compromise Deed constitutes a special deal under Rule 25 of the Takeovers Code and a connected transaction of the Company under Chapter 14A of the Listing

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## LETTER FROM TAI FOOK

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Rules. The issuance of the Convertible Bond under the Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Compromise Deed and the Subscription Agreement are subject to the approval of the Independent Shareholders by way of poll at the SGM. MGL and its associates and parties acting in concert with any of them and Shareholders who are involved in or interested in the Compromise Deed including the transactions contemplated thereunder other than solely being Shareholders will abstain from voting on the resolution in respect of the Compromise Deed. MGL and its associates will abstain from voting on the resolution in respect of the Subscription Agreement.

The Independent Board Committee comprising Messrs. Wong Ming Shiang, Lim Eng Ho and Soo Tho Him Yip, each being an independent non-executive Director, has been appointed to advise the Independent Shareholders whether the terms of the Compromise Deed and the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation as to whether the terms of the Compromise Deed and the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We are independent of the Company and its connected persons.

### **BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on the information and facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information and facts and any representations made to us or contained in the “Letter from the Board” of the Circular are true, accurate and complete as at the date hereof and will continue to be true up to the date of the SGM. We have been advised by the Directors and/or the management of the Group that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

We consider we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs of the Group.

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# LETTER FROM TAI FOOK

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the terms of the Compromise Deed and the Subscription Agreement, we have considered the following principal factors and reasons:

### I. Historic financial performance of the Group

As stated in the “Letter from the Board” of the Circular, the Group is principally engaged in investment holding, property investment, securities dealing and brokerage, money lending and margin finance.

The following sets out a summary of the financial results of the Group for the three years ended 31 December 2004 as extracted from the 2004 annual report of the Company and a discussion of the financial performance of the Group based on the relevant financial reports of the Company:

	Year ended 31 December 2004 (Audited) HK\$'000	Year ended 31 December 2003 (Audited) HK\$'000	Year ended 31 December 2002 (Audited) HK\$'000 (Restated)
Turnover	8,015	7,826	9,920
Loss before tax	(6,231)	(11,522)	(21,839)
Net loss attributable to shareholders	(6,258)	(11,596)	(22,041)
Net liabilities	(45,336)	(39,078)	(27,482)

For the year ended 31 December 2002, the Group recorded a turnover of approximately HK\$9.9 million, representing a decrease of approximately 30.7% as compared to the turnover in 2001. As disclosed in the 2002 annual report of the Company, such decrease was in line with the decrease in the overall market transaction volume as a result of weak performance of the Hong Kong stock market. The loss before tax of the Group improved from approximately HK\$51.9 million in 2001 to approximately HK\$21.8 million in 2002, which was mainly attributable to the absence of exchange losses in 2002 when compared to 2001 during which the Group recorded exchange losses of approximately HK\$22.7 million upon cessation of the Philippines securities business. In addition, the strengthened internal and credit control measures resulted in the reduction of operating costs and doubtful debts provision in 2002.

For the year ended 31 December 2003, the Group's turnover was approximately HK\$7.8 million, representing a decrease of approximately 21.1% as compared to that in 2002. According to the 2003 annual report of the Company, the reduction in turnover was in line with the decrease in the overall market transaction volume as a result of weak performance of the Hong Kong stock market during and after the period of the outbreak of the Severe Acute Respiratory Syndrome in 2003. The loss before tax of the Group reduced from approximately HK\$21.8 million to approximately HK\$11.5 million. Such reduction was mainly attributable to (i) the unrealized holding gains on short term investments of approximately HK\$5.9 million in 2003, as compared to unrealized holding losses on short term investments of approximately HK\$1.6 million in 2002; and (ii) a decrease in provision for doubtful debts of approximately HK\$2.4 million.

For the year ended 31 December 2004, the Group recorded a turnover of approximately HK\$8.0 million, representing an increase of approximately 2.4% as compared to the turnover in 2003. As stated in the 2004 annual report of the Company, such improvement was in line with the increase in the overall market transaction volume of the Hong Kong stock market in 2004. Despite the Group's recognition of unrealized holding losses on short term investments of approximately HK\$0.7 million in 2004 (as compared to unrealized holding gains on short term investments of approximately HK\$5.9 million in 2003), the loss before tax of the Group reduced from approximately HK\$11.5 million in 2003 to approximately HK\$6.2 million in 2004. Such reduction was mainly attributable to (i) a surplus on revaluation of investment properties of approximately HK\$6.3 million in 2004 (as compared to a deficit on revaluation of investment properties of approximately HK\$1.1 million in 2003); (ii) a gain on disposal of listed equity investments of approximately HK\$1.2 million; (iii) a decrease in administrative expenses of approximately HK\$0.9 million; (iv) a write-back of provision for doubtful debts of approximately HK\$1.0 million in 2004 (as compared to a provision for doubtful debts of approximately HK\$0.7 million in 2003); and (v) a decrease in finance costs of approximately HK\$0.8 million.

The Group recorded net loss attributable to shareholders for each of the three years ended 31 December 2004. The financial position of the Group was deteriorating, with the audited consolidated net liabilities of the Group amounting to approximately HK\$45.3 million as at 31 December 2004. The Group has been faced with an unfavourable liquidity position and the operations of the Group have been principally financed by funding from MCB group of companies. As stated in the "Letter from the Board" of the Circular, the unaudited consolidated total liabilities of the Group as at 31 January 2005 was approximately HK\$127.9 million, of which approximately HK\$115.2 million were advances from MGL and its associates (including interest accrued thereon). Shareholders should note that the financial statements for each of the three years ended 31 December 2004 had been prepared on a going concern basis, after taking into account that the Company's holding companies have agreed in writing to provide adequate financial support to the Group to enable it to operate as a going concern.

## **II. The Compromise Deed**

### **1. *Reasons for entering into the Compromise Deed***

As discussed in the paragraph headed "I. Historic financial performance of the Group" above, the Group was loss making for each of the three years ended 31 December 2004 and has been relying on the financial support from the Company's holding companies to operate as a going concern. As at 31 December 2004, the Group had audited consolidated net liabilities of approximately HK\$45.3 million, with the consolidated total assets being approximately HK\$80.5 million and consolidated total liabilities being approximately HK\$125.8 million. As at 31 December 2004, the outstanding principal and interest amount of the loan due by the Group to MGL and its associates amounted to approximately HK\$114.7 million, representing approximately 91.2% of the consolidated total liabilities of the Group. As advised by the Directors, the Company's holding companies have agreed not to demand for repayment of any amounts owing from the Group to MGL and its associates until such time when the Group is in a position to repay the amounts without impairing its liquidity position as long as the Group remains as subsidiary companies of MCB. On 8 April 2005, MGL entered into the Sale and Purchase Agreement to conditionally agree to dispose of all of its shareholding interest in the Company. As advised by the Directors, upon completion of the sale and purchase of

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## LETTER FROM TAI FOOK

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MGL's shareholding interest in the Company, the Group will cease to be subsidiary companies of MCB and in the absence of any arrangement to reschedule the Group's indebtedness to MGL and its associates, all amounts owing from the Group to MGL and its associates will be repayable on demand. Hence Unichina, MGL and the Company on 8 April 2005 entered into the Compromise Deed. The Directors consider that the entering into of the Compromise Deed together with the issue of the Convertible Bond represents an opportunity by which a settlement of the Shareholder's Loan can be achieved with the possibility to prepay debt under the Secured Promissory Note on discounted terms should the Group be able to repay certain portion thereof within six months after the date of the Compromise Deed Completion. We concur with the Directors' view.

### **2. Major terms of the Compromise Deed**

As stated in the "Letter from the Board" of the Circular, pursuant to the Compromise Deed, the Company, MGL and Unichina agreed that the Shareholder's Loan owing by the Group to MGL and its associates immediately before repayment of HK\$35 million by the Company to MGL and/or its associates as at the date of the Compromise Deed Completion shall be settled in the following manner:

- (i) as to HK\$35 million payable by Unichina, on behalf of the Company, upon the Subscription Completion to MGL and/or its associates as directed by the Company in writing;
- (ii) as to the Balance Shareholder's Loan (being approximately HK\$66.5 million as at the Latest Practicable Date) by the issuance of the Secured Promissory Note with a face value equivalent to the Balance Shareholder's Loan to MGL; and
- (iii) as to HK\$15.6 million by the issuance of the Unsecured Promissory Note with a face value of HK\$15.6 million to MGL and/or its associates.

