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**Hembly International Holdings Limited**

**恒寶利國際控股有限公司**

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

(Stock code: 03989)

**PROPOSED ISSUE OF  
HK\$156 MILLION ZERO COUPON  
GUARANTEED CONVERTIBLE BONDS DUE 2015  
AND  
NEW SHARES**

On 29 January 2010 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in the principal amount of HK\$156,000,000 and 9,341,000 Placing Shares at the price of HK\$1.67 per Share.

Issue of the Convertible Bonds and the Placing Shares is conditional upon, among other things, the Company having obtained the Shareholders' approval of the Subscription Agreement, issue of the Convertible Bonds, Conversion Company Shares and Placing Shares and transactions contemplated under the Subscription Agreement.

A circular containing, among other things, details of the Subscription Agreement and the Bond Deed, incorporating the notice of the EGM will be dispatched to the Shareholders as soon as practicable.

## **INTRODUCTION**

Reference is made to the announcement of the Company dated 24 November 2009 relating to, among other things, the Company having entered into the Investment Term Sheet with the Subscriber.

On 29 January 2010 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in the principal amount of HK\$156,000,000 and the Placing Shares at the price of HK\$1.67 per Share.

## **SUBSCRIPTION AGREEMENT**

### **Date**

29 January 2010

### **Issuer**

The Company

### **Subscriber**

The Subscriber

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Subscriber, its partners and its manager are independent of and not connected with the Company or its connected persons.

### **Issue of the Convertible Bonds**

Conditional upon fulfillment or waiver (where appropriate) of the Conditions, Convertible Bonds in the principal amount of HK\$156,000,000 will be issued to the Subscriber at 100% of the principal amount of the Convertible Bonds. Holders of the Convertible Bonds are entitled to convert the outstanding principal amount of the Convertible Bonds into (i) Shares at the Company Conversion Price; or (ii) subject to fulfillment of certain conditions as set out in the paragraph headed “**Principal terms of the Convertible Bonds – Conversion rights**” below, Subsidiary Shares at the Subsidiary Conversion Price, during the Conversion Period.

Upon exercise in full of the conversion rights attaching to the Convertible Bonds for conversion into Shares, assuming at the initial Company Conversion Price of HK\$2.50 per Share, the Company will issue 62,400,000 Shares, representing (i) approximately 8.94% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 8.20% of the issued share capital of the Company as enlarged by the issue and allotment of such Conversion Company Shares.

Upon exercise in full of the conversion rights attaching to the Convertible Bonds for conversion into Subsidiary Shares, assuming at the initial Subsidiary Conversion Price of HK\$271,000 per Subsidiary Share, the Subsidiary will issue 575 Subsidiary Shares, representing (i) approximately 5.75% of the issued share capital of the Subsidiary as at the date of this announcement; and (ii) approximately 5.44% of the issued share capital of the Subsidiary as enlarged by the issue and allotment of such Conversion Subsidiary Shares.

The Conversion Company Shares or the Conversion Subsidiary Shares (as the case may be), when fully paid and allotted, will rank pari passu in all respects with the Shares or the Subsidiary Shares (as the case may be) then in issue on the date of the issue and allotment of the relevant Conversion Company Shares or Conversion Subsidiary Shares (as the case may be) and among themselves respectively.

The Convertible Bonds will be guaranteed, will rank pari passu and rateably without any preference or priority among themselves, and will rank pari passu with all other present and future unsubordinated and unsecured obligations of the Company and senior to the outstanding payment obligations of the Group under the Consideration Notes. Details of the subordination are set out in the paragraph headed “**Subordination of the indebtedness of the Group under the Consideration Notes**” below.

The principal terms of the Convertible Bonds are summarised below.

*Principal terms of the Convertible Bonds*

*Principal amount*

HK\$156,000,000

*Issue price*

100% of the principal amount of the Convertible Bonds

The issue price was determined by the Company based on the face value of the Convertible Bonds.

*Interest*

The Convertible Bonds do not carry any interest

*Maturity date*

The 5th anniversary of the Issue Date

*Conversion period*

Any time from the 30th day after the Issue Date up to and including the 7th business day immediately before the Maturity Date.

