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If you have sold or transferred all your shares in Value Convergence Holdings Limited (the “Company”), you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, the licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

Website: <http://www.vcgroup.com.hk>

(Stock Code: 821)

PLACING AND ISSUE OF CONVERTIBLE BONDS

**PLACING AGENT
CHINA EVERBRIGHT SECURITIES (HK) LIMITED**



A notice convening an extraordinary general meeting (“EGM”) of the Company to be held at Unit 3203, 32nd Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong at 11:00 a.m. on Monday, 2 November 2009 is set out on pages 31 to 33 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof (as the case may be) should you so wish.

15 October 2009

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DEFINITIONS

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

“8 September Announcement”	the announcement of the Company dated 8 September 2009
“18 September Announcement”	the announcement of the Company dated 18 September 2009
“21 September Announcements”	the two announcements of the Company dated 21 September 2009
“associate(s)”	has the meaning ascribed thereto in the Listing Rules, unless otherwise specified
“Board”	the board of directors of the Company
“Bond Instrument”	the instrument to be entered into by the Company constituting the Convertible Bonds, substantially in the form of the draft set out in a schedule to each of the Subscription Agreements
“Bondholder(s)”	holder(s) of Convertible Bonds
“Companies Ordinance”	the Companies Ordinance (Cap 32) of the Laws of Hong Kong
“Company”	Value Convergence Holdings Limited (Stock code: 821), a company incorporated in Hong Kong with limited liability under the Companies Ordinance, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Convertible Bonds”	up to HK\$600 million 1% Convertible Bonds due 2011 convertible into Shares, to be constituted by the Bond Instrument (comprising the First Convertible Bonds and the Optional Bonds)
“Conversion Price”	the initial conversion price of HK\$1.00 per Conversion Share, but subject to adjustment as described in this circular
“Conversion Shares”	the Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds
“Director(s)”	director(s) of the Company as at the Latest Practicable Date
“Disposal”	the disposal, by Melco Financial, of all of its 160,930,380 Shares in the Company (representing approximately 43.24% of the then issued share capital of the Company as at 21 September 2009) at a price of HK\$1.92 per Share, as announced by Melco in its announcement dated 21 September 2009

DEFINITIONS

“EGM”	an extraordinary general meeting of the Company to be convened and held at Unit 3203, 32nd Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong at 11:00 a.m. on Monday, 2 November 2009 to approve, inter alia, (i) the creation and issue of up to HK\$600 million of 1% Convertible Bonds due 2011, to be constituted by the Bond Instrument, (ii) the issue of a principal amount of HK\$300 million of the First Convertible Bonds; (iii) the grant and issue, in accordance with the terms of the Bond Instrument, of the Options and the issue of an additional principal amount of HK\$300 million of Optional Bonds on exercise of the Options; and (iv) the issue and allotment of the Conversion Shares upon the exercise of the conversion rights in respect of all the Convertible Bonds to be issued under the Bond Instrument, comprising the First Convertible Bonds and the Optional Bonds
“First Convertible Bonds”	convertible bonds in a principal amount of HK\$300 million placed by the Placing Agent pursuant to the Placing Agreement and to be issued to the placees in accordance with the terms and conditions of the Subscription Agreements entered into by the placees pursuant to the Placing Agreement
“First Issue Date”	the date on which the First Convertible Bonds are initially issued under the Bond Instrument
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) independent of the Company and connected person(s) of the Company and who is/are not connected person(s) of the Company
“Kim Eng”	Kim Eng Securities (Hong Kong) Limited, the placing agent appointed by Melco Financial in respect of the Disposal
“Last Trading Day”	4 September 2009, being the last trading day before the date of the 8 September Announcement on which the Shares were traded on the Stock Exchange before their temporary suspension pending the issue of the 8 September Announcement
“Latest Practicable Date”	13 October 2009, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein

DEFINITIONS

“Listing Committee”	the listing committee of the Stock Exchange which, among its other functions, considers applications for the listing of securities on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Melco”	Melco International Development Limited (Stock code: 200), a company incorporated in Hong Kong with limited liability under the Companies Ordinance, the shares of which are listed on the Main Board of the Stock Exchange
“Melco Financial”	Melco Financial Group Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of Melco
“Optional Bonds”	the additional Convertible Bonds to be issued by the Company upon exercise of the Options by the holders of the Options, up to a maximum principal amount of HK\$300 million
“Options”	options granted to converting Bondholders upon conversion of the First Convertible Bonds as long as such conversion takes place within 12 months from the First Issue Date; which options will entitle their holders to subscribe (in cash at 100% of the principal amount) for further Convertible Bonds with an aggregate principal amount equal to the principal amount of the First Convertible Bonds converted
“Placing Agent”	China Everbright Securities (HK) Limited, a corporation licensed to carry on type 1 (dealings in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Placing Agreement”	the placing agreement entered into between the Company and the Placing Agent dated 8 September 2009 in relation to the placing of the First Convertible Bonds by the Placing Agent for and on behalf of the Company
“Placing Period”	the period from (and excluding) the date of the Placing Agreement to (and including) the date falling on the tenth trading day thereafter
“PRC”	the People’s Republic of China
“SFC”	The Securities and Futures Commission

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Cap 571) of the Laws of Hong Kong
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	the subscribers procured by the Placing Agent under the Placing Agreement to enter into Subscription Agreements to subscribe for the First Convertible Bonds
“Subscription Agreement(s)”	the subscription agreement(s) entered into between each of the Subscribers and the Company in respect of the subscription of the First Convertible Bonds, the principal terms of which subscription agreements are summarized in this circular
“Takeovers Code”	The Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

Website: <http://www.vcgroup.com.hk>

(Stock Code: 821)

Mr. Lam Cho Ying, Terence Joe[#]
Mr. Chau King Fai, Philip[#]
Dr. Lee Jun Sing* (*Chairman*)
Mr. Tsui Che Yin, Frank*
Dr. Tyen Kanhee, Anthony⁺
Mr. Sham Sui Leung, Daniel⁺
Mrs. Chu Ho Miu Hing⁺

Registered office:
28th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

[#] Executive Director

^{*} Non-executive Director

⁺ Independent Non-executive Director

15 October 2009

To the Shareholders

Dear Sir or Madam,

PLACING AND ISSUE OF CONVERTIBLE BONDS

OVERVIEW

Reference is made to the 8 September Announcement and the 18 September Announcement, respectively, in which the Company announced that on 8 September 2009 it had entered into the Placing Agreement with the Placing Agent, and that on 18 September 2009 the Company and no fewer than six subscribers had entered into separate Subscription Agreements in relation to the issue and subscription of the First Convertible Bonds.

Reference is also made to the 21 September Announcements in which the Company announced that it had been informed by Melco Financial that Melco Financial had entered into a placing agreement for the purpose of disposing of all of its 160,930,380 Shares in the Company (representing approximately 43.24% of the then issued share capital of the Company as at 21 September 2009) at a price of HK\$1.92 per Share, to not less than six places.

Pursuant to the Placing Agreement, the Company appointed the Placing Agent to procure, during the Placing Period on a best endeavours basis, independent Subscribers to subscribe, in cash at 100% of the principal amount, for the First Convertible Bonds in a principal amount of HK\$300 million. The initial conversion price of the Convertible Bonds is HK\$1.00 per Conversion Share.