The principal terms of the Secured Promissory Note and Unsecured Promissory Note are set out in the "Letter from the Board" of the Circular, which are summarised below:

	<b>Secured Promissory Note</b>	<b>Unsecured Promissory Note</b>
Principal amount	Balance Shareholder's Loan (being approximately HK\$66.5 million as at the Latest Practicable Date)	HK\$15.6 million
Interest	Hong Kong Prime Rate per annum	Interest free
Security	First charges over each of the Properties and share mortgages over all of the issued shares in each of the Property Owners in favour of MGL	No security

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## LETTER FROM TAI FOOK

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	<b>Secured Promissory Note</b>	<b>Unsecured Promissory Note</b>
Repayment	MGL shall be entitled to demand payment in writing after twelve months from the date of the issuance of the Secured Promissory Note, whereupon all amounts demanded shall become due and payable on the third Business Day after the written demand.	MGL and/or its associates shall be entitled to demand payment in writing after six months from the date of the issuance of the Unsecured Promissory Note, whereupon all amounts demanded shall become due and payable on the third Business Day after the written demand.
Early repayment	In the event that MGL receives from the Company the sum of HK\$32 million (together with all interest accrued thereon under the Secured Promissory Note) for value on or before the date falling six months after the date of issuance of the Secured Promissory Note, MGL will accept the sum of HK\$32 million (plus interests accrued thereon under the Secured Promissory Note) as full and final settlement of the entire sum due and owing under the Secured Promissory Note (including interest accrued thereon).	Not applicable
Default of payment	In the event the Company defaults in payment, the Company shall pay default interest on such sum to MGL from the due date to the date of actual payment in full calculated at 12% per annum, which shall accrue on a daily basis.	In the event the Company defaults in payment, the Company shall pay default interest on such sum to MGL and/or its associates from the due date to the date of actual payment in full calculated at 12% per annum, which shall accrue on a daily basis.

Details of the terms of the Compromise Deed are set out in the “Letter from the Board” of the Circular.

### 3. *Analysis of the terms of the Compromise Deed*

As stated in the “Letter from the Board” of the Circular, the terms of the Secured Promissory Note and the Unsecured Promissory Note were negotiated between the Company, MGL and/or its associates and Unichina on an arm’s length basis. We have discussed the terms of the Compromise Deed with the management of the Company and note the followings:

#### (i) *Maturity*

As advised by the Directors, the Company’s holding companies have agreed not to demand for repayment of any amounts owing from the Group to MGL and its associates until such time when the Group is in a position to repay the amounts without impairing its liquidity position as long as the Group remains as subsidiary companies of MCB. Pursuant to the Sale and Purchase Agreement, MGL conditionally agreed to dispose of all of its shareholding interest in the Company. As advised by the Directors, upon completion of the sale and purchase of MGL’s shareholding interest in the Company, the Group will cease to be subsidiary companies of MCB and in the absence of any arrangement to reschedule the Group’s indebtedness to MGL and its associates, all amounts owing from the Group to MGL and its associates will be repayable on demand. On 8 April 2005, Unichina, MGL and the Company entered into the Compromise Deed pursuant to which the obligation for repayment of the Shareholder’s Loan will be replaced by a new set of obligations under the Secured Promissory Note and Unsecured Promissory Note upon the Compromise Deed Completion, which will take place simultaneously with the S&P Completion. Pursuant to the Compromise Deed, MGL also agreed to refrain from demanding immediate repayment of the Shareholder’s Loan until either any of the conditions for completion of the Compromise Deed fails or the termination of the Sale and Purchase Agreement or the Subscription Agreement howsoever caused (in which case it reverts to its original terms, that is, the Company’s holding companies have agreed not to demand for repayment of any amounts owing from the Group to MGL and its associates until such time when the Group is in a position to repay the amounts without impairing its liquidity position as long as the Group remains as subsidiary companies of MCB).

Pursuant to the Compromise Deed, the outstanding amount of the Shareholder’s Loan will be settled in the following manner: (i) as to HK\$35 million upon completion of the issuance of the Convertible Bond pursuant to the Subscription Agreement; (ii) as to the Balance Shareholder’s Loan (being approximately HK\$66.5 million as at the Latest Practicable Date) by the issuance of the Secured Promissory Note which is repayable after 12 months from the date of its issuance; and (iii) as to HK\$15.6 million by the issuance of the Unsecured Promissory Note which is repayable after six months from the date of its issuance. As the Convertible Bond has a maturity of three years, the issuance of the Convertible Bond has the effect of structuring the amount of HK\$35 million due to MGL and/or its associates to a three-year term loan if the holder of the Convertible Bond does not exercise the conversion right under the Convertible Bond.

Taking into consideration the depressed financial position of the Group, the lack of alternative means of financing referred to in the paragraph headed “4. Alternative means of financing” below and the undertaking given by Unichina set

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## LETTER FROM TAI FOOK

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out in the paragraph headed “(vi) Other terms of the Compromise Deed” below, we consider it in the interests of the Company to defer the repayment of at least part of the Shareholder’s Loan, being approximately HK\$82.1 million (assuming the Balance Shareholder’s Loan is approximately HK\$66.5 million as at the date of issue of the Secured Promissory Note), by entering into the Compromise Deed.

(ii) *Interest rate*

As advised by the Directors, as at the Latest Practicable Date, the Shareholder’s Loan amounted to approximately HK\$117.1 million, of which approximately HK\$73.9 million was the outstanding principal amount and approximately HK\$43.2 million (“Unpaid Interest Portion”) was the unpaid accrued interest. Of the principal amount of the Shareholders’ Loan, approximately HK\$2.0 million was interest free and approximately HK\$71.9 million carried interest rates which were determined based on the lender’s cost of funds. As at the Latest Practicable Date, such interest rates ranged from approximately 6.5% to 8% per annum. A portion of the Unpaid Interest Portion (being approximately HK\$22.4 million as at the Latest Practicable Date) carried interest (being approximately 6.5% per annum compounded monthly as at the Latest Practicable Date) while the remaining portion of the Unpaid Interest Portion was interest free.

As stated in the “Letter from the Board” of the Circular, pursuant to the Compromise Deed, upon the Subscription Completion, HK\$35 million, being the subscription price of the Convertible Bond, will be payable by Unichina to MGL and/or its associates on behalf of the Company as directed by the Company in writing to settle part of the Shareholder’s Loan. As to the remaining balance of the Shareholder’s Loan, the Company has agreed to issue to MGL the Secured Promissory Note with a face value equivalent to the Balance Shareholder’s Loan (being approximately HK\$66.5 million as at the Latest Practicable Date) and to MGL and/or its associates the Unsecured Promissory Note with a face value of HK\$15.6 million upon the Compromise Deed Completion. The Secured Promissory Note will carry an interest rate equal to the Hong Kong Prime Rate per annum while the Unsecured Promissory Note will bear no interest. As at the Latest Practicable Date, the Hong Kong Prime Rate was 5.25% per annum. Based on the current Hong Kong Prime Rate and the current interest rates charged by MGL and its associates and assuming the Company does not default in payment of any sum due and payable under the Secured Promissory Note and the Unsecured Promissory Note, the Group will be able to save finance costs by entering into the Compromise Deed. However, Shareholders should note that pursuant to the Compromise Deed, interest will be charged on the full amount outstanding under the Secured Promissory Note while as mentioned in the previous paragraph, at present part of the Unpaid Interest Portion was interest free. Hence, the saving in finance costs as a result of the lower average interest rate under the Compromise Deed arrangement will be partially offset by the increase in interest costs as a result of the interest charged on the accrued interest. As advised by the Directors, assuming that the Hong Kong Prime Rate remains unchanged at 5.25% per annum, the total outstanding amount of the Shareholder’s Loan is approximately HK\$117.1 million as at the date of the Compromise Deed Completion and the Company does not default in payment of any sum due and payable under the Secured Promissory Note and the Unsecured Promissory Note, the interest accrued in a year under the Compromise Deed arrangement is approximately



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HK\$3.8 million (being interest on the Convertible Bond and the Secured Promissory Note), which is lower than the interest of approximately HK\$6 million in a year based on the current interest rates charged by MGL and its associates on the amounts owing from the Group (in the absence of the Compromise Deed arrangement). On this basis, there will be a saving in interest under the Compromise Deed arrangement. It should however be noted that the overdue amount under the Secured Promissory Note and Unsecured Promissory Note is subject to a default interest of 12% per annum from the due date to the date of actual payment.

As advised by the Directors, the interest rate of the existing credit facility extended by independent financial institutions to the Company is either (i) Hong Kong Dollar Prime Rate plus 2% per annum; or (ii) the higher of Hong Kong Dollar Prime Rate plus 1.75% per annum or the bank's cost of funds plus 1.75% per annum. Hence, the Directors consider that the interest rate payable by the Company on the Secured Promissory Note, being Hong Kong Prime Rate per annum, and the non-interest bearing term of the Unsecured Promissory Note are at least competitive with what the Group might obtain from a third party financier for a loan of similar duration and terms, should the Company be able to obtain such loan from the third party financier. We concur with the Directors' view.

An analysis of the terms of the Convertible Bond is set out in the paragraph headed "3. Analysis of the terms of the Convertible Bond" below.

After taking into account the above and the fact that a company with a net liability position will usually be demanded a higher interest rate than a company with a net asset position provided that other factors and other terms of the borrowings are the same, we are of the view that the interest rate payable by the Company under the Compromise Deed is fair and reasonable.