### *Conversion rights*

Holders are entitled to convert the outstanding principal amount of the Convertible Bonds into Shares or Subsidiary Shares during the Conversion Period, provided the holders' right to convert the outstanding principal amount of the Convertible Bonds into Subsidiary Shares during the Conversion Period shall:

- (a) arise only if the Company fails to complete the transactions referred to in the announcement of the Company dated 24 December 2009 (the “**Proposed Transactions**”) within 240 days after the Issue Date;
- (b) cease immediately upon completion of the Proposed Transactions; and
- (c) be subject to the Company having complied with all applicable requirements under the Listing Rules (including but not limited to obtaining the Shareholders' approval) in respect of the issue of the Subsidiary Shares.

### *Conversion price*

- (i) For conversion into Shares, at an initial Company Conversion Price of HK\$2.50 per Share (subject to usual adjustment for consolidation or subdivision of the Shares, capitalisation of profits or reserves, capital distributions, issue of Shares and other securities by way of rights and issue of new Shares in accordance with the provisions of the Bond Deed).
- (ii) For conversion into Subsidiary Shares, at an initial Subsidiary Conversion Price of HK\$271,000 per Subsidiary Share (subject to usual adjustment for consolidation or subdivision of the Subsidiary Shares, capitalisation of profits or reserves, capital distributions, issue of Subsidiary Shares and other securities by way of rights and issue of new Subsidiary Shares in accordance with the provisions of the Bond Deed).

### *Redemption*

The Convertible Bonds will be redeemed at the amount specified below in the following circumstances:

- (i) on the Maturity Date at an amount that will provide the holders with an internal rate of return of 10% per annum on the outstanding principal amount of the Convertible Bonds;
- (ii) upon request of the Company at any time the principal amount of the Convertible Bonds outstanding at an amount that will provide the holders with an internal rate of return of 10% per annum on the principal amount of the Convertible Bonds from the Issue Date up to the date of redemption if at least 90% of the principal amount of the Convertible Bonds have already been converted or redeemed;

- (iii) at the option of the holders on or before the 60th day after the 3rd anniversary of the Issue Date at an amount that will provide the holders with an internal rate of return of 10% per annum on the outstanding principal amount of the Convertible Bonds from the Issue Date up to the date of redemption, if the volume weighted average trading price per Share on each trading day in the period of 30 consecutive trading days immediately before the 3rd anniversary of the Issue Date is less than the Company Conversion Price; or
- (iv) on the holders' demand following the occurrence of an event of default at an amount that will provide the holders an internal rate of return of 25% per annum on the principal amount of the Convertible Bonds from the Issue Date up to the date of redemption.

#### *Transferability*

The Convertible Bonds are freely transferable except to connected persons of the Company.

#### *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.

#### *Negative pledge*

The Company will undertake in the Bond Deed that so long as any of the Convertible Bonds remains outstanding, it will not and will procure that none of its subsidiaries will create any lien or other encumbrance (other than by operation of law) upon the whole or any part of its or their respective present or future assets or revenues to secure any equity-linked or other debt securities of the Company or its subsidiaries unless the outstanding Convertible Bonds are secured by the same lien or by such other security as the holders holding more than 50% of the outstanding principal amount of the Convertible Bonds may approve.

#### *Events of default*

Major events of default under the Bond Deed are summarized below:

- (i) default of the Company in the payment of the principal and premium (if any) under the Convertible Bonds for more than fourteen days; or
- (ii) default of the Company or the Subsidiary in the performance or observance of any covenant, condition or provision contained in the Convertible Bonds or the Bond Deed (other than the covenant to make payments) and such default continues for the period of 30 days next following the service by any holder of the Convertible Bonds on the Company of notice requiring such default to be remedied; or