LETTER FROM THE BOARD

Under the terms of the First Convertible Bonds, Options would be granted to the converting Bondholders on any conversion of the First Convertible Bonds effected within one year from the First Issue Date. The Options will entitle the converting Bondholders to subscribe, in cash at 100% of the principal amount, for further Convertible Bonds equal to the principal amount of the First Convertible Bonds which are converted on the relevant occasion. Accordingly, Options may be issued to Subscribers for up to a further principal amount of HK\$300 million of Convertible Bonds. Options must be exercised within one year from the First Issue Date, failing which the Options will lapse.

Under the Placing Agreement, Subscribers for the First Convertible Bonds are required to enter into separate Subscription Agreements directly with the Company. On 18 September 2009, no fewer than six Subscribers for the First Convertible Bonds entered into separate Subscription Agreements with the Company, as contemplated by the Placing Agreement. Completion of the subscription of the Convertible Bonds under the Subscription Agreements is subject to the conditions set out in the section below headed “Conditions Precedent” being fulfilled. Those conditions include the Shareholders passing one or more resolutions approving (i) the issue of the First Convertible Bonds; (ii) the grant and issue, in accordance with the terms of the Bond Instrument, of the Options and the issue of an additional principal amount of HK\$300 million of Optional Bonds on exercise of the Options; and (iii) the issue and allotment of the Conversion Shares upon the exercise of the conversion rights in respect of all the Convertible Bonds to be issued under the Bond Instrument, being an aggregate principal amount of HK\$600 million of Convertible Bonds comprising the First Convertible Bonds and the Optional Bonds. A resolution to approve those matters will be proposed to the Shareholders at the EGM.

After the publication of the 18 September Announcement, the Company was informed by Melco Financial that Melco Financial (as the vendor) and Melco (as the guarantor) had entered into a placing agreement with Kim Eng on 18 September 2009, pursuant to which Melco Financial had agreed to appoint Kim Eng as placing agent in respect of the Disposal. The 18 September Announcement was made by the Company to that effect. The Company was subsequently informed by Melco Financial after closing of the market on 21 September 2009 that all the 160,930,380 Shares held by Melco Financial had been successfully placed by Kim Eng to not less than six placees. The announcement in relation to the Disposal issued by Melco, dated 21 September 2009, states that the placees and their ultimate beneficial owners are independent of, and are not connected persons (within the meaning of the Listing Rules) of the Company or Melco. Melco announced that the Disposal of the Shares by Melco Financial was expected to be completed on 22 September 2009 with the consideration to be paid by Kim Eng two business days thereafter, and immediately upon completion of the Disposal, Melco Financial ceased to have any interest in the Company, and the Company ceased to be an associated company of Melco.

The purposes of this circular are to provide you with further information regarding the placing and subscription for and issue of the Convertible Bonds and to give notice for convening the EGM at which a resolution will be proposed to approve the issue of the Convertible Bonds pursuant to the placing and subscription.

LETTER FROM THE BOARD

RESIGNATION AND RE-DESIGNATION OF DIRECTORS, APPOINTMENT OF DIRECTORS, CHANGE OF COMPANY SECRETARY AND AUTHORISED REPRESENTATIVE

On 24 September 2009, the Company announced that following the Disposal, with effect from 23 September 2009:

- (a) Mr. Ho, Lawrence Yau Lung, resigned as non-executive Director of the Company and Mr. Ho also ceased to act as the Chairman of the Company.
- (b) Mr. Tsui Che Yin, Frank was re-designated from executive Director to non-executive Director of the Company and Mr. Tsui also ceased to act as member of Executive Committee and Finance Committee of the Company.
- (c) Mr. Lam Cho Ying, Terence Joe and Mr. Chau King Fai, Philip were appointed as executive Directors of the Company. Mr. Lam joined the Group in 2004 and also serves as a Managing Director of the VC Brokerage Limited, a wholly owned subsidiary of the Company. Mr. Chau also joined the Group in 2004 and is a Managing Director of VC Capital Limited, a wholly owned subsidiary of the Company. Both Mr. Lam and Mr. Chau are members of the Executive Committee and Finance Committee of the Company.
- (d) Ms. Chan Yuen Mei resigned and Ms. Wong Yee Wah was appointed as the company secretary and an authorised representative of the Company.

On 5 October 2009, the Company announced that, with effect from 2 October 2009, Mr. Patrick Sun resigned as an executive Director of the Company and also ceased to act as the Chief Executive Officer of the Company.

Shareholders should refer to the announcement of the Company dated 24 September 2009 for further particulars of Mr. Tsui, Mr. Lam, Mr. Chau and Ms. Wong.

For the avoidance of doubt, references to the Directors herein are references to the Directors of the Company as at the Latest Practicable Date, as set out on page 5 herein.

SUMMARY OF PRINCIPAL TERMS OF THE PLACING AGREEMENT

Date

8 September 2009

Parties

Issuer: The Company

Placing agent: The Placing Agent

To the best of the knowledge, information and belief of the Directors, after having made reasonable enquiries, the Placing Agent and its ultimate beneficial owners are Independent Third Parties.

LETTER FROM THE BOARD

The Placing Agent will receive a placing commission in aggregate of 1.00% on the aggregate principal amount of the First Convertible Bonds actually issued pursuant to the Placing Agreement. The amount of the placing commission was determined by agreement between the Company and the Placing Agent, with reference to the placing commission paid by other listed issuers for similar transactions.

Placing Period

Under the Placing Agreement, the Placing Agent agreed, on a best endeavours basis, to procure Subscribers to subscribe, in cash at 100% of their principal amount, for the First Convertible Bonds during the Placing Period. Under the Placing Agreement, the Placing Agent gave an undertaking to use all reasonable endeavours (exercising due care and making reasonable enquiries) to ensure that (i) the Subscribers and their ultimate beneficial owners (a) are not connected persons of the Company and are third parties independent of, and not connected with, the directors, chief executive(s) or substantial shareholder(s) of the Company, any of its subsidiaries, or their respective associates; and (b) are not persons acting in concert with Melco or its associates (as defined in the Takeovers Code), or with each other or their respective associates (as defined in the Takeovers Code); (ii) none of the Subscribers or any persons acting in concert with them holds, directly or indirectly, any Shares; and (iii) the Subscribers are subscribing for the Convertible Bonds as principals and not as agents, nominees or trustees for others.

Under the Placing Agreement, Subscribers for the First Convertible Bonds were required to enter into separate Subscription Agreements directly with the Company, substantially in the form of the draft Subscription Agreement set out in a schedule to the Placing Agreement. The principal terms of the Subscription Agreements which have been entered into pursuant to the Placing Agreement are summarized below in the section headed “Summary of Principal Terms of the Subscription Agreements”.

STATUS OF THE PLACING UNDER THE PLACING AGREEMENT

On 18 September 2009, no fewer than six Subscribers for the First Convertible Bonds entered into separate Subscription Agreements with the Company for the subscription of an aggregate principal amount of HK\$300 million of the First Convertible Bonds, as contemplated by the Placing Agreement. Completion of the subscription of the Convertible Bonds under each of the Subscription Agreements is conditional upon the conditions precedents set out in the section below headed “Conditions Precedent” being fulfilled (or, in the case of condition precedent (d) below, waived by the relevant Subscriber). The principal terms of the Subscription Agreements are summarised below.

SUMMARY OF PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENTS

Date

18 September 2009

Parties

In respect of each separate Subscription Agreement entered into, (1) the relevant Subscriber and (2) the Company.

LETTER FROM THE BOARD

Subscription Amount

Each Subscriber has entered into a separate Subscription Agreement for the subscription of the Convertible Bonds to be subscribed by the relevant Subscriber. The aggregate principal amount of Convertible Bonds agreed to be subscribed under all the Subscription Agreements taken together is HK\$300 million, being the First Convertible Bonds.