(iii) *Security*

We note that the shareholder's loan advanced by MGL and its associates to the Group is unsecured. Under the Compromise Deed, the Balance Shareholder's Loan and interest accrued thereon are to be secured by first charges over each of the Properties and share mortgages over all of the issued shares in each of the Property Owners in favour of MGL. Based on the valuation of the Properties by Vigers Appraisal and Consulting Limited of HK\$34.7 million as at 15 April 2005 and the amount of the Balance Shareholder's Loan of approximately HK\$66.5 million, the security of the Properties represents an approximately 52.2% coverage on the Balance Shareholder's Loan. As advised by the Directors, the Group had pledged most of the Properties and cash deposit to banks to secure aggregate banking facilities of approximately HK\$14 million in the past years.

As stated in the "Letter from the Board" of the Circular, the Property Owners, other than holding and leasing of the Properties, do not have any other business or assets. As advised by the Directors, the grant of the share mortgages over all of the issued shares in each of the Property Owners in favour of MGL has been requested by MGL as further security for the repayment of all sums due and owing under the Secured Promissory Note in order to avoid the situation that the Group sells its

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interest in the Property Owners and MGL has to make claims from the buyer of the Property Owners. The grant of share mortgages over the shares of property owners is not uncommon where property charges are involved.

By granting the Property Charges and Share Mortgages in favour of MGL as security for all sums due or payable under the Secured Promissory Note, the Group, except with the prior consent of MGL, must apply the proceeds from the sale of the Properties in repaying the outstanding amounts under the Secured Promissory Note. Despite the aforesaid, taking into account (i) the inability of the Group to repay the Shareholder's Loan given its financial position; (ii) the lack of alternative means of financing referred to in the paragraph headed "4. Alternative means of financing" below; and (iii) the granting of the Property Charges and Share Mortgages being part and parcel of the Compromise Deed by which the Group is given the opportunity of prepay debt under the Secured Promissory Note on discounted terms, we concur with the Directors' view that the granting of the Property Charges and Share Mortgages in favour of MGL under the Compromise Deed is fair and reasonable.

We also note that the Group has charged certain of the Properties to its lending banks as collateral for such bank facilities. As at the date of the Compromise Deed, the Group had outstanding bank overdrafts of approximately HK\$0.6 million under such bank facilities. Completion of the Compromise Deed is conditional upon, among others, the repayment of such overdraft banking facilities and the release of the security aforementioned. As at the Latest Practicable Date, all such outstanding bank overdrafts have been repaid.

(iv) *Early repayment*

As stated in the "Letter from the Board" of the Circular, pursuant to the Compromise Deed, if MGL receives from the Company the sum of HK\$32 million (together with the interest accrued thereon under the Secured Promissory Note) for value within six months after the date of the issuance of the Secured Promissory Note, MGL will accept the sum of HK\$32 million (plus interest accrued thereon under the Secured Promissory Note) as full and final settlement of the entire sum due and owing under the Secured Promissory Note (including interest accrued thereon). Assuming that the Balance Shareholder's Loan is approximately HK\$66.5 million as at the date of issuance of the Secured Promissory Note, it is estimated that the Group will record a gain of approximately HK\$34.5 million (being the difference between (i) approximately HK\$66.5 million and (ii) HK\$32 million, and subject to audit) in the event that the Company repays the sum of HK\$32 million (together with the interest accrued thereon under the Secured Promissory Note) within six months after the date of the issuance of the Secured Promissory Note. As at 31 December 2004, the Group recorded audited consolidated net liabilities of approximately HK\$45.3 million. As stated in the "Letter from the Board" of the Circular, Unichina has undertaken to procure the Company to use its best efforts to make repayment of the Secured Promissory Note as soon as possible before the actual date for repayment. If the Group is able to repay HK\$32 million and the interest accrued thereon under the Secured Promissory Note within six months after the date of its issuance, the gain arising therefrom will result in a significant improvement to the net liability position of the Group.

(v) *The Subordination Deed*

As stated in the “Letter from the Board” of the Circular, pursuant to the Compromise Deed, the Company will enter into the Subordination Deed with Unichina and MGL whereby Unichina agrees that, among other things, the Subordinated Indebtedness, being the amount to be owed by the Company to Unichina under the Convertible Bond and any other sums to be owed by the Company to Unichina, shall remain subordinated and the repayment thereof deferred to all and any rights, claims and actions which MGL and/or its associates may have against the Company in respect of the Company’s indebtedness under the Secured Promissory Note and the Unsecured Promissory Note.

We consider the above arrangement fair and reasonable given that it does not give rise to additional obligations or liabilities to the Group.

(vi) *Other terms of the Compromise Deed*

As stated in the “Letter from the Board” of the Circular, the Company has undertaken to MGL to raise additional funds within six months after the Compromise Deed Completion, including but without limitation, raise fund in the equity market when market conditions allow or secure third party commercial borrowings, for settlement of the Secured Promissory Note and the Unsecured Promissory Note.

As stated in the “Letter from the Board” of the Circular, Unichina has agreed and undertaken to provide funding to the Company, at an interest rate no higher than the interest rate presently payable on the Shareholder’s Loan, to provide the Company, on demand, with working capital for its day-to-day normal and usual business operations and to ensure full repayment of the amounts owing under the Secured Promissory Note and Unsecured Promissory Note so long as the Secured Promissory Note and Unsecured Promissory Note remain outstanding and the Company is unable to raise additional funds or secure third party borrowings.

While we consider that the above undertaking by Unichina will alleviate the pressure on the Group’s cash flow when the Secured Promissory Note and the Unsecured Promissory Note become due, Shareholders should note that there is a possibility that the Company is unable to raise funds in the equity market or secure third party borrowings and that Unichina fails to provide sufficient funding to the Company for repayment of the Unsecured Promissory Note and the Secured Promissory Note when they become due.

#### **4. *Alternative means of financing***

The Group has been loss making since 1996 and has been relying on the financial support from its holding companies to operate as a going concern. As at 31 December 2004, the Group recorded an audited deficiency of shareholders’ fund of approximately HK\$45.3 million. The trading volume of the Shares was thin. Of the 208 trading days during the period from 11 April 2004, the date falling one year before the date of publication of the Announcement, up to and including 7 February 2005, the last trading day of the Shares prior to its suspension of trading on 8 February 2005, there were only 34 days on which there was trading of the Shares, with an aggregate of 9,394,000 Shares traded. Accordingly, the average daily trading volume of the Shares during such period

was approximately 45,000 Shares, representing approximately 0.01% of the total issued Shares as at the Latest Practicable Date. Having taken into account the persistent losses and net liability position of the Group, the Directors consider that the terms of the existing banking facilities available to the Group are the best that the Group can obtain. Accordingly, the Directors are not optimistic that the Group can obtain other viable sources of funding and the Group has in the past few years relied on the shareholder's loan from MGL and its associates to maintain its operations. Based on the above, although the Group has not approached other lenders to borrow funds, we concur with the Directors' view that it would be very difficult, if not impossible, that the Group could obtain bank borrowings to repay the Shareholder's Loan at terms that are better than those contemplated under the Compromise Deed. The Directors also consider that due to the lack of liquidity of the Shares, it would be very difficult, if not impossible, that the Group could raise funds in the equity market (including rights issue) to finance the repayment of the Shareholder's Loan at terms better than those under the Compromise Deed. Given the above, we consider that it would be very difficult, if not impossible, for the Group to raise funds in the equity market or to secure third party borrowings for a meaningful amount and hence the Compromise Deed provides an appropriate means for settlement of the Shareholder's Loan.

### III. The Subscription Agreement

#### 1. *Reasons for entering into the Subscription Agreement*

To raise funds for the initial repayment of HK\$35 million under the Compromise Deed, on 8 April 2005, the Company, Unichina and MCB entered into the Subscription Agreement pursuant to which the Company conditionally agreed to issue and Unichina conditionally agreed to subscribe for the Convertible Bond. Completion of the Subscription Agreement is subject to, among others, the Sale and Purchase Agreement and the Compromise Deed having become unconditional in all respects.

#### 2. *Major terms of the Convertible Bond*

The principal terms of the Convertible Bond are set out in the "Letter from the Board" of the Circular, which are summarized below:

Principal amount	HK\$35 million
Interest	1% per annum, payable annually in arrears
Maturity	Three years from the date of issue of the Convertible Bond
Conversion price	HK\$0.04735 per Conversion Share, subject to adjustment as determined by the auditors of the Company.

The adjustment events will arise as a result of certain changes in the share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company.