- (iii) any indebtedness (other than account payables) of the Company, the Subsidiary or a Principal Subsidiary of at least RMB50 million (or its equivalent in any other currency) in aggregate principal amount outstanding becomes due and payable prior to its stated maturity by reason of an event of default or any such indebtedness is not paid when due; or
- (iv) 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 approved by holders holding more than 50% of the outstanding principal amount of the Convertible Bonds; or
- (v) a resolution is passed or an order of a court of competent jurisdiction is made for the winding up or dissolution of the Subsidiary or any Principal Subsidiary except for achieving certain purposes or in certain circumstances as provided in the Subscription Agreement; or
- (vi) an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company, the Subsidiary or any Principal Subsidiary which would have a material adverse effect on the Company or the Subsidiary; or
- (vii) a distress, execution or seizure before judgment is levied or enforced upon or sued out against the whole or a material part of the property of the Company, the Subsidiary or any Principal Subsidiary (as the case may be) and is not discharged within 60 days thereof; or
- (viii) the Company, the Subsidiary or any Principal Subsidiary is unable to pay its debts as and when they fall due or the Company, the Subsidiary or any Principal Subsidiary shall initiate or consent to proceedings relating to itself under any applicable bankruptcy or insolvency law or make an assignment for the benefit or enter into any composition with, its creditors; or
- (ix) proceedings shall have been initiated against the Company or any Principal Subsidiary under any applicable bankruptcy or insolvency law and such proceedings shall not have been discharged or stayed within a period of 60 days; or
- (x) if trading of the Shares on the Stock Exchange is suspended for a period of 30 consecutive trading days or listing of the Shares on the Stock Exchange is revoked or withdrawn; or
- (xi) the Convertible Bonds or the Deed of Guarantee (or any terms thereof) cease to be in full force and effect or become unenforceable; or
- (xii) if any variation is made to any of the memorandum articles of association of the Company which adversely affects the rights and interests of the holders of the Convertible Bonds; or
- (xiii) the equity shareholdings (on an as-converted basis in respect of any securities which are convertible into Shares) of New World Development Company Limited (together with its associates) and Mr. Ngok Yan Yu (the chairman and an executive Director of the Company) (together with his

associates) fall below 10% of the issued share capital of the Company or if the equity shareholding of the Company in the Subsidiary falls below 50%; or

(xiv) a material adverse change occurs in the financial condition of the Company or the Subsidiary save as disclosed to the Subscriber on or before the Issue Date.

### ***Guarantee***

The Guarantors will jointly and severally guarantee all sums payable by the Company under the Convertible Bonds. Holders with 50% or more of the outstanding principal amount of the Convertible Bonds are entitled to request all Principal Subsidiaries engaging in the waste-to-energy business to join as guarantors in the future.

### ***Subordination of the indebtedness of the Group under the Consideration Notes***

Pursuant to the Subordination Deed, each of the Subordinated Creditors will agree to subordinate its Subordinated Indebtedness to the Senior Indebtedness and will agree with the Subscriber, among other things, that without its consent:

- (a) the payment of its Subordinated Indebtedness will be deferred in all respects to any and all rights, claims and actions which the Subscriber may have against the Company in respect of the Senior Indebtedness;
- (b) its Subordinated Indebtedness will not be capable of becoming subject to any right of counterclaim;
- (c) it will not request, demand, sue for, take proceedings to recover, accept or receive payment for the whole or any part of its Subordinated Indebtedness; and
- (e) the Subordinated Creditors shall not sell or transfer or surrender or otherwise dispose of any right or interest in respect of the Subordinated Indebtedness without procuring the transferee to execute a deed with terms that are substantially the same as the Subordination Deed in favour of the Subscriber,

provided none of the above shall restrict any of the Subordinated Creditors to (i) exercise its right to convert the principal amount of the Subordinated Indebtedness into shares of the Company in accordance with the terms and conditions of the Consideration Notes and the restrictions set out in paragraph (e) above shall apply in case the Subordinated Creditors (i) surrender the Consideration Notes to the Company in exchange for other securities convertible or exchangeable into shares of the Company or to settle or set-off the debts owed by any of the Subordinated Creditors or other person to the Group or (ii) sell or transfer or otherwise dispose of any right or interest in respect of the Subordinated Indebtedness.

As at the date of this announcement, the Simple Success Convertible Notes for the principal amount of HK\$440,000,000 is still outstanding and no part of the Promissory Notes has been repaid.

### ***Initial conversion prices***

The initial Company Conversion Price represents:

- (i) a premium of approximately 34.41% over the closing price of HK\$1.86 per Share as quoted on the Stock Exchange on 29 January 2010, being the date of the Subscription Agreement; and
- (ii) a premium of approximately 35.14% over the average of the closing price of HK\$1.85 per Share as quoted on the Stock Exchange for the last five trading days up to and including 29 January 2010.