Conditions Precedent

Completion of the subscription for the First Convertible Bonds under each Subscription Agreement is conditional on:

- (a) the Shareholders passing one or more resolutions at the EGM approving:
 - (i) the issue of a principal amount of HK\$300 million of the First Convertible Bonds;
 - (ii) the grant and issue, in accordance with the terms of the Bond Instrument, of the Options and the issue of an additional principal amount of HK\$300 million of Optional Bonds on exercise of the Options; and
 - (iii) the issue and allotment of the Conversion Shares upon the exercise of the conversion rights in respect of all Convertible Bonds to be issued under the Bond Instrument, being an aggregate principal amount of HK\$600 million of the Convertible Bonds comprising the First Convertible Bonds and the Optional Bonds;
- (b) the Stock Exchange approving the issue of all the Convertible Bonds to be issued under the Bond Instrument being an aggregate principal amount of HK\$600 million (comprising the First Convertible Bonds and the Optional Bonds) and the Options (in each case, either unconditionally or subject only to conditions to which neither the Company nor the Subscriber reasonably object and the fulfilment of such conditions);
- (c) the Listing Committee granting (either unconditionally or subject only to conditions to which neither the Company nor the Subscriber reasonably object) listing of and permission to deal in the Conversion Shares to be issued on exercise of the conversion rights in respect of all the Convertible Bonds to be issued under the Bond Instrument (being an aggregate principal amount of HK\$600 million of Convertible Bonds comprising the First Convertible Bonds and the Optional Bonds); and
- (d) at completion (i) the representations and warranties given by the Company in the Subscription Agreement remaining accurate, correct and complied with in all material respects at, and as if made on, the completion date; (ii) the Company having performed all of its obligations under the Subscription Agreement to be performed on or before the completion date; and (iii) the Subscriber having received a certificate to such effect, dated as of the completion date, and signed by a duly authorised officer of the Company.

LETTER FROM THE BOARD

The Subscription Agreements provide that completion of the subscriptions for the First Convertible Bonds will take place in Hong Kong on the business day immediately following the date on which the conditions precedent to completion are fulfilled or waived. A Subscriber may waive condition precedent (d) above, but not any of the other conditions precedent.

If the conditions precedent are not fulfilled (or, in the case of condition precedent (d), waived) on or before 30 November 2009 or such later date as may be agreed between the Subscriber under a Subscription Agreement and the Company, the relevant Subscription Agreement shall terminate and the parties to the Subscription Agreement shall be released and discharged from all obligations thereunder (save for any liabilities in respect of any antecedent breaches occurring prior to such termination).

The Subscription Agreements provide that the Convertible Bonds are to be constituted by a Bond Instrument, substantially in the form of the draft set out in a schedule to each of the Subscription Agreements. The principal terms of the Bond Instrument and the Convertible Bonds are summarized below.

PRINCIPAL TERMS OF THE BOND INSTRUMENT AND THE CONVERTIBLE BONDS

Principal amount

The Bond Instrument provides for the issue of up to HK\$600 million in principal amount of Convertible Bonds, comprising:

- (a) the First Convertible Bonds in the aggregate principal amount of HK\$300 million, with Options to be granted to the converting Bondholders upon conversion of the First Convertible Bonds to further subscribe for the Optional Bonds in a principal amount equal to the respective principal amount of the First Convertible Bonds being converted; and
- (b) the Optional Bonds in the aggregate principal amount of up to HK\$300 million, to be issued on exercise of the Options.

Issue price

The Convertible Bonds will be subscribed for and issued at 100% of their principal amount. The issue price was determined by the Company based on the face value of the Convertible Bonds.

Interest rate

The Convertible Bonds will bear interest at the rate of 1% per annum, payable in instalments with the first payment to be made on 30 June 2010 and thereafter semi-annually in arrears on 31 December and 30 June in each year.

Maturity date

2 years from the date of issue, unless previously redeemed or converted.

LETTER FROM THE BOARD

Conversion price and conversion price adjustment formulae

The initial conversion price is HK\$1.00 per Conversion Share. However, this is subject to adjustment in accordance with the provisions of the Bond Instrument if, while any of the Convertible Bonds remain outstanding, any of the following events or circumstances in relation to the Shares shall occur:

- if and whenever there shall be a consolidation or subdivision of the Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective from the day on which such consolidation or subdivision becomes effective.

- if and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalization of profits or reserves, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective from the day of such issue of Shares.

LETTER FROM THE BOARD

- if and whenever the Company shall pay or make a capital distribution (as that expression is defined in the Bond Instrument) to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such capital distribution by the following fraction:

$$\frac{A - B}{A}$$

where

- A is the current market price (as that expression is defined in the Bond Instrument) of one Share on the last dealing day preceding the date on which the capital distribution is publicly announced; and
- B is the fair market value on the date of such public announcement of such capital distribution, as determined in good faith by a firm of accountants (acting as expert), of the portion of the capital distribution which is attributable to one Share.

Such adjustment shall become effective on the date that such capital distribution is actually made.

- if and whenever the Company shall issue Shares (or issue or grant options, warrants or other rights to subscribe for or purchase Shares) to substantially all Shareholders as a class by way of rights at less than 95% of the current market price (as that expression is defined in the Bond Instrument) per Share on the last dealing day preceding the date on which such issue or grant to Shareholders is publicly announced, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the rights, or for the options or warrants or other rights issued by way of rights, and for the total number of Shares comprised therein would purchase at such current market price (as that expression is defined in the Bond Instrument) per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of the issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

LETTER FROM THE BOARD

- if and whenever the Company shall issue any other securities (or grant options, warrants or other rights to subscribe for or purchase any such other securities) to all or substantially all Shareholders as a class by way of rights, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue, grant or offer by the following fraction:

$$\frac{A - B}{A}$$

where

A is the current market price (as that expression is defined in the Bond Instrument) of one Share on the last dealing day preceding the date on which such issue or grant is publicly announced; and

B is the fair market value on the date of such announcement as determined in good faith by a firm of accountants (acting as expert), of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of the issue of the securities or grant of such rights, options or warrants (as the case may be).

- if and whenever the Company shall wholly for cash issue (otherwise than as mentioned above) any Shares (other than the Conversion Shares and Shares issued on the exercise of any other rights of conversion into, or subscription for, Shares), or issue or grant (otherwise than as mentioned above) options, warrants or other rights to subscribe for or purchase Shares, in each case at a price per Share which is less than 95% of the current market price (as that expression is defined in the Bond Instrument) on the last dealing day preceding the date of public announcement of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{C}$$

where

A is the number of Shares in issue immediately before the issue of such additional Shares;

B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such current market price (as that expression is defined in the Bond Instrument) per Share; and

C is the number of Shares in issue immediately after the issue of such additional Shares.

LETTER FROM THE BOARD

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of the issue of such Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

- if and whenever the Company or any subsidiary or (at the direction or request of or pursuant to any arrangements with the Company or any subsidiary) any other company, person or entity, shall issue wholly for cash any securities (other than the Convertible Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription, at a consideration per Share which is less than 95% of the current market price (as that expression is defined in the Bond Instrument) per Share on the last dealing day preceding the date of announcement of the terms of issue of such securities (except for an issue of securities arising from a conversion or exchange of other securities themselves falling within this adjustment provision), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange of or upon exercise of the right of subscription attached to such securities would purchase at such current market price (as that expression is defined in the Bond Instrument) per Share; and
- C is the maximum number of Shares to be issued upon conversion into or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of the issue of such securities.