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Conversion Shares	Assuming exercise in full of the conversion rights attaching to the Convertible Bond at the initial conversion price of HK\$0.04735 per Conversion Share, a total number of 739,176,346 new Shares will be issued, which represents approximately 120.2% of the Shares in issue as at the Latest Practicable Date and approximately 54.6% of the total number of issued Shares as enlarged by the issue of the Conversion Shares.
Conversion period	The Bondholder(s) will have the right to convert the whole or part (in an amount or integral multiple of HK\$1,000,000) of the outstanding principal amount of the Convertible Bond into Conversion Shares during the period from the date of issue of the Convertible Bond to the third anniversary of the issue of the Convertible Bond in amounts of not less than HK\$1,000,000 on each conversion, save that if at any time, the principal outstanding amount of the Convertible Bond is less than HK\$1,000,000, the whole (but not part only) of the principal amount of the Convertible Bond may be converted.
Redemption	The outstanding amount under the Convertible Bond may be repaid or redeemed by the Company.
Transferability	The Convertible Bond may be freely transferable subject to compliance with all applicable laws and regulations.
Voting	The Bondholder(s) will not be entitled to attend or vote at any meeting of the Company by reason of being the Bondholder(s).
Listing	No application will be made for the listing of the Convertible Bond on the Stock Exchange. An application has been made to the Stock Exchange for the listing of the Conversion Shares.

Details of the terms of the Subscription Agreement are set out in the “Letter from the Board” of the Circular.

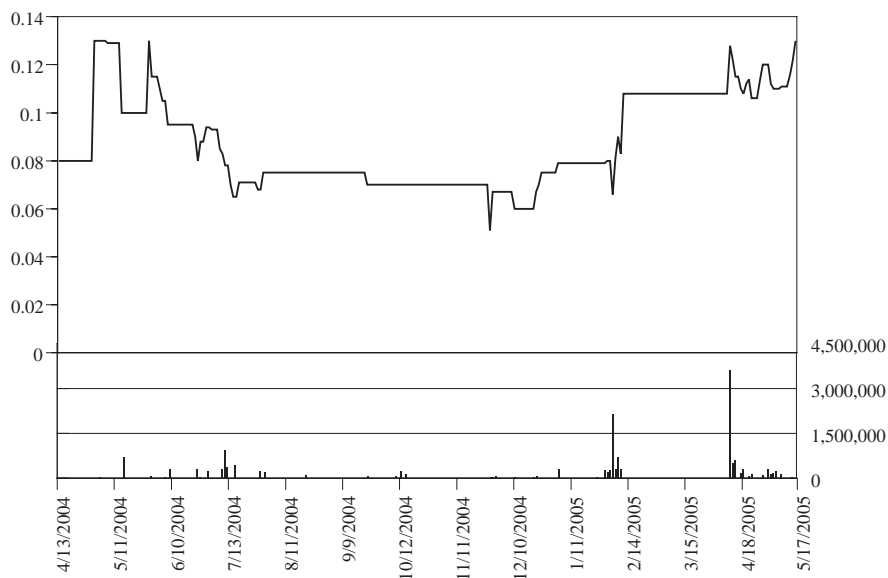
**3. Analysis of the terms of the Convertible Bond**

As stated in the “Letter from the Board” of the Circular, the terms of the Convertible Bond were negotiated between the Company and Unichina on an arm’s length basis. In arriving at our opinion with regards to the terms of the Subscription Agreement, we have taken the following into consideration:

(i) *Conversion price*

a. Comparison with historical share prices

The chart below shows the closing prices and trading volume of the Shares as quoted on the Stock Exchange during the one year immediately preceding the date of publication of the Announcement (the “Period”) and from such date to the Latest Practicable Date (the “Post Announcement Period”):



Source: Bloomberg

As shown in the above chart, during the Period, the closing prices of the Shares were between HK\$0.051 to HK\$0.130 during the Period and between HK\$0.106 to HK\$0.130 during the Post Announcement Period.

Of the 208 trading days during the Period (excluding the period from 8 February 2005 to 8 April 2005, during which trading of the Shares was suspended pending the issue of the Announcement), there were only 34 days on which there was trading of the Shares, with an aggregate of 9,394,000 Shares traded. Accordingly, the average daily trading volume of the Shares during the Period (excluding the period from 8 February 2005 to 8 April 2005) was approximately 45,000 Shares, representing approximately 0.01% of the issued share capital of the Company and approximately 0.02% of the public float of the Company as at the Latest Practicable Date. The liquidity of the Shares was thin during the Period.

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Of the 25 trading days during the Post Announcement Period, there were 14 days on which there was trading of the Shares, with an aggregate of approximately 6,420,000 Shares traded. Accordingly, the average daily trading volume of the Shares during the Post Announcement Period was approximately 257,000 Shares, representing approximately 0.04% of the issued share capital of the Company and approximately 0.09% of the public float of the Company as at the Latest Practicable Date. The increase in the average trading volume of the Shares during the Post Announcement Period can be largely attributable to the relatively high trading volume of the Shares (being 3,624,000 Shares) on 11 April 2005, the date of publication of the Announcement. However, the average trading volume of the Shares during the Post Announcement Period was still low.

The initial conversion price of the Convertible Bond is HK\$0.04735 per Share (“Conversion Price”). The following is a table showing the closing prices/average closing price of the Shares as quoted on the Stock Exchange on the dates/during the period as stated below and the discount of the Conversion Price to such prices:

<b>Date/period</b>	<b>Closing price/ average closing price per Share for the period</b>	<b>Discount of the Conversion Price to the closing price/ average closing price per Share (approximately)</b>
As at 7 February 2005, being the last complete trading day prior to the suspension of trading in the Shares pending the issue of the Announcement	HK\$0.108	56.2%
Ten consecutive complete trading days up to and including 7 February 2005	HK\$0.0825	42.6%
As at the Latest Practicable Date	HK\$0.130	63.6%

We note that the Conversion Price of HK\$0.04735 per Share represents a significant discount to the prevailing market prices. However, in light of the extremely thin trading of the Shares during the period under review, the continued loss making of the Group for the past few years and the audited consolidated net liabilities of the Company of approximately HK\$0.074 per Share as at 31 December 2004, we consider that the current price level of the

## LETTER FROM TAI FOOK

Shares is not substantiated by the fundamentals of the Company and the use of the closing prices of the Shares to compare with the Conversion Price may not be appropriate.

(ii) *Comparison with net liabilities and losses*

We also note that the Group recorded audited consolidated net liabilities of approximately HK\$45.3 million, equivalent to approximately HK\$0.074 per Share, as at 31 December 2004. The Group has also been loss making for the past few years. Given the above, we consider the Conversion Price of HK\$0.04735 per Share to be fair and reasonable.

(iii) *Comparison with other recent convertible issues*

We have compared the terms of the Convertible Bond with other recent convertible bonds or notes issued by listed companies in Hong Kong. In order to compare the terms of the Convertible Bond with those of the issues in the market, we have looked into the recent announcements made by Hong Kong listed companies and identified 16 companies (“Comparable Companies”) which had during the period from 8 January 2004 to the date of the Announcement announced issues of convertible notes or bonds (“Comparable Issues”) with a maturity of five years or below and had a market capitalization of total issued shares of below HK\$500 million at the date of such announcement. We set out below our findings:

Date of announcement	Name of issuer	Maturity	Principal amount	Interest rate per annum	Premium/(discount) of the initial conversion price per share to the Closing Price (Note 1) (approximately)
8 Jan 2004	Seapower Resources International Limited (Stock code: 269)	Less than one year	HK\$5 million	Non-interest bearing	(82%)
29 Mar 2004	Thiz Technology Group Limited (Stock code: 8119)	Around 3 years	HK\$10 million	2.5%	28.6%
30 Mar 2004	Yanion International Holdings Limited (Stock code: 82)	730 days	Up to HK\$25 million	2%	(14%)
12 May 2004	CIG-WH International (Holdings) Limited (Stock code: 621)	One and a half year	HK\$11.5 million	1%	0.1%
4 Jun 2004 and 3 Sep 2004	Paul Y. Engineering Group Limited (Stock code: 577)	3 years	Up to HK\$100 million	6 month HIBOR+1%	(30%) to theoretical ex-rights price; (60%) to theoretical closing price (Note 2)
29 Jun 2004	Universal Technologies Holdings Limited (Stock code: 8091)	3 years	HK\$4 million	3.5%	13.64%
6 Oct 2004	South Sea Petroleum Holdings Limited (Stock code: 76)	3 years	HK\$63.84 million	1%	24%



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Date of announcement	Name of issuer	Maturity	Principal amount	Interest rate per annum	Premium/(discount) of the initial conversion price per share to the Closing Price (Note 1) (approximately)
11 Oct 2004	Nippon Asia Investments Holdings Limited (Stock code: 603)	1 year	HK\$25 million	1%	13.64%
22 Nov 2004	Wang On Group Limited (Stock code: 1222)	Two and a half years	Up to HK\$37.18 million	1%	0.77%
25 Nov 2004	South Sea Petroleum Holdings Limited (Stock code: 76)	3 years	HK\$80 million	1%	Note 3
2 Dec 2004	Spread Prospects Holdings Limited (Stock code: 572)	2 years	HK\$30 million	4%	6.45%
3 Dec 2004	E-Life International Limited (Stock code: 370)	2 years	Up to US\$10 million	1%	Note 4
8 Dec 2004	Premium Land Limited (Stock code: 164)	1 year	HK\$32.4 million	1%	0%
5 Jan 2005	Wonson International Holdings Limited (Stock code: 651)	1 year	HK\$50 million	3%	252.11%
12 Jan 2005	China United International Holdings Limited (Stock code: 273)	5 years	Up to HK\$200 million	Non-interest bearing	17.92%
3 Feb 2005	Town Health International Holdings Company Limited (Stock code: 8138)	2 years	HK\$32 million	2.5%	8.82%
1 Mar 2005	Universal Technologies Holdings Limited (Stock code: 8091)	3 years	HK\$6 million	3.5%	3.1%
8 Mar 2005	Vision Tech International Holdings Limited (Stock code: 922)	3 years	HK\$30 million	Hong Kong Prime Rate+2%	(79.6%) (Note 5)
<b>8 Apr 2005</b>	<b>The Company</b>	<b>3 years</b>	<b>HK\$35 million</b>	<b>1%</b>	<b>(56.2%)</b>