The initial Company Conversion Price was determined with reference to the prevailing market price of the Shares and the Subsidiary Conversion Price was determined based on a pre-money equity value of the Subsidiary of approximately HK\$2,710,000,000 (which reflects the Subscriber's capability to hold a minority position in the Subsidiary resulting from conversion of the Convertible Bonds in full for the Subsidiary Shares similar to that in the Company resulting from conversion of the Convertible Bonds in full for Shares). Both of the initial Company Conversion Price and the initial Subsidiary Conversion Price were determined after the arm's length negotiation between the Company and the Subscriber.

The Directors consider that the terms of the proposed issue of the Convertible Bonds are fair and reasonable having considered the current market conditions and in the interests of the Company and the Shareholders as a whole.

### **Issue of the Placing Shares**

Conditional upon fulfillment or waiver (where appropriate) of the Conditions, the Company will issue to the Subscriber 9,341,000 new Shares at the price of HK\$1.67 per Share.

The Placing Shares represent (i) approximately 1.34% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 1.32% of the issued share capital of the Company as enlarged by the issue and allotment of the Placing Shares.

The Placing Shares, when fully paid and allotted, will rank pari passu in all respects with the Shares then in issue on the date of the issue and allotment of the relevant Placing Shares and among themselves.

The Placing Price represents:

- (i) a discount of approximately 10.22% to the closing price of HK\$1.86 per Share as quoted on the Stock Exchange on 29 January 2010, being the date of the Subscription Agreement; and

- (ii) a discount of approximately 9.73% to the average of the closing price of HK\$1.85 per Share as quoted on the Stock Exchange for the last five trading days up to and including 29 January 2010.

The Placing Price was determined based on the prevailing market price of the Shares after arm's length negotiation between the Company and the Subscriber. The Directors consider that the terms of the issue of the Placing Shares are fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

Taking into account the estimated expenses for the issue of the Convertible Bonds and Placing Shares in the amount of approximately HK\$4 million, the net price of the Placing Shares (calculated based on the apportionment of 10% of such estimated expenses to the issue of the Placing Shares with reference to the gross proceeds raised through the issue of the Convertible Bonds and the Placing Shares) shall be HK\$1.52 per Share.

### **Conditions**

Issue of the Convertible Bonds and the Placing Shares is conditional upon the fulfillment of the following conditions:

- (a) the Bond Deed, the Deed of Guarantee, the Subordination Deed and the Strategic Alliance Agreement shall have been executed by all parties thereto on or before the Issue Date;
- (b) the Company having obtained the Shareholders' approval of the Subscription Agreement, issue of the Convertible Bonds, issue of the Conversion Company Shares, issue of the Placing Shares and all transactions contemplated under the Subscription Agreement on or before the Issue Date;
- (c) there having been delivered to the Subscriber on or before the Issue Date the following documents:
  - (i) a legal due diligence report issued by a suitably qualified PRC counsel on matters including the due establishment, subsistence and good standing of the Subsidiary's PRC subsidiaries and the validity and enforceability of the material contracts of the Subsidiary relating to its waste-to-energy and waste treatment projects in the PRC; and
  - (ii) copies of all required government and/or regulatory approvals and/or board/shareholder approvals as necessary for (a) the issue of the Convertible Bonds, the Conversion Company Shares and the Placing Shares; and (b) the Company, the Subsidiary and the Guarantors to meet their respective obligations under the Convertible Bonds and for the Guarantors and the Deed of Guarantee, and
  - (iii) audited financial statements of the Subsidiary from 2002 up to July 2009;

- (d) the Stock Exchange having granted to the Company, the listing of, and the permission to deal in the Conversion Company Shares and the Placing Shares on or before the Issue Date;
- (e) there having been delivered to the Subscriber legal opinions dated the Issue Date and copies of such other resolutions, consents, authorities and documents relating to the issue of the Convertible Bonds, the Bond Deed, the Deed of Guarantee, the Subordination Deed and the Strategic Alliance Agreement, the Conversion Company Shares and the Conversion Subsidiary Shares and the execution of the Subscription Agreement, as the Subscriber may reasonably require on or before the Issue Date;
- (f) the Company and the Subscriber having opened a joint bank account with a representative of the Subscriber as a signatory to such account on or before the Issue Date for the sole purpose of managing the proceeds from the issue of the Convertible Bonds and the Placing Shares;
- (g) save as disclosed to the Subscriber, the warranties of the Company under the Subscription Agreement shall be accurate and correct in all material respects by reference to the facts and circumstances then subsisting at, and as if made on, the Issue Date and the Company having performed all of its obligations under the Subscription Agreement as at the Issue Date, and the Company having delivered to the Subscriber a certificate dated the Issue Date confirming such facts; and
- (h) the Subscriber being reasonably satisfied with the results of its due diligence investigations of the Company and the Subsidiary.