LETTER FROM THE BOARD

- if and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any securities mentioned in the immediately preceding sub-paragraph so that the consideration per Share receivable by the Company is less than 95% of the current market price (as that expression is defined in the Bond Instrument) per Share on the last dealing day preceding the date of the public announcement of the proposal for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where

- A is the number of Shares in issue immediately before such modification;
- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange, or upon exercise of the right of subscription attached to the securities so modified, would purchase at such current market price (as that expression is defined in the Bond Instrument) per Share or, if lower, the existing conversion, exchange or subscription price; and
- C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate,

but giving credit in such manner as a firm of accountants engaged by the Company for the purpose of this sub-paragraph (acting as expert), considers appropriate (if at all) for any adjustment under this sub-paragraph.

Such adjustment shall become effective on the date of such modification of the rights of conversion, exchange or subscription attaching to such securities.

LETTER FROM THE BOARD

- if and whenever the Company or any subsidiary or (at the direction or request of or pursuant to any arrangements with the Company or any subsidiary) any other company, person or entity issues, sells or distributes any securities in connection with an offer pursuant to which Shareholders generally (meaning the holders of at least 60% of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price is to be adjusted under certain of the other sub-paragraphs above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A - B}{A}$$

where

A is the current market price (as that expression is defined in the Bond Instrument) of one Share on the last dealing day preceding the date of public announcement of such issue; and

B is the fair market value on the date of such announcement, as determined in good faith by a firm of accountants appointed by the Company for the purpose of this sub-paragraph (acting as expert), of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

- if either the Company or Bondholders holding not less than 75% in value of the outstanding principal amount of the Convertible Bonds determine that an adjustment should be made to the Conversion Price as a result of one or more events not specifically referred to above, the Company shall request a firm of accountants to determine (acting as experts) 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.

The meaning of “current market price”, as used in the Bond Instrument, can be summarised as the average of the closing prices of one Share for the five dealing days ending on and inclusive of the dealing day immediately preceding the relevant date at which the current market price is to be determined.

The Directors consider that the aforesaid adjustment mechanism of the Conversion Price is in line with market practice. If any adjustment is required to be made to the Conversion Price, the Company will issue an announcement providing its Shareholders with details of the relevant adjustment.

LETTER FROM THE BOARD

When the proposed placing of the Convertible Bonds was initially announced on 8 September 2009, the closing price of the Shares on the Last Trading Day before that announcement was HK\$0.980 per Share. As set out in the 8 September Announcement, the initial Conversion Price of HK\$1.00 per Conversion Share represents:

- (1) a premium of approximately 2.04% over the closing price of HK\$0.980 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (2) a premium of approximately 10.13% over the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day, of HK\$0.908;
- (3) a premium of approximately 12.49% over the average of the closing prices per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day, of HK\$0.889; and
- (4) a discount of approximately 39.90% to the unaudited net asset value per Share of HK\$1.664 (being the unaudited equity attributable to the Shareholders of approximately HK\$617,749,000 shown in the Company's unaudited interim financial statements as at 30 June 2009 divided by the then 371,169,772 Shares in issue).

The initial Conversion Price was determined by the Company with reference to the market price performance of the Shares during the period prior to the entering into the Placing Agreement, as announced on 8 September 2009.

Since the 8 September Announcement, however, the market price of the Shares has increased substantially. The initial Conversion Price of HK\$1.00 per Conversion Share now represents:

- (1) a discount of approximately 43.50% to the closing price of HK\$1.770 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (2) a discount of approximately 43.82% to the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Latest Practicable Date, of HK\$1.780; and
- (3) a discount of approximately 43.98% to the average of the closing prices per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Latest Practicable Date, of HK\$1.785.

Conversion Shares

A maximum of 600 million Conversion Shares would be allotted and issued upon full conversion of the Convertible Bonds at the initial conversion price of HK\$1.00 per Conversion Share, which represents approximately 160.88% of the existing issued share capital of the Company and approximately 61.67% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares.

LETTER FROM THE BOARD

Shares issued upon conversion would rank pari passu in all respects with all other existing Shares outstanding as at the conversion date and all Conversion Shares would include rights to participate in all dividends and other distributions the record date for which falls on or after the Conversion Date.

Conversion restrictions

The Bond Instrument provides that:

- (a) The Convertible Bond(s) can only be converted during the period commencing three months after the First Issue Date and ending on the day immediately prior to the maturity date of the Convertible Bonds. Accordingly, no conversion is permitted within the first three months after the First Issue Date.
- (b) No fraction of a Share shall be issued on conversion of the Convertible Bonds, and instead the Company shall pay a cash amount in Hong Kong dollars equal to such amount of the Convertible Bonds that are not converted.
- (c) A Bondholder shall not exercise the right of conversion if, as a result of such exercise, less than 25% of the issued share capital of the Company would be held by the public (as such expression is defined in the Listing Rules) immediately after such conversion.
- (d) A Bondholder shall not convert any Convertible Bonds, and the Company shall not issue any Conversion Shares if, upon such issue, the Bondholder and the parties acting in concert with it would be required to make a mandatory general offer under the Takeovers Code for the Shares held by the Company's other Shareholders, unless the Bondholder undertakes to the Company at the time of the relevant exercise that all applicable provisions of the Takeovers Code will be complied with.
- (e) A Bondholder shall not convert any Convertible Bond if, as a result of such conversion, the Bondholder would thereby become a substantial shareholder (as defined in the SFO) of one or more subsidiaries of the Company which are regulated under Part V of the SFO, unless the Bondholder has first been approved by the SFC under Part V of the SFO to become such a substantial shareholder.

Status and transferability

- (a) The Bond Instrument provides that the obligations of the Company arising under the Convertible Bonds will constitute general, unsecured and unsubordinated obligations of the Company, and will rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws.
- (b) No application will be made for a listing of the Convertible Bonds in any jurisdiction.

LETTER FROM THE BOARD

- (c) The Bond Instrument provides that the Convertible Bonds may be transferred to any person, except that the Convertible Bonds may not be transferred to a connected person of the Company without the prior written consent of the Company. The Bond Instrument further provides that, without prejudice to the foregoing, any transfer of the Convertible Bonds is subject to (1) the Listing Rules for so long as the Shares are listed on the Stock Exchange (and the rules of any other stock exchange on which the Shares may be listed at the relevant time), and all applicable laws and regulations; and (2) the approval of the Shareholders in a general meeting if so required and in compliance with the applicable provisions of the Listing Rules if such transfer is proposed to be made to a connected person of the Company.
- (d) The Bond Instrument provides that any transfer of the Bonds shall be in respect of the whole or any part of the Convertible Bonds in multiples of HK\$10 million.

Redemption

The Bond Instrument provides that all Convertible Bonds which have not been redeemed or converted by their maturity date will be redeemed by the Company on the maturity date at a redemption amount equal to 100% of the principal amount of such Convertible Bonds. Any accrued but unpaid interest will also be payable.

The Bond Instrument also provides that the First Convertible Bonds may be redeemed in whole or in part by the Company within three months from the First Issue Date (but not thereafter) at 100.25% of the principal amount of the Convertible Bonds. If Convertible Bonds are redeemed by the Company under this provision, no interest shall accrue or be payable in respect of those Convertible Bonds from the date of their issue.

The Bond Instrument includes a prohibition on conversion of the First Convertible Bonds within the period of three months from the First Issue Date (see under “Conversion restrictions” above). Therefore, no Options or Optional Bonds will be issued during that three month period and, accordingly, the right of the Company to redeem Convertible Bonds within three months from the First Issue Date will not be applicable as a practical matter in respect of the Optional Bonds.