Source: <http://www.hkex.com.hk>

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*Notes:*

1. “Closing Price” represents the closing price per share as at the date of the announcement or if trading of the shares was suspended on the date of the announcement, the last trading day immediately prior to the suspension of trading in the shares.
2. As disclosed in the announcement dated 3 September 2004, the issue of the facility convertible note is part of the restructuring proposal which also involves a consolidation of every 250 reduced shares into one consolidated share and an open offer on the basis of five offer shares for every two consolidated shares. The conversion price represents a discount of 60% to the theoretical closing price for each consolidated share (after taking into account the share consolidation but not the open offer) based on the closing price per share (before the share consolidation and open offer) on the last trading day immediately before suspension in trading of the shares prior to the issue of the announcement, and a discount of approximately 30% to the theoretical ex-rights price per consolidated share (after taking into account the share consolidation and open offer) based on the closing price per share (before the share consolidation and open offer) on the last trading day immediately before suspension in trading of the shares prior to the issue of the announcement.
3. As disclosed in the announcement dated 25 November 2004, in this issue, the holders of the debentures may elect to convert their debentures with either (i) fixed conversion price, being 130% over the 30-day average closing price of the shares on the 30 consecutive trading days immediately preceding the issue day of the debentures; or (ii) floating conversion price, being the average of any 5 closing prices per share as selected by debenture holder during the 30 consecutive trading days immediately prior to the date on which a conversion notice of debenture holder is received by the company and such price shall not be less than the par value per share on the date of conversion.
4. As disclosed in the announcement dated 3 December 2004, in this issue, each bond is convertible into shares at the conversion price which is (i) the fixed conversion price of HK\$0.089 if the conversion rights are exercised within 3 months from the issue date of the bond; or (ii) the floating conversion price if the conversion rights are exercised after 3 months from the issue date of the bond.

The fixed conversion price represents a discount of approximately 10% to the closing price per share on the last trading day prior to the date of the subscription agreement for the bonds and a discount of approximately 18% to the closing price per share on the last trading day prior to the date of the announcement. The floating conversion price is (i) where the conversion rights are exercised during the first six months from the issue date of the bond, a price equivalent to a 9.9% discount to the average of the closing prices of each share for each of the 10 trading days of the shares ending on such trading day immediately preceding the conversion date; or (ii) where the conversion rights are exercised after the expiry of six months from the issue date of the bond, a price equivalent to a 19.9% discount to the average of the closing prices of each share for each of the 10 trading days of the shares ending on such trading day immediately preceding the conversion date, provided that if the floating conversion price is less than the fixed conversion price (subject to adjustments), the floating conversion price shall be deemed to be an amount equivalent to such fixed conversion price.

5. As disclosed in the announcement dated 8 March 2005, the Company is in the third stage of the delisting procedures under Practice Note 17 of the Listing Rules. The discount of approximately 79.6% represents the discount of the initial conversion price of HK\$0.01 per share to the closing price of HK\$0.049 per share on the last trading day immediately prior to the suspension of trading in the shares on 6 February 2003.

As shown above, the initial conversion price per share of the convertible notes or bonds in the Comparable Issues ranged from a discount of approximately 82% to and a premium of approximately 252.11% over the Closing Price. In the case of the

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Company, the Conversion Price represents a discount of approximately 56.2% to the closing price per Share as quoted on the Stock Exchange on the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement. Accordingly, although in most Comparable Issues, the initial conversion price per share of the convertible notes or bonds represents a premium over, or a discount much lower than that of the Convertible Bond to, the Closing Price, the discount of the Conversion Price to the closing price per Share is within the range of those of the Comparable Issues. We also note that in the Comparable Issues in which the initial conversion price per share of the convertible notes or bonds represents a premium over, or a discount much lower than that of the Convertible Bond to, the Closing Price, most of the Comparable Companies in such Comparable Issues had a consolidated net asset value (based on the latest published consolidated audited or unaudited accounts of the Comparable Companies prior to the date of announcement of the Comparable Issues), as contrasted with the depressed financial position of the Group with a net liability position and persistent losses. In addition, for reasons as previously discussed, we consider that the current price level of the Shares may not be an appropriate comparison to assess the fairness and reasonableness of the Conversion Price.

In conclusion, the Conversion Price of HK\$0.04735 per Share represents a significant discount to the average closing price of the Shares during the Period and the Post-Announcement Period. Notwithstanding such discount, having taken into account that (i) the continued loss making of the Group for the past few years; (ii) the audited consolidated net liabilities of the Company of approximately HK\$0.074 per Share as at 31 December 2004; (iii) the low liquidity of trading in the Shares during the Period and the Post-Announcement Period; and (iv) the fact that the issue of Convertible Bond is an integral part of the Compromise Deed for the settlement of part of the Shareholder's Loan; and (v) the Directors' belief that it would be very difficult, if not impossible, that the Group could obtain other sources of funding of comparable size and terms, which belief is reasonable to us, we are of the view that the Conversion Price is fair and reasonable.

(iv) *Interest rate*

We note that the interest rate of the convertible notes or bonds for the Comparable Issues ranged from nil to Hong Kong Prime Rate+2% per annum. The interest rate of the Convertible Bond, being 1% per annum, is comparable to those of the Comparable Issues.

In addition, as advised by the Directors, of the existing credit facility extended by an independent financial institution to the Company, the interest rate is either (i) Hong Kong Dollar Prime Rate plus 2% per annum; or (ii) the higher of Hong Kong Dollar Prime Rate plus 1.75% per annum or the bank's cost of funds plus 1.75% per annum. Accordingly, the interest rate of the Convertible Bond is lower than that of the existing credit facility and the Shareholder's Loan.

Taking into account the above, we are of the view that the interest rate of the Convertible Bond is fair and reasonable.

(v) *Dilution effect arising from conversion*

As disclosed in the “Letter from the Board” of the Circular, immediately after the S&P Completion and assuming no changes to the issued share capital and the shareholding structure of the Company (other than the sale and purchase of the Sale Shares contemplated by the Sale and Purchase Agreement) from the Latest Practicable Date to the S&P Completion, Unichina and the public shareholders will be interested in approximately 51.54% and 48.46% of the issued share capital of the Company respectively. After the S&P Completion and upon full conversion of the Convertible Bond by Unichina (assuming no changes to the issued share capital and the shareholding structure of the Company other than the sale and purchase of the Sale Shares contemplated by the Sale and Purchase Agreement and the issue of the Conversion Shares pursuant to the conversion of the Convertible Bond), the shareholding interest of Unichina and the public shareholders will be approximately 77.99% and 22.01% respectively. Hence the shareholding interest of the public shareholders will be significantly diluted by the conversion of the Convertible Bond.

As disclosed in the annual report of the Company for the year ended 31 December 2004, the Group had an audited deficiency in shareholders’ fund of approximately HK\$45.3 million. The continued losses and the net deficit position of the Group also make it difficult for the Group to raise funds by way of borrowings or equity issues. The issue of the Convertible Bond enables the Group to raise funds without immediate dilution effect while at the same time allows the Company to enlarge its capital base by HK\$35 million and improve its net deficit position in the event that the Bondholder(s) exercise(s) in full all the conversion rights under the Convertible Bond. In these circumstances, we consider that the dilution effect arising from conversion of the Convertible Bond, despite significant, is practicably inevitable and is fair and reasonable.

#### **IV. Future intentions of Unichina regarding the Group**

Shareholders should note that the Compromise Deed is inter-conditional with the Sale and Purchase Agreement. As such, immediately following the Compromise Deed Completion, which will take place simultaneously with the S&P Completion and the Subscription Completion, Unichina will become a controlling shareholder of the Company. As disclosed in the “Letter from the Board” of the Circular, Unichina intends to continue the existing businesses of the Group and will, following the S&P Completion, conduct a more detailed review of the operations of the Group with a view to developing a corporate strategy to enhance its existing businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing businesses into or divesting of loss-making operations of the Group should appropriate opportunities arise. However, Unichina has no immediate plan of injecting any of its assets into the Group upon the S&P Completion.