The Subscriber may waive all conditions except for the conditions as set forth in paragraphs (b), (c)(ii) and (d) above. If the above conditions cannot be fulfilled or waived (where appropriate) on or before the 75th day after the date of the Subscription Agreement or such later date as may be agreed between the Company and the Subscriber, the Subscription Agreement will lapse and become null and void and the parties thereto shall be released from their respective obligations relating to the issue of the Convertible Bonds and the Placing Shares under the Subscription Agreement, save for the liabilities for any antecedent breaches of the Subscription Agreement.

### **Completion of the issue of the Convertible Bonds and the Placing Shares**

Subject to fulfillment or waiver (where appropriate) of the Conditions, completion of the issue of the Convertible Bonds and the Placing Shares will take place on a day to be agreed between the Company and the Subscriber which shall not be later than the 75th day after the date of the Subscription Agreement (or such later date as the Company and the Subscriber may agree).

## **Board representation**

The Company has undertaken with the Subscriber that subject to issue of the Convertible Bonds and the Placing Shares taking place and as long as the Subscriber holds shares of the Company (including the Placing Shares) or the Conversion Company Shares (on as converted basis) of not less than 1% of the Company's issued share capital as enlarged by the issue of the Placing Shares, the Subscriber shall be entitled to (i) nominate one director to the board of directors of the Company who will also be appointed to the audit committee; and (ii) one seat on the board of directors of the Subsidiary.

## **STRATEGIC ALLIANCE**

On 29 January 2010, the Company, the Subscriber and its manager also entered into the Strategic Alliance Agreement whereby the Company and the Subscriber have agreed, among other things, to form strategic alliance to explore various business opportunities in the municipal and industrial waste treatment, waste-to-energy and related activities in the PRC and the Company will offer to the Subscriber and its affiliates the first right of refusal to co-invest in transactions in which the Company invests and/or commits to invest subject to the terms and conditions of the said agreement. The term of the Strategic Alliance Agreement will commence on the Issue Date.

## **SHAREHOLDING STRUCTURE**

The table below set out the changes to the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the issue of the Convertible Bonds and the Placing Shares; (iii); immediately after the issue of Shares upon conversion of the outstanding Convertible Notes to the extent that such issue does not result in a change of control in the Company; and (iv) immediately after the issue of the Shares upon conversion in full of the outstanding Convertible Notes; (v) immediately

after the issue of Shares upon conversion in full of the Convertible Bonds and the outstanding Convertible Notes to the extent that such issue does not result in a change of control in the Company:

| Shareholders  | As at the date of this announcement |             | Immediately after the issue of the Convertible Bonds and the Placing Shares |             | Immediately after the issue of Shares upon conversion of the outstanding Convertible Notes to the extent that such issue does not result in a change of control in the Company |             | Immediately after the issue of Shares upon conversion in full of the outstanding Convertible Notes (Note 2) |             | Immediately after the issue of Shares upon conversion in full of the Convertible Bonds and the outstanding Convertible Notes to the extent that such issue does not result in a change of control in the Company |             |
|---|-------------------------------------|-------------|---|-------------|--|-------------|---|-------------|--|-------------|
|   | Number of Shares                    | %           | Number of Shares  | %           | Number of Shares   | %           | Number of Shares  | %           | Number of Shares   | %           |
| Charm Hero Investments Limited, Mr. Ngok Yan Yu and his associates (Note 1) | 152,994,205                         | 21.90%      | 152,994,205   | 21.61%      | 152,994,205  | 14.78%      | 152,994,205   | 13.52%      | 152,994,205  | 13.61%      |
| Other Directors (other than Mr. Ngok Yan Yu)                                | 3,858,030                           | 0.55%       | 3,858,030   | 0.55%       | 3,858,030  | 0.37%       | 3,858,030   | 0.34%       | 3,858,030  | 0.34%       |
| <b>Existing Public Shareholders</b>   |                                     |             |   |             |  |             |   |             |  |             |
| Simple Success and parties acting in concert with it (Note 2)               | 40,000,000                          | 5.73%       | 40,000,000  | 5.65%       | 310,333,333  | 29.99%      | 406,666,666   | 35.95%      | 337,200,000  | 29.99%      |
| Bright Good Limited and parties acting in concert with it (Note 2)          | 4,198,000                           | 0.60%       | 4,198,000   | 0.59%       | 50,898,000   | 4.92%       | 50,898,000  | 4.50%       | 50,898,000   | 4.53%       |
| Other Convertible Notes holders   | –                                   | –           | –   | –           | 10,000,000   | 0.97%       | 10,000,000  | 0.88%       | 10,000,000   | 0.89%       |
| The Subscriber  | –                                   | –           | 9,341,000   | 1.32%       | 9,341,000  | 0.90%       | 9,341,000   | 0.83%       | 71,741,000   | 6.38%       |
| Others  | 497,503,765                         | 71.22%      | 497,503,765   | 70.28%      | 497,503,765  | 48.07%      | 497,503,765   | 43.98%      | 497,503,765  | 44.25%      |
| <b>Total</b>  | <b>698,554,000</b>                  | <b>100%</b> | <b>707,895,000</b>  | <b>100%</b> | <b>1,034,928,333</b>   | <b>100%</b> | <b>1,131,261,666</b>  | <b>100%</b> | <b>1,124,195,000</b>   | <b>100%</b> |