Voting at shareholders’ meetings

Bondholders shall not be entitled to receive notices of, or to attend or vote at, any Shareholders’ meetings of the Company by reason only of their being the Bondholders.

LETTER FROM THE BOARD

Bondholders' meetings

The Bond Instrument provides that the Company may at any time, and shall at the request in writing of persons holding not less than one-tenth of the aggregate principal amount of the Convertible Bonds outstanding, convene a meeting of the Bondholders by giving not less than 14 days' written notice. A meeting of Bondholders shall have power to (i) sanction any modification or compromise or arrangement in respect of the rights of the Bondholders against the Company; (ii) assent to any modification or abrogation of the provisions of the Bond Instrument; and/or (iii) give any consent or direction required to be given by the Bondholders under the Bond Instrument, in each case by a simple majority of the Bondholders voting upon a show of hands or, if a poll is demanded, by a majority consisting of not less than 50% of the votes given on such poll.

Listing

No application will be made for the listing of, or permission to deal in, the Convertible Bonds on the Stock Exchange, or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Events of default

The Bond Instrument provides that if any of the following events ("Events of Default") occurs, any Bondholder may give notice to the Company that the holder's Convertible Bonds be redeemed, whereupon those Convertible Bonds shall become immediately due and payable at 100% of their principal amount and all interest accrued in respect of those Convertible Bonds shall also become immediately due and payable. The Events of Default are as follows:

- (a) any failure to pay the principal of or interest on the Convertible Bonds when due and such failure continues for a period of seven days in the case of principal or 14 days in the case of interest;
- (b) the Company defaults in performance or compliance with any of its obligations under the Bond Instrument (other than the covenant to pay the principal and interest in respect of the Convertible Bonds), and such default is incapable of remedy (in which event no such notice as is referred to below shall be required), or, if capable of remedy, is not remedied within 30 days after notice sent by the holder of the Convertible Bonds to the Company requiring such default to be remedied;
- (c) any other present or future indebtedness of the Company or any of its major subsidiaries for or in respect of any bonds, debentures, notes or similar instruments of indebtedness or any other monies borrowed or raised, becomes due and payable prior to its stated maturity otherwise than at the option of the Company or the relevant major subsidiary, or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or the Company or any of its major subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any such indebtedness provided that the aggregate amount of indebtedness and guarantees and indemnities in respect of which one or more events mentioned above have occurred equals or

LETTER FROM THE BOARD

exceeds HK\$20,000,000 or its equivalent in any other currency provided that the provisions of this paragraph shall not apply to any alleged default if the Company or the relevant major subsidiary, as the case may be, is contesting the matter in good faith;

- (d) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved otherwise than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction the terms of which shall have previously been approved in writing by a resolution of the Bondholders (no approval of the holders of Options is required);
- (e) a resolution is passed or an order of a court of competent jurisdiction is made for the winding up or dissolution of any major subsidiary except (a) for the purposes of or pursuant to and followed by a consolidation or amalgamation with or merger into the Company or any other subsidiary, (b) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction (other than as described in (a) above) the terms of which shall have previously been approved by a resolution of the Bondholders (no approval of the holders of Options is required), or (c) by way of a voluntary winding up or dissolution where there are surplus assets in such major subsidiary and such surplus assets attributable to the Company and/or any other subsidiary are distributed to the Company and/or any such other subsidiary;
- (f) an encumbrancer takes possession or a receiver is appointed over the whole or a material part of the assets or undertaking of the Company or any major subsidiary;
- (g) a distress, execution or seizure order before judgment is levied or enforced upon or sued out against the whole or a material part of the property, assets or revenues of the Company or any major subsidiary (as the case may be) and is not discharged or stayed within 45 days or such longer period as the Bondholders, by a resolution of Bondholders, may consider appropriate in relation to the event concerned (no approval of the holders of Options is required);
- (h) the Company or any of its major subsidiaries is insolvent or unable to pay its debts as and when they fall due or the Company or any of its major subsidiaries shall initiate or consent to proceedings relating to itself under any applicable administration, bankruptcy, composition or insolvency law or scheme of arrangement while insolvent or makes a general assignment for the benefit of, or enters into any composition with, its creditors;
- (i) proceedings shall have been initiated against the Company or any major subsidiary under any applicable bankruptcy, reorganisation or insolvency law, and such proceedings shall not have been discharged or stayed within 60 days thereafter (or such longer period as the Bondholders by a resolution may consider appropriate in relation to the jurisdiction concerned (no approval of the holders of the Options is required));
- (j) it is or becomes unlawful for the Company to perform or comply with any of its obligations under the Convertible Bonds, or due to no fault on the part of any Bondholder any such obligation is not or ceases to be enforceable or is claimed by the Company not to be enforceable;

LETTER FROM THE BOARD

- (k) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or substantially all or (other than on arm's length terms or with respect to a part of the relevant entity's business or operations which has not materially contributed to the consolidated operating profit of the Company and its subsidiaries for at least three years prior to the day on which this paragraph operates) a material part of the assets of the Company or any of its major subsidiaries;
- (l) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Convertible Bonds, the Options and the Bond Instrument, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Convertible Bonds, the Options and the Bond Instrument admissible in evidence in the courts of Hong Kong, is not taken, fulfilled or done by the requisite time; or
- (m) any event occurs which has an analogous effect to any of the events referred to in paragraphs (a) to (l) above.

Options

The Bond Instrument provides that, on an exercise of the conversion rights in respect of the First Convertible Bonds within 12 months from the First Issue Date, a converting Bondholder shall be granted the Option by the Company to subscribe, in cash at 100% of their principal amount, for an aggregate principal amount of the Optional Bonds equal to the principal amount of the First Convertible Bonds being converted by that converting Bondholder on the relevant occasion. Accordingly, the maximum aggregate amount of additional Convertible Bonds in respect of which the Options may be granted (referred to in this circular as "Optional Bonds") is HK\$300 million. If the subscription rights conferred by the Options are duly exercised, the Optional Bonds would be issued under the Bond Instrument on the same terms and conditions as the First Convertible Bonds, except that no further options to subscribe for the Convertible Bonds and/or any other security instrument whatsoever will be granted on the conversion of any Optional Bonds. In addition, because the Bond Instrument includes a prohibition on conversion of the First Convertible Bonds within the period of three months from the First Issue Date (see under "Conversion restrictions" above), no Options or Optional Bonds will be issued during that three month period and, accordingly, the right of the Company to redeem the Convertible Bonds within three months from the First Issue Date (see under "Redemption" above) will not be applicable as a practical matter in respect of the Optional Bonds.

The Options to subscribe for the Optional Bonds may only be exercised within 12 months from the First Issue Date. The minimum principal amount of the Optional Bonds which may be subscribed on an exercise of the Options is HK\$10 million. The subscription moneys shall be satisfied in full, in cash on subscription.