As disclosed in the “Letter from the Board” of the Circular, it is expected that all of the existing executive Directors, namely Mr. Lim Teong Leong, Mr. Tam Cheok Wing, Mr. Ooi Sin Heng and Mr. Chan Hon Ming will resign and that such resignations will take effect on the closing date of the Offers in compliance with Rule 7 of the Takeovers Code. In addition, Unichina at present intends to nominate two new executive Directors, namely Mr. Wong Kwong Miu and Mr. Wong Kwong Lung, Terence. The appointment of additional Directors nominated by Unichina will not take effect earlier than the date of posting of the Composite Document in compliance with Rule 26.4 of the Takeovers Code. Brief biographical details of Mr. Wong Kwong Miu and Mr. Wong Kwong Lung, Terence are set out in the paragraph headed “XI. Proposed change of board composition of the Company” in the “Letter from the Board” of the Circular.

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## LETTER FROM TAI FOOK

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In the absence of information on the detailed future plans on the Group's business, we consider ourselves not in a position to opine on the impact, if any, that the above intentions of Unichina may have on the Group.

### RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

- the Group has incurred losses since 1996, which led to the audited net liability position of approximately HK\$45.3 million as at 31 December 2004, and the Group has relied on the financial support from MCB group of companies to operate as a going concern;
- having taken into account the persistent losses and net liability position of the Group, the Directors consider that the terms of the existing banking facilities available to the Group are the best that the Group can obtain. Accordingly, the Directors are not optimistic that the Group can obtain other viable sources of funding and the Group has in the past few years relied on the shareholder's loan from MGL and its associates to maintain its operations. Based on the above, although the Group has not approached other lenders to borrow funds, the Directors considered that it would be very difficult, if not impossible, that the Group could obtain bank borrowings to repay the Shareholder's Loan at terms that are better than those contemplated under the Compromise Deed. The Directors also consider that due to the lack of liquidity of the Shares, it would be very difficult, if not impossible, that the Group could raise funds in the equity market (including rights issue) to finance the repayment of the Shareholder's Loan at terms better than those under the Compromise Deed and the Subscription Agreement;
- the analysis of the terms of the Compromise Deed and the Convertible Bond as mentioned above;
- the possibility of the net liability position of the Group being improved significantly in the event that the Group is able to repay HK\$32 million (together with interest accrued thereon under the Secured Promissory Note) within six months from the date of issuance of the Secured Promissory Note; and
- increase in the shareholders' equity in the event that the Bondholder(s) exercise(s) the conversion rights under the Convertible Bond;

we are of the opinion that the terms of the Compromise Deed and the Subscription Agreement, viewed as a whole in the overall context of the Group's persistent losses and net liability position, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Compromise Deed and the Subscription Agreement.

Yours faithfully,

For and on behalf of

**Tai Fook Capital Limited**

**Derek C.O. Chan**

**Heidi Cheng**

*Deputy Managing*

*Director*

*Director*

*The following is the text of a valuation received from Vigers, for inclusion in this circular, in connection with its valuation of the property interests of the Group.*

**Vigers Appraisal & Consulting Limited**  
**International Asset Appraisal Consultants**  
10th Floor, The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



20 May 2005

The Directors

Magnum International Holdings Limited  
1301A on 13th Floor  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

Dear Sirs

In accordance with your instructions for us to value all the property interests owned by Magnum International Holdings Limited (hereinafter referred to as the “Company”) and its subsidiaries (together referred to as the “Group”), we confirm that we have carried out inspections, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of their values as at 15 April 2005 (“date of valuation”).

Our valuation represents our opinion of the open market value. We define open market value as intended to mean “the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation has been made on the assumptions that the owner sold the properties in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to increase or decrease the values of the properties.

We have valued the properties by direct comparison approach with reference to market comparables with due allowances for the differences between the comparables and the properties. Where appropriate, we have also valued the properties held for investment by capitalization of the net rental income obtained from the properties with allowances for reversionary income potential.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings and rental income, site areas and floor areas and all other relevant matters. All dimensions, measurements and areas are approximate.

We have carried out searches at the Land Registry. However, we have not searched the original documents to ascertain ownership or to verify any lease amendments which may not appear on the copies handed to us. All documents have been used as reference only and all dimensions, measurements and areas are approximate.

We have to stress that we have not been provided with the original copies of all the documents to verify their accuracy. In any events, we reserve the right to revise our valuations should there disclose any information which is in contravention to the information provided to us.

We have inspected the exterior of the properties. However, we have not carried out any structural surveys nor have we inspected woodworks or other parts of the structures of the properties which were covered, unexposed or inaccessible. We are therefore unable to report whether the properties were free from rot, infestation or any other defects.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the properties. We are therefore unable to report that these properties were free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious materials have not been used in the construction of these properties.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which might be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties were free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuations have been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK\$).

We enclose herewith our summary of values and valuation certificates.

Yours faithfully  
For and on behalf of  
**VIGERS APPRAISAL AND CONSULTING LIMITED**  
**Gilbert K.M. Yuen** *MRICS MHKIS*  
*Director*

*Note:* Mr. Gilbert K. M. Yuen, Chartered Surveyor, *MHKIS MRICS* has over 15 years' experience in undertaking valuations of properties in Hong Kong.

## SUMMARY OF VALUES

<b>Property</b>	<b>Capital Value in existing state as at 15 April 2005</b>
1. Workshops A and B on 4th Floor and the Flat Roofs appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	HK\$8,080,000
2. 7th Floor, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon	HK\$7,830,000
3. Office 1 on 1st Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong	HK\$3,280,000
4. 4th Floor and Portions of Flat Roof on 4th Floor of Block A, Chung Mei Centre, No. 15 Hing Yip Street, (Formerly known as Nos. 15-17 Hing Yip Street), Kwun Tong, Kowloon	HK\$4,160,000
5. Apartment A on 20th Floor and Car Parking Space No. 172 on 1st Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong	HK\$11,000,000
6. Car Parking Space No. 1 on Ground Floor, King Yip Factory Building, No. 59 King Yip Street, Kwun Tong, Kowloon	HK\$350,000
	<hr/>
<b>TOTAL:</b>	<b><u>HK\$34,700,000</u></b>



## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 15 April 2005
1. Workshops A and B on 4th Floor and the Flat Roofs appurtenant thereto, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon  76/2260th shares of and in the Remaining Portion of Kwun Tong Inland Lot No. 83	The property comprises two workshop units on the fourth floor of a 14-storey industrial building completed in or about 1981.  The total gross floor area of the property is approximately 16,818 sq.ft. (1,562.43 sq.m.) and flat roof of 2,804 sq.ft. (260.50 sq.m.).  The property is held under a Government Lease for a term originally expired on 30 June 1997 and has been extended to 30 June 2047 by virtue of the New Territories Leases (Extension) Ordinance.  The annual Government rent is equivalent to 3% of the rateable value for the time being of the property.	Workshop A is subject to a tenancy for a term of 2 years commencing from 1 July 2003 at a monthly rental of HK\$23,000 inclusive of rates and management fee.  Workshop B is subject to a tenancy for a term of 3 years commencing from 22 April 2003 at a monthly rental of HK\$25,000 inclusive of rates and management fee.	HK\$8,080,000

*Notes:*

1. The registered owner of Workshop A of the property is Ongreat Properties Limited which is an indirect wholly-owned subsidiary of the Company, and the registered owner of Workshop B of the property is Continuous Gain Limited which is an indirect wholly-owned subsidiary of the Company.
2. The property is subject to a mortgage and two assignments of rent in favour of Dao Heng Bank Limited (now known as DBS Bank (Hong Kong) Limited).

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 15 April 2005
2. 7th Floor, Front Block, Wing Tai Centre, No. 12 Hing Yip Street, Kwun Tong, Kowloon 76/2260th shares of and in the Remaining Portion of Kwun Tong Inland Lot No. 83	<p>The property comprises the whole of the seventh floor of a 14-storey industrial building completed in or about 1981.</p> <p>The gross floor area of the property is approximately 16,818 sq.ft. (1,562.43 sq.m.).</p> <p>The property is held under a Government Lease for a term originally expired on 30 June 1997 and has been extended to 30 June 2047 by virtue of the New Territories Leases (Extension) Ordinance.</p> <p>The annual Government rent is equivalent to 3% of the rateable value for the time being of the property.</p>	<p>Unit A1 on 7th floor is subject to a tenancy for a term of 2 years commencing from 8 September 2004 at a monthly rental of HK\$16,000 inclusive of rates and management fee.</p> <p>Unit A2 on 7th floor is subject to a tenancy for a term of 2 years commencing from 15 September 2004 at a monthly rental of HK\$23,000 exclusive of rates and management fee.</p> <p>Unit B on 7th floor, with gross floor area of 8,409 sq.ft. (781.22 sq.m.), is vacant as at the date of valuation.</p>	HK\$7,830,000

*Notes:*

1. The registered owner of the property is Lismore Properties Limited which is an indirect wholly-owned subsidiary of the Company.
2. The property is subject to a mortgage and an assignment of rent in favour of Dao Heng Bank Limited (now known as DBS Bank (Hong Kong) Limited).