*Notes:*

1. These Shares are held by Charm Hero Investments Limited, a wholly owned subsidiary of Mensun Limited (which was controlled by Mr. Ngok Yan Yu, chairman and executive Director of the Company) and are held by the spouse of Mr. Ngok Yan Yu.
2. Each of the holders of the Convertible Notes, including Simple Success and Bright Good Limited, has undertaken to the Company under the instrument constituting the Convertible Notes not to exercise the conversion rights if such conversion would result in change in control (as defined in the Takeovers Code). The shareholding of Simple Success in the Company set out in the second last column is presented for illustrative purpose only. Simple Success and Bright Good Limited had Convertible Notes in the principal amount of HK\$440,000,000 and HK\$56,040,000 respectively as at the date of this announcement.

## **FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS**

| <b>Date of announcement</b> | <b>Transaction</b>  | <b>Net proceeds raised</b> | <b>Intended use of proceeds</b>                         | <b>Actual use of proceeds</b> |
|-----------------------------|---|----------------------------|---|-------------------------------|
| 21 January 2009             | Open offer of 141,515,000 new Shares on a fully underwritten basis                | HK\$40.16 million          | To be used for the general working capital of the Group | Used as intended              |
| 2 July 2009                 | Private placing of 55,000,000 units of warrants (which have been fully converted) | HK\$38.83 million          | To be used for the general working capital of the Group | Used as intended              |
| 27 August 2009              | Placing of 29,900,000 new Shares under general mandate                            | HK\$16.91 million          | To be used for the general working capital of the Group | Used as intended              |
| 24 November 2009            | Placing of 25,000,000 new Shares under general mandate                            | HK\$63.5 million           | To be used for strengthening the Company's capital      | Used as intended              |

Save as disclosed above, the Company has not conducted any other fund raising exercise in the past twelve months before the date of this announcement.

## **REASONS FOR THE ISSUE OF THE CONVERTIBLE BONDS AND PLACING SHARES AND USE OF PROCEEDS**

Following the Company's acquisition of the entire issued share capital of the Subsidiary in December 2009, the waste treatment and the waste-to-energy businesses undertaken by the Subsidiary have become the Company's business segment with significant growth potential. The Company proposes to issue the Convertible Bonds and the Placing Shares to raise funds for its development of waste-to-energy projects in the PRC, which require substantial capital investment, and as general working capital, in which not more than HK\$70 million will be applied to settlement of payables of the Subsidiary. Having considered that no interest payment and no security is required for the issue of the Convertible Bonds and the Placing Shares, the Directors consider it a better option for fund raising as compared with bank

borrowings. On the basis set out above, the Directors consider it in the interest of the Company to undertake the issue of the Convertible Bonds and the Placing Shares which will strengthen the Group's financial position, improve the Group's capital structure and at the same time broaden the shareholder base and capital base of the Company.

It is expected that, after deduction of the estimated expenses of about HK\$4 million, net proceeds of about HK\$167.6 million will be raised through the issue of the Convertible Bonds and the Placing Shares.