The Options are transferrable on the same terms as are applicable to the transfer of the Convertible Bonds, described under the heading "Status and transferability" above.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

The following table shows the change in shareholding structure of the Company upon conversion of the Convertible Bonds, assuming (i) conversion at the initial conversion price of HK\$1.00 per Conversion Share; and (ii) each of the Subscribers exercises the conversion rights attached to the First Convertible Bonds and is granted the Option and in turn exercises such Option to subscribe for the Optional Bonds:

Shareholder	As at the Latest Practicable Date		Upon conversion of all the First Convertible Bonds		Upon conversion of all the First Convertible Bonds and the Optional Bonds	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Chau King Fai, Philip	1,036,000	0.28%	1,036,000	0.15%	1,036,000	0.11%
Dr. Lee Jung Sing (Note 1)	3,299,702	0.88%	3,299,702	0.49%	3,299,702	0.34%
Mr. Ho, Lawrence Yau Lung (Note 2)	1,888,627	0.51%	1,888,627	0.28%	1,888,627	0.19%
Mr. Patrick Sun (Note 3)	1,500,000	0.40%	1,500,000	0.22%	1,500,000	0.15%
Highgrade Holding Limited (Note 4)	22,000,000	5.90%	32,000,000	4.76%	42,000,000	4.32%
Rightsource Investment Limited	3,300,000	0.88%	53,300,000	7.92%	103,300,000	10.62%
Other four Subscribers in aggregate who had no interests in the Shares as at the Latest Practicable Date	–	0.00%	240,000,000	35.66%	480,000,000	49.33%
Public	339,925,443	91.15%	339,925,443	50.52%	339,925,443	34.94%
Total	372,949,772	100.00%	672,949,772	100.00%	972,949,772	100.00%

Notes:

- As at the Latest Practicable Date, Dr. Lee Jun Sing was taken to be interested in 3,299,702 Shares as a result of him being beneficially interested in the entire issued share capital of Best Summit International Limited which, in turn, held approximately 0.88% of the issued share capital of the Company as at the Latest Practicable Date.
- To the best of the knowledge, information and belief of the Directors, having made reasonable enquiries, Mr. Ho, Lawrence Yau Lung was taken to be interested in 1,888,627 Shares as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd which, in turn, held such Shares as at the Latest Practicable Date. Mr. Ho, Lawrence Yau Lung ceased to be a non-executive Director and Chairman of the Company with effect from 23 September 2009.
- To the best of the knowledge, information and belief of the Directors, having made reasonable enquiries, Mr. Patrick Sun was interested in 1,500,000 Shares as at the Latest Practicable Date. Mr. Patrick Sun ceased to be an executive Director and Chief Executive Officer of the Company with effect from 2 October 2009.
- To the best of the knowledge, information and belief of the Directors, having made reasonable enquiries, the 22,000,000 Shares were held by Mr. Ting Pang Wan Raymond, the ultimate beneficial owner of Highgrade Holding Limited.

LETTER FROM THE BOARD

THE DISPOSAL

The Company announced in the 21 September Announcements that it had been informed by Melco Financial that Melco Financial (as the vendor) and Melco (as the guarantor) had entered into a placing agreement with Kim Eng for the purpose of the disposal of, on a best effort basis, all of the 160,930,380 Shares held by Melco Financial (representing approximately 43.24% of the then issued share capital of the Company as at 21 September 2009) at a price of HK\$1.92 per Share, to not less than six placees.

Melco announced on 21 September 2009 that the Disposal was expected to be completed on 22 September 2009 with the consideration to be paid by Kim Eng two business days thereafter. Immediately upon completion of the Disposal, Melco Financial ceased to have any interest in the Company and the Company has, from that date, ceased to be an associated company of Melco.

The announcement in relation to the Disposal issued by Melco, dated 18 September 2009, states that:

- (a) to the best of the knowledge, information and belief of the directors of Melco, after having made all reasonable enquires, Kim Eng and its ultimate beneficial owners are third parties independent of Melco and any connected persons of Melco, and are not connected persons of Melco or its subsidiaries; and
- (b) the placees of the Shares to be sold by Melco Financial and the ultimate beneficial owners of those placees are independent of, and are not connected persons (within the meaning of the Listing Rules) of, the Company and Melco.

The Company has not been provided with a list of the placees to whom the Shares previously held by Melco Financial were disposed of.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any fund raising activity in the past twelve months immediately preceding the date of the 8 September Announcement and up to the date hereof.

IMPLICATIONS UNDER THE LISTING RULES

At the annual general meeting of the Company held on 8 June 2009, a general mandate was granted to the Directors to exercise the powers of the Company to allot and issue up to 74,233,954 Shares, being 20% of the aggregate nominal amount of share capital of the Company in issue as at the date of such annual general meeting. The maximum number of Conversion Shares to be issued on conversion of the Convertible Bonds at the initial conversion price of HK\$1.00 per Conversion Share, being a maximum of 600 million Shares, exceeds the number of Shares authorised to be allotted and issued by the Directors under the general mandate granted to the Directors at the annual general meeting held on 8 June 2009. Accordingly, it is proposed that the issue of the Conversion Shares will be specifically approved by a resolution of the Shareholders at the EGM.

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To the best of the Directors' knowledge, information and belief, after having made reasonable enquiries, as at the Latest Practicable Date, one Subscriber of the Convertible Bonds, namely Rightsource Investment Limited, was interested in Shares in the Company. As at the Latest Practicable Date, Rightsource Investment Limited was interested in 3,300,000 Shares, representing approximately 0.88% of the issued share capital of the Company, and Mr. Ting Pang Wan Raymond, the ultimate beneficial owner of another Subscriber of the Convertible Bonds, namely Highgrade Holding Limited, was interested in 22,000,000 Shares, representing approximately 5.90% of the issued share capital of the Company. In each case, the Shares were acquired after 18 September 2009, the date on which the Subscription Agreements were entered into. The 3,300,000 Shares held by Rightsource Investment Limited (but not the 22,000,000 Shares held by the ultimate beneficial owner of Highgrade Holding Limited) were acquired by Rightsource Investment Limited pursuant to the Disposal. The remaining four Subscribers were not interested in any Shares as at the Latest Practicable Date.

By virtue of their interests in the Convertible Bonds, the interests of those Subscribers who also hold Shares as at the Latest Practicable Date are considered different from those of the other Shareholders who have not subscribed for any of the Convertible Bonds. As such, the Subscribers who are also Shareholders and their respective associates will abstain from voting on the resolution to approve the issue of the Convertible Bonds to be proposed at the EGM. Save for the Subscribers who are also Shareholders and their respective associates, all other Shareholders will be permitted to vote on the resolution to approve the issue of the Convertible Bonds to be proposed at the EGM.

EGM

A notice convening the EGM to be held at Unit 3203, 32nd Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong at 11:00 a.m. on Monday, 2 November 2009 is set out on pages 31 to 33 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof (as the case may be) should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution at the EGM will be taken by poll.

REASONS FOR THE ISSUE OF THE CONVERTIBLE BONDS, USE OF PROCEEDS AND VIEWS OF THE DIRECTORS

The Group is principally engaged in securities, futures and option contracts broking and the provision of other related financial services including margin financing, securities underwriting, placing arrangement, assets management and corporate finance advisory services focusing on the markets in Hong Kong and the PRC. With the gradual recovery of the securities market after the financial turmoil in 2008, at the time of the 8 September Announcement the Directors considered it a good opportunity to raise funds to expand the Group's existing business and make investments as and when opportunities arise.

LETTER FROM THE BOARD

The net proceeds from the issue of the First Convertible Bonds are estimated to be in the region of approximately HK\$284.4 million. This is after deducting a placing commission payable to the Placing Agent of 1% on the aggregate principal amount of the First Convertible Bonds actually issued pursuant to the Placing Agreement (being in the sum of approximately HK\$3 million), financial advisory fees payable to Wallbanck Brothers Securities (Hong Kong) Limited (“**Wallbanck**”) in the amount of HK\$11.4 million (being 1.9% to 3.8% depending on the amount raised on the placing and issue of the Convertible Bonds) in relation to advising the Company on the structuring and terms of the fund raising exercise, identifying potential placing agent(s) and negotiation with potential placing agent(s) on the terms of the Convertible Bonds, and the balance of fees comprising legal fees, printing and translation charges (estimated to be in the region of approximately HK\$1.2 million).