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 15 April 2005
3. Office 1 on 1st Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong  15/1386th shares of and in Sections B to G and the Remaining Portion of Sub-Section 1 of Section A of Marine Lot No. 65 and Sub-Sections 3 and 4 of Section A of Marine Lot No. 65	The property comprises an office unit on the first floor of a 27-storey commercial building completed in or about 1993.  The gross floor area of the property is approximately 1,188 sq.ft. (110.37 sq.m.).  The property is held under a Government Lease for a term of 999 years commencing from 25 June 1863.  The Government rent is HK\$142 per annum for the whole of various lots.	The property is subject to a tenancy for a term of 1 year commencing from 22 February 2005 at a monthly rental of HK\$10,300 exclusive of rates and management fee, with a right of renewal for 1 year.	HK\$3,280,000

*Notes:*

1. The registered owner of the property is Wolston Limited which is an indirect wholly-owned subsidiary of the Company.
2. The property is subject to a legal charge in favour of Standard Chartered Bank (now known as Standard Chartered Bank (Hong Kong) Limited).

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 15 April 2005
4. 4th Floor and Portions of Flat Roof on 4th Floor of Block A, Chung Mei Centre, No. 15 Hing Yip Street, (Formerly known as Nos. 15-17 Hing Yip Street), Kwun Tong, Kowloon  112/3190th shares of and in Kwun Tong Inland Lot Nos. 51 and 52	<p>The property comprises the whole of the fourth floor of a 15-storey industrial building completed in or about 1989.</p> <p>The saleable area of the property is approximately 5,997 sq.ft. (557.13 sq.m.) with a flat roof of 1,371 sq.ft. (127.37 sq.m.).</p> <p>The property is held under two Government Leases for a term originally expired on 30 June 1997 and has been extended to 30 June 2047 by virtue of the New Territories Leases (Extension) Ordinance.</p> <p>The annual Government rent is equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The property is subject to a tenancy for a term of 2 years commencing from 8 July 2004 at a monthly rental of HK\$43,100 inclusive of rates and management fee.</p>	HK\$4,160,000

*Notes:*

1. The registered owner of the property is Lismore Properties Limited which is an indirect wholly-owned subsidiary of the Company.
2. The property is subject to a mortgage and an assignment of rent in favour of Dao Heng Bank Limited (now known as DBS Bank (Hong Kong) Limited).

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 15 April 2005
5. Apartment A on 20th Floor and Car Parking Space No. 172 on 1st Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong  105/16026th shares of and in Rural Building Lot No. 1049	The property comprises a residential unit on the twentieth floor and a car parking space on the first floor of a 31-storey residential building completed in or about 1984.  The gross floor area of the property is approximately 1,433 sq.ft. (133.13 sq.m.) (excluding the car parking space).  The property is held from Government under Conditions of Sale No. 11432 for a term of 75 years commencing from 4 September 1980 with the right of renewal for a further term of 75 years.	The property is subject to a tenancy for a term of 1 year commencing from 15 January 2005 at a monthly rental of HK\$25,000 inclusive of rates and management fee.	HK\$11,000,000
	The Government rent is HK\$1,000 per annum for the Lot.		

*Notes:*

1. The registered owner of the property is Lismore Properties Limited which is an indirect wholly-owned subsidiary of the Company.
2. The property is subject to a legal charge, an assignment of rental and an assignment of insurance in favour of Malayan Banking Berhad.

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital Value in existing state as at 15 April 2005
6. Car Parking Space No. 1 on Ground Floor, King Yip Factory Building, No. 59 King Yip Street, Kwun Tong, Kowloon	The property comprises a car parking space on the ground floor of a 14-storey industrial building completed in or about 1977.  The property is a covered car parking space.	The property is subject to a tenancy for a term of 1 year commencing from 1 April 2005 at a monthly rental of HK\$1,600 inclusive of rates and management fee.	HK\$350,000
1/640th share of and in Kwun Tong Inland Lot No. 70	The property is held under a Government Lease for a term originally expired on 30 June 1997 and has been extended to 30 June 2047 by virtue of the New Territories Leases (Extension) Ordinance.  The annual Government rent is equivalent to 3% of the rateable value for the time being of the property.		

*Note:* The registered owner of the property is Lismore Properties Limited which is an indirect wholly-owned subsidiary of the Company.

## 1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to Unichina) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular 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.

The sole director of Unichina accepts full responsibility for the accuracy of the information contained in this circular (other than information relating to the Group, MCB and MGL) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular 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. DISCLOSURE OF INTERESTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company has any interests and short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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 are taken or deemed to have under such provisions of SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules and none of the Directors is a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

- (a) Directors' interest in the Company — interests in share options of the Company (being granted and remained outstanding):

Name	Capacity	Number of shares in the option	Exercise period	Price of grant	Subscription price per share (Note)
Chan Hon Ming	Beneficial owner	3,000,000	8/07/2002 to 7/07/2012	HK\$1.00	HK\$0.111

*Note:* The exercise price of the share option is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

(b) Directors' interests in associated corporation:

Name of associated corporation	Name of director	Class of shares held	Capacity and nature of interest	Number of shares held
MCB ( <i>Note 1</i> )	Lim Teong Leong	Ordinary	Directly beneficially owned	1,000,000
	Tam Cheok Wing	Ordinary	Directly beneficially owned	640,000
	Ooi Sin Heng	Ordinary	Directly beneficially owned	52,000

*Notes:*

1. MCB is the Company's ultimate holding company.
2. The interest in shares represents both interest in ordinary shares and interest in share options of MCB. The number of share options are further disclosed in the following paragraph headed "(c) Directors' right to acquire shares in associated corporation — interests in share options of associated corporation (being granted and remained outstanding)".
3. All interests stated above represent long positions.

(c) Directors' rights to acquire shares in associated corporation — interests in share options of associated corporation (being granted and remained outstanding):

Name of associated corporation	Name of participant	Number of shares in the option	Date of grant of share option	Exercise period of share options	Exercise price of share options ( <i>Note 1</i> )	Capacity and nature of interest
MCB	Lim Teong Leong	900,000	16/07/2001	16/07/2001 to 15/07/2006	RM1.26	Directly beneficially owned
MCB	Tam Cheok Wing	600,000	16/07/2001	16/07/2001 to 15/07/2006	RM1.26	Directly beneficially owned

*Notes:*

- (1) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in MCB's share capital.
- (2) The above share options are owned by the Directors in person.

(d) Interest in assets and contracts of the Group:

As at the Latest Practicable Date, none of the Directors has any interest in any assets which have been, since 31 December 2004, being the date to which the latest published audited accounts of the Company were made up, acquired, disposed of or leased to any member of the Group, or are proposed to be acquired, disposed of or leased to any member of the Group.

As at the Latest Practicable Date, there is no material contract or arrangement entered into by the Company, in which any Directors has a material personal interest.



### 3. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective associates (as defined in the Listing Rules) was considered to have interests in any competing businesses pursuant to the Listing Rules.

### 4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save as disclosed below, as at the Latest Practicable Date and so far as was known to the Directors and chief executive of the Company, there were no other persons who has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity	Number of Shares held	Percentage of the Company's issued share capital
MCB	Attributable interest of controlled corporation	316,973,680	51.54% (Notes 1, 2, 4, 5)
Unichina	Beneficial owner	316,973,680	51.54% (Notes 2, 4, 5)
Wong Kwong Miu	Attributable interest of controlled corporation	316,973,680	51.54% (Notes 3, 4, 5)

Notes:

- (1) The 316,973,680 Shares are directly held by MGL which is a wholly-owned subsidiary of Magnum Enterprise Sdn Bhd which in turn is a wholly-owned subsidiary of MCB.
- (2) MGL, Unichina and MCB entered into a sale and purchase agreement on 8 April 2004 for the sale of 316,973,680 shares by MGL to Unichina.
- (3) The entire issued share capital of Unichina is legally and beneficially owned by Mr. Wong Kwong Miu. Mr. Wong Kwong Miu is therefore deemed to have an interest in the Shares in which Unichina is interested.
- (4) All interests stated above represent long positions.
- (5) The interest held by each of MCB, Unichina and Wong Kwong Miu refers to the same parcel of shares.

### 5. SERVICE CONTRACT

None of the Directors has any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## 6. PROCEDURES ON DEMANDING A POLL

At any general meeting of the Company, resolutions put to the vote of the meeting shall be decided on a show of hands, unless a poll is demanded. Under bye-law 69 of the bye-laws of the Company, a poll may be demanded, before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll:

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

## 7. LITIGATIONS AND CLAIMS

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

## 8. MATERIAL CHANGES SINCE 31 DECEMBER 2004

Save as the following, the Directors are not aware of any material changes in the financial or trading position or prospects of the Group since 31 December 2004, the date to which the latest audited consolidated financial statement of the Group were made up:

- (a) on 8 April 2005, the Company announced, among other things, the entering into of the Compromise Deed and the Subscription Agreement (details of which are set out in the paragraphs headed “IV. The Compromise Deed” and “V. The Subscription Agreement” in the letter from the Board in this circular);
- (b) upon S&P Completion, Unichina and parties acting in concert with it will own in aggregate approximately 51.54% of the entire issued share capital of the Company as at the Latest Practicable Date; and
- (c) based on the valuation report prepared by Vigers (which is set out in Appendix I to this circular), the aggregate value of the Properties appreciated from HK\$33,290,000 as at 31 December 2004 to HK\$34,700,000 as at 15 April 2005.

## 9. CONSENTS AND QUALIFICATION

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
Dao Heng Securities	a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO
Tai Fook	a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activity under the SFO
Vigers	property valuer

Dao Heng Securities, Tai Fook and Vigers have given and have not withdrawn their respective written consents to the issue of this document with the inclusion herein of copies of their respective letters, reports and/or references to their names, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Dao Heng Securities, Tai Fook or Vigers was beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company (i.e. the annual report of the Company for the year ended 31 December 2004) were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 10. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Chui Chi Yun, Robert, who is a fellow member of Hong Kong Institute of Certified Public Accountants. The qualified accountant of the Company is Mr. Wong Chun Sing, Max, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.
- (c) The principal place of business of the Company is situated at 1301A, 13/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (d) The Company's share registrar is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The executive Directors include Messrs. Lim Teong Leong, Tam Cheok Wing, Ooi Sin Heng and Chan Hon Ming. The independent non-executive Directors include Messrs. Wong Ming Shiang, Lim Eng Ho and Soo Tho Him Yip.

- (f) As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangements which were subsisting at the Latest Practicable Date and were significant in relation to the business of the Group.
- (g) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the head office of the Company at 1301A, 13/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) until and including 3 June 2005:

- (a) the Subscription Agreement;
- (b) the Compromise Deed;
- (c) the memorandum of association and bye-laws of the Company;
- (d) the annual reports of the Company for each of the two financial years ended 31 December 2004;
- (e) the letter from the Independent Board Committee dated 20 May 2005, the text of which set out on page 30 to this circular;
- (f) the letter of advice from Tai Fook dated 20 May 2005, the text of which set out on pages 31 to 51 to this circular;
- (g) the valuation report prepared by Vigers dated 20 May 2005, the text of which set out on pages 52 to 60 to this circular; and
- (h) the written consents referred to in the section headed “9. Consents and qualification” in this appendix.

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## NOTICE OF SPECIAL GENERAL MEETING

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# Magnum International Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 305)**

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of Magnum International Holdings Limited (the “Company”) will be held at 11:00 a.m. on Friday, 24 June 2005 at Oceana Room, Lobby Floor, Hong Kong Gold Coast Hotel, No. 1 Castle Peak Road, Castle Peak Bay, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions numbered 1, 2 and 4 as ordinary resolutions and 3 as a special resolution as indicated:

### ORDINARY RESOLUTIONS

1. **“THAT,**
  - (a) the Subscription Agreement (as defined in the Company’s circular to shareholders dated 20 May 2005 (the “Circular”) of which this notice of SGM forms a part) (a copy of which has been produced to this meeting marked document “A” and signed by the Chairman of the meeting for identification purposes) entered into on 8th April 2005 between the Company, Unichina Enterprises Limited and Magnum Corporation Berhad and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and that any one director of the Company be and is hereby authorised, with full power, to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Subscription Agreement or any matters relating thereto; and
  - (b) the issue of the Convertible Bond (as defined in the Circular) (a copy of which has been produced to this meeting marked document “B” and signed by the Chairman of the meeting for identification purposes) upon and subject to the terms and conditions contained therein be and is hereby approved and confirmed, and that any two directors of the Company or any one director and the secretary of the Company, be and are hereby authorised to execute a bond certificate (or certificates) representing the Convertible Bond and affix the common seal of the Company thereto for and on behalf of the Company, and any one director of the Company (in any case where the common seal of the Company is required to be affixed, then any two directors or any one director and the secretary, of the Company) be authorised, with full power, to do all things and sign or execute all documents on behalf of the Company which may in his (or their) opinion be necessary or desirable in connection with the issue of the Convertible Bond, the bond certificates or any matters relating thereto and the directors of the Company be and are authorised to allot, issue and deal with additional shares in the capital of the Company which may fall to be allotted and issued upon conversion rights attached to the Convertible Bond.”
2. **“THAT,** the Compromise Deed (as defined in the Company’s circular to shareholders dated 20 May 2005 (the “Circular”) of which this notice of SGM forms a part) (a copy of which has been produced to this meeting marked document “C” and signed by the Chairman of the meeting for identification purposes) entered into on 8th April 2005

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## NOTICE OF SPECIAL GENERAL MEETING

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between the Company, Magnum (Guernsey) Limited and Unichina Enterprises Limited and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified, and specifically that each of the following documents that are scheduled to the Compromise Deed relating to the repayment of the Shareholder's Loan (as defined in the Circular) be and is hereby approved:

- (i) the Secured Promissory Note;
- (ii) the Unsecured Promissory Note;
- (iii) the Subordination Deed;
- (iv) the Share Mortgages; and
- (v) the Property Charges,

each as defined in the Circular (a separate copy of each of which has been produced to this meeting marked documents "D", "E", "F", "G" and "H" respectively, and signed by the Chairman of the meeting for identification purposes) (together with the Compromise Deed, the "**Compromise Documents**") and that any two directors of the Company or any one director and the secretary of the Company, be and are hereby authorised to execute each of the Secured Promissory Note, the Unsecured Promissory Note and the Subordination Deed, and to affix the common seal of the Company thereto for and on behalf of the Company and any one director of the Company (in any case where the common seal of the Company is required to be affixed, then any two directors or any one director and the secretary, of the Company) be authorised, with full power, to do all things and sign or execute all documents on behalf of the Company which may in his (or their) opinion be necessary or desirable in connection with the Compromise Documents or any one of them, or any matters relating thereto."

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## NOTICE OF SPECIAL GENERAL MEETING

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### SPECIAL RESOLUTION

3. “**THAT**, conditional on (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of HK\$0.001 each in the capital of the Company following the Capital Reduction (as defined below) becoming effective; and (ii) compliance with Section 46 of the Companies Act 1981 of Bermuda, with effect from 10:00 a.m. (Hong Kong time) on the date of the S&P Completion (as defined in the Company’s circular to shareholders dated 20 May 2005 of which this notice of SGM forms a part), or such other day and at such time as the board of directors of the Company may determine:
- (a) the issued share capital of the Company be reduced from approximately HK\$61,502,418 to HK\$615,024 by cancelling paid up capital to the extent of HK\$0.099 on each share of HK\$0.10 in issue in the capital of the Company on the date of this resolution (“**Capital Reduction**”) so that each issued share shall be treated as one fully paid up share of HK\$0.001 in the capital of the Company (“**Share**”) and any liability of the holders of such Shares to make any further contribution to the capital of the Company on each such Share shall be treated as satisfied;
  - (b) subject to and forthwith upon the Capital Reduction taking effect, each authorised but unissued share of HK\$0.10 in the capital of the Company be subdivided into 100 shares of HK\$0.001 each;
  - (c) subject to and forthwith upon the Capital Reduction taking effect, the credit arising from the cancellation of paid up capital be transferred to the contributed surplus account of the Company where it will be utilised in accordance with the bye-laws of the Company and all applicable laws including, but not limited to, applied towards setting off the accumulated losses of the Company; and
  - (d) any one of the directors of the Company be and is hereby authorised generally to do all such acts, deeds and things as he shall, in his absolute discretion, deem appropriate to effect and implement any of the foregoing.”

### ORDINARY RESOLUTION

4. “**THAT**, subject to and conditional upon the Capital Reduction (as defined in the resolution numbered 3 as set out in the notice convening this meeting) becoming effective, the authorised share capital of the Company be increased from HK\$100,000,000 to HK\$1,000,000,000 by the creation of an additional 900,000,000,000 new shares of HK\$0.001 each and that such new shares shall rank *pari passu* in all respects with the existing shares in issue in the capital of the Company.”

By order of the Board of  
**Magnum International Holdings Limited**  
**Ooi Sin Heng**  
*Director*

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## NOTICE OF SPECIAL GENERAL MEETING

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### Notes:

1. The Register of Members will be closed from Tuesday, 21 June 2005 to Friday, 24 June 2005 (both days inclusive) during which no transfer of Shares of the Company will be registered.
2. Every member entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
3. A form of proxy for use in connection with the SGM is enclosed and such form is also published on the website of the Stock Exchange (*www.hkex.com.hk*)
4. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited with the Company's registrars, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM.
5. According to Rule 2.9 and Note 4 to Rule 25 of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"), the vote in relation to the resolution numbered 2 shall be taken by way of a poll. According to Rule 13.39(4) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the vote in relation to the ordinary resolutions numbered 1 and 2 shall be taken by way of a poll. In addition, the vote in relation to the ordinary resolution numbered 4 and special resolution numbered 3 shall be taken by way of a poll. The Company shall announce the results of the poll in the manner prescribed under Rule 2.9 of the Takeovers Code and Rule 13.39(5) of the Listing Rules.