In relation to the financial advisory fees payable to Wallbanck in the fixed amount of HK\$11.4 million, such fee represents 1.9% to 3.8% of the funds raised on the placing and issue of the Convertible Bonds depending on the actual amount raised. Such fee will represent 1.9% on the amount raised (being HK\$600 million) if each Subscriber exercises the conversion rights attached to the First Convertible Bonds and is granted the Option and in turn exercises such Option to subscribe for the Optional Bonds, so that all of the First Convertible Bonds and the Optional Bonds are issued. The said fee will represent 3.8% on the amount raised (being HK\$300 million) if none of the Subscribers exercises the conversion rights attached to the First Convertible Bonds and, hence, only the First Convertible Bonds are issued. The said fee shall be refundable if the First Convertible Bonds are redeemed by the Company in full within three months from the First Issue Date.

All the aforesaid fees are determined by agreement between the Company and the respective parties on an arm’s length basis on normal commercial terms.

To the best of the knowledge, information and belief of the Directors, after having made reasonable enquiries, Wallbanck and its ultimate beneficial owners are independent third parties of the Company. The Directors consider that the terms of the appointment of Wallbanck are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The net proceeds will be applied towards the general working capital for the business operations of the Group, in particular to expand its margin financing business and to finance possible future investment by the Group as and when opportunities arise. It is intended that the entire amount of the net proceeds will be applied towards expanding the Group’s margin financing business, unless and until an investment opportunity arises for the Group to consider and invest in. Any net proceeds from the issue of the Optional Bonds, following the issue and exercise of the Options, will be applied for the same purposes. The amount of net proceeds from the issue of the Optional Bonds is dependent on the number of Bondholders who exercise their First Convertible Bonds within one year from the First Issue Date and are granted Options, and on the extent to which the subscription rights for Convertible Bonds under those Options are exercised. The maximum amount of net proceeds from the issue of the Optional Bonds would be approximately HK\$300 million. As at the Latest Practicable Date, the Board has not formulated any investment plan and/or made any concrete decision as to the nature of investment, and no investment opportunity for the Group has been identified for consideration. Should there be any investment to be made by the Group, appropriate announcement(s) will be made in accordance with the Listing Rules.

LETTER FROM THE BOARD

The initial Conversion Price was determined between the Placing Agent and the Company with reference to the market price performance of the Shares during the period prior to the entering into the Placing Agreement, as announced on 8 September 2009. In the 8 September Announcement, it was stated that the then directors (including the independent non-executive directors) of the Company considered that the terms of the Placing Agreement relating to the placing of Convertible Bonds were fair and reasonable and in the interests of the Company and the Shareholders as a whole. That statement was made in the context of the circumstances prevailing at the time of that announcement. At that time, the initial Conversion Price of HK\$1.00 per Conversion Share under the Convertible Bonds represented:

- (i) a premium of approximately 2.04% over the closing price of HK\$0.980 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 10.13% over the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day, of HK\$0.908; and
- (iii) a premium of approximately 12.49% over the average of the closing prices per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day, of HK\$0.889.

The two new Directors appointed subsequent to the 8 September Announcement, namely Mr. Lam Cho Ying, Terence Joe and Mr. Chau King Fai, Philip, consider that the terms of the Placing Agreement relating to the placing of Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In particular, they consider that the initial Conversion Price, which was determined with reference to the market prices of the Shares prior to the 8 September Announcement, is fairly determined.

The Directors (who, for the avoidance of doubt, include those directors of the Company who held office as directors at the time of the entering into of the Placing Agreement and who continue to hold such office and the directors of the Company appointed subsequent to the 8 September Announcement) note that the initial Conversion Price represents a discount of approximately 39.90% to the unaudited net asset value per Share of HK\$1.664 as shown in the Company's unaudited interim financial statements as at 30 June 2009. Nevertheless, the Directors are of the view that the then market price of the Shares (prior to the 8 September Announcement) is a more relevant factor than the net asset value of the Shares to determine the initial Conversion Price as it is a price transacted by a willing buyer and a willing seller in an open market for a listed company which is conducting its business on a continuous basis. The Directors therefore consider that the initial Conversion Price has been fairly and reasonably determined.

Since the 8 September Announcement was published, two material developments have occurred:

- (a) the Share price has increased by a substantial amount, from HK\$0.980 on the Last Trading Day to HK\$1.770 as at the Latest Practicable Date; and

LETTER FROM THE BOARD

- (b) in an announcement dated 18 September 2009, Melco announced that Melco Financial had entered into a placing agreement for the purpose of disposing of all of its 160,930,380 Shares in the Company (representing approximately 43.24% of the then issued share capital of the Company as at 18 September 2009), to not less than six placees. Melco subsequently announced that the Disposal would be completed on 22 September 2009 with the consideration to be paid by Kim Eng two business days thereafter.

In considering how to vote in respect of the resolution set out in the notice of EGM to approve the issue of the Convertible Bonds, Shareholders should take into account, among other matters, the developments which have occurred since the 8 September Announcement and also the considerations outlined below.

It remains the case that the amount to be raised by the proposed issue of the Convertible Bonds, of approximately HK\$284.4 million (with the possibility of a further HK\$300 million being raised on the exercise in full of the Options to be issued on conversion of the Convertible Bonds), is a substantial amount of new funding for the Company; and the Directors remain of the opinion that such new funding could usefully be employed, in the interests of Shareholders, to fund the expansion of the Company's existing business and to make further investments. The Directors also consider that it is unlikely that the Company would be able to obtain a similar level of financing from commercial banks at the present time.

On the other hand, as a result of the substantial increase in the Share price, the initial Conversion Price under the Convertible Bonds now represents a discount of approximately 43.50% to the closing price per Share as quoted on the Stock Exchange on the Latest Practicable Date; a discount of approximately 43.82% to the average of the closing prices per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Latest Practicable Date; and a discount of approximately 43.98% to the average of the closing prices per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Latest Practicable Date. In addition, Melco Financial has disposed of its shareholding in the Company at a price of HK\$1.92 per Share, with the result that the composition of the Shareholders who will vote at the EGM on the resolution to approve the issue of the Convertible Bonds has materially changed since the 8 September Announcement. Having regard to the recent increase of the Share price, it might be possible for the Company to raise finance by a placing of new Shares at a price which is higher than the initial Conversion Price under the Convertible Bonds. However, a placing of new Shares would likely be limited, as a practical matter, to a total of 74,233,954 Shares, being 20% of the issued share capital of the Company as at the date of the Company's last annual general meeting, in respect of which the Directors have been granted a general mandate to issue and allot Shares. Accordingly, the amount that could be raised through such a placing would likely be substantially less than the total proceeds to be raised under the proposed issue of Convertible Bonds. A placing of a greater number of Shares beyond that granted under the general mandate would require a specific mandate which would need to be conditional on Shareholders' approval, and in turn may pose practical difficulties in the context of a placing of Shares in that placees of equity securities are generally more reluctant to accept the market risks from the date of the entering into of the agreement in respect of the placing of the new Shares to the actual issue of the new Shares.

LETTER FROM THE BOARD

As part of their consideration of the proposed transaction, the Directors have considered alternative means of raising financing for the Group, including bank financing, by way of placing of new Shares or by way of rights issue or open offer. The Directors have the following observations in relation to those alternative means of raising finance:

- (i) the Directors consider that bank financing of this scale is very difficult and relatively costly to obtain, particularly in the current market, and could be expected to incur substantial interest expenses for the Group;
- (ii) major subsidiaries of the Company, which are licensed to conduct regulated activities under the SFO, are required to satisfy capital requirements under the Securities and Futures (Financial Resources) Rules which include, *inter alia*, limitations on their gearing ratios;
- (iii) raising funds by way of placing of new Shares would have an immediate dilution effect on the existing Shareholders' interests;
- (iv) raising such substantial funds (in the maximum amount of HK\$600 million) by way of a rights issue or an open offer would require setting the subscription price at a substantial discount to the market price that prevailed before the 8 September Announcement, in which the proposed issue of the Convertible Bonds was announced, whereas the initial Conversion Price was at a slight premium to the market price of the Shares immediately prior to the 8 September Announcement; and
- (v) given the nature of the Convertible Bonds as debt securities, the Company is in a better position to procure investors to invest in the Convertible Bonds based on the current terms, which include setting the initial Conversion Price at a premium over, rather than at a discount to (as in the placing of a substantial number of new Shares in general), the market price of the Shares which prevailed before the 8 September Announcement.

Moreover, the Directors are of the view that had the Company contemplated a rights issue instead of the issue of the Convertible Bonds, the subscription price of any rights issue shares would have to be at a deep discount to the then market price of the Shares (prior to the 8 September Announcement), whereas the initial Conversion Price as part of the issue of the Convertible Bonds was at a slight premium to the then market price of the Shares; and based on the current market price of the Shares, the discount of the subscription price of any rights issue shares to the current market price of the Shares would have been even higher than the discount of the initial Conversion Price to the current market price.

Notwithstanding that there have been certain changes since the 8 September Announcement, namely (i) a surge in the market price of the Shares after the 8 September Announcement, which could be interpreted as a good response from the market for this fund raising exercise; (ii) the Disposal, which is a decision made and acted upon by one particular Shareholder, namely Melco Financial; and (iii) a change in the composition of the Board, having regard to the fact that : (a) the Directors consider that bank financing of the scale raised by the issue of the Convertible Bonds is very difficult and relatively costly to obtain; (b) raising such amount of funds by way of placing of new Shares would create an immediate dilution effect on the existing Shareholders' interests; (c) the issue of the Convertible Bonds will allow the Company to raise a substantial amount of funds without immediately diluting the existing Shareholders'

LETTER FROM THE BOARD

interests in the Company; (d) raising such amount of funds by way of a rights issue or an open offer would require setting the subscription price at a substantial discount to the market price that prevailed before the 8 September Announcement, instead of at a premium to the then market price as is the case of the initial Conversion Price; (e) the initial Conversion Price was determined with reference to the market price of the Shares that prevailed before the 8 September Announcement and was set at a premium to the then market price; and (f) the Company is also provided with a call option to redeem the First Convertible Bonds within three months from the First Issue Date, the Directors consider that the issue of the Convertible Bonds is an appropriate means of raising funds for the expansion of the Group's business notwithstanding the possible material dilution of the interests of the existing Shareholders in the Company, and maintain the view that the terms of the Convertible Bonds are fair and reasonable and, in particular, the initial Conversion Price is fairly determined as it is made with reference to the then market price of the Shares (prior to the 8 September Announcement).

Shareholders are advised to take into account the developments which have occurred since the 8 September Announcement and the other matters discussed above, when determining how to vote in respect of the resolution to approve the placing, subscription and issue of the Convertible Bonds, to be proposed at the EGM.

RESPONSIBILITY STATEMENT

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

By order of the Board of
Value Convergence Holdings Limited
Lam Cho Ying, Terence Joe
Executive Director

NOTICE OF EXTRAORDINARY GENERAL MEETING



Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

Website: <http://www.vcgroup.com.hk>

(Stock Code: 821)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE is hereby given that an extraordinary general meeting of Value Convergence Holdings Limited (the “**Company**”) will be held at Unit 3203, 32nd Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong at 11:00 a.m. on Monday, 2 November 2009 for the purpose of considering, and if thought fit, passing, with or without amendments or modifications, the following as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the creation and issue by the Company of up to HK\$600 million of 1% convertible bonds due 2011 convertible into shares of the Company (“**Convertible Bonds**”) upon the terms and conditions of a Convertible Bonds instrument substantially in the form of the draft produced to this extraordinary general meeting (“**Meeting**”) and initialled by the Chairman of this Meeting for the purposes of identification (the “**Bond Instrument**”) be and are hereby approved;
- (b) the issue and allotment of a principal amount of HK\$300 million of the Convertible Bonds referred to in the Bond Instrument as the First Convertible Bonds, upon the terms and conditions of the Bond Instrument and the Subscription Agreements referred to in paragraph (g) below, be and are hereby approved;
- (c) the grant and issue, in accordance with the terms of the Bond Instrument, of options to be granted under the Bond Instrument to subscribe for up to an additional principal amount of HK\$300 million of Convertible Bonds (the “**Options**”) be and are hereby approved;
- (d) the issue and allotment of up to an additional HK\$300 million in principal amount of Convertible Bonds on exercise of the Options, referred to in the Bond Instrument as the Optional Bonds, upon the terms and conditions of the Bond Instrument, be and are hereby approved;
- (e) the issue and allotment of all the shares in the Company which may be required to be issued in accordance with the terms of the Bond Instrument upon the exercise of conversion rights in respect of all the Convertible Bonds to be created and issued under the Bond Instrument (being an aggregate principal amount of up to HK\$600 million of Convertible Bonds comprising the First Convertible Bonds and the Optional Bonds referred to in the Bond Instrument) be and are hereby approved;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (f) the entering into by the Company, and the performance of the Company's obligations under, the placing agreement dated 8 September 2009 between the Company as issuer and China Everbright Securities (HK) Limited as placing agent (a copy of which has been produced to the Meeting and initialled by the Chairman of the Meeting for the purposes of identification), in relation to the appointment of the placing agent to procure (on a best endeavours basis) subscribers for the Convertible Bonds, be and are hereby approved, ratified and confirmed;
- (g) the entering into by the Company, and the performance of the Company's obligations under, the several subscription agreements each dated 18 September 2009 between the Company and subscribers for the Convertible Bonds (a copy of each of which has been produced to the Meeting and initialled by the Chairman of the Meeting for the purposes of identification) be and are hereby approved, ratified and confirmed;
- (h) the execution by the Company of the Bond Instrument be and is hereby approved and the affixing of the Company's common seal to the Bond Instrument in accordance with the provisions of the Company's articles of association be and are hereby approved; and
- (i) any one or more directors of the Company ("**Directors**") be and is/are hereby authorised to approve any non-material amendments to the form of the Bond Instrument and to take all such actions, and execute or authorise the execution of all such documents, on behalf of the Company (including by affixing the Company's common seal to any such documents in accordance with the Company's articles of association) as such Director(s) shall consider to be necessary, convenient or desirable in connection with any of the foregoing.

For the avoidance of doubt, this resolution shall be without prejudice to, and shall not revoke or limit, the existing general mandate to allot and issue shares granted to the Directors by the shareholders of the Company at the annual general meeting of the Company held on 8 June 2009 or any other general or specific mandate(s) that may have been granted to the Directors prior to the passing of this resolution."

By Order of the Board of
Value Convergence Holdings Limited
Lam Cho Ying, Terence Joe
Executive Director

Hong Kong, 15 October 2009

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office:

28th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the notice is entitled to appoint one or more proxies to attend and on a poll vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy must be deposited at the Company's registered office together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. In accordance with Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the above resolution will be taken by poll.