## **ISSUE OF THE CONVERSION COMPANY SHARES AND THE PLACING SHARES**

Issue of the Convertible Bonds and the Placing Shares is subject to the approval of the Shareholders. The Directors will seek a specific mandate from the Shareholders at the EGM to issue and allot the Conversion Company Shares and the Placing Shares.

## **LISTING APPLICATION**

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Company Conversion Shares and the Placing Shares.

## **GENERAL**

A circular containing, among other things, details of the Subscription Agreement and the Bond Deed, incorporating the notice of the EGM will be dispatched to the Shareholders as soon as practicable.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms used herein shall have the following meanings:

|                |  |
|----------------|--|
| “associate(s)” | has the meaning ascribed thereto in the Listing Rules, unless otherwise specified  |
| “Board”        | board of Directors   |
| “Bond Deed”    | the deed to be entered into between the Company, the Subsidiary and the Subscriber constituting the Convertible Bonds  |
| “Bright King”  | Bright King Investments Limited, a company whose entire issued share capital is owned by Mr. Ngok Yan Yu (the chairman and an executive Director of the Company) |

|                                |  |
|--------------------------------|--|
| “Company”                      | Hembly International Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed and traded on the Main Board of the Stock Exchange  |
| “Company Conversion Price”     | the price, initially HK\$2.50 per Share (subject to adjustment) at which holders of the Convertible Bonds may convert the outstanding principal amount of the Convertible Bonds into Shares pursuant to the Bond Deed  |
| “Conditions”                   | the conditions to be satisfied or waived (where appropriate) before the issue of the Convertible Bonds and the Placing Shares as set out in the paragraph headed “ <b>Conditions</b> ” in this announcement  |
| “connected person(s)”          | has the meaning ascribed thereto in the Listing Rules, unless otherwise specified  |
| “Consideration Notes”          | the Simple Success Convertible Notes and the Promissory Notes  |
| “Conversion Company Shares”    | shares of the Company which may fall to be issued and allotted upon exercise of the conversion rights attaching to the Convertible Bonds   |
| “Conversion Period”            | any time from the 30th day after the Issue Date up to and including the 7th business day immediately before the Maturity Date during which the holders of the Convertible Bonds may exercise their conversion rights thereunder  |
| “Conversion Subsidiary Shares” | shares of the Subsidiary which may fall to be issued and allotted upon exercise of the conversion rights attaching to the Convertible Bonds  |
| “Convertible Bonds”            | zero coupon guaranteed convertible bonds due 2015 in the principal amount of HK\$156,000,000 convertible into Conversion Company Shares or Conversion Subsidiary Shares, to be constituted by the Bond Deed  |
| “Convertible Notes”            | convertible notes of the Company for the aggregate principal amount of HK\$676,040,000 issued to Simple Success and Bright Good Limited on 11 December 2009 (of which the Simple Success Convertible Notes form part) for satisfaction of part of the consideration for the Group's acquisition of the |

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|                         | entire issued share capital of the Subsidiary, details of which are set out in the Company’s announcement dated 23 September 2009  |
| “Deed of Guarantee”     | the deed of guarantee to be executed by the Guarantors in favour of the Subscriber and other holders of the Convertible Bonds for provision of guarantee in respect of all sums payable by the Company under the Convertible Bonds |
| “Directors”             | directors of the Company   |
| “EGM”                   | extraordinary general meeting of the Company to be convened to approve the Subscription Agreement, issue of the Convertible Bonds, the Conversion Company Shares and the Placing Shares  |
| “Full Prosper”          | Full Prosper Holdings Limited, a wholly owned subsidiary of the Company  |
| “Group”                 | the Company and its subsidiaries   |
| “Guarantors”            | The Subsidiary and 6 subsidiaries of the Subsidiary  |
| “Hong Kong”             | Hong Kong Special Administrative Region of the People’s Republic of China  |
| “Investment Term Sheet” | a non-legally binding investment term sheet dated 20 November 2009 and entered into between the Company and the Subscriber in relation to the issue and subscription of the Convertible Bonds and the Placing Shares               |
| “Issue Date”            | the date on which the Convertible Bonds and the Placing Shares will be issued  |
| “Listing Rules”         | The Rules Governing the Listing of Securities on the Stock Exchange  |
| “Maturity Date”         | the 5th anniversary of the Issue Date  |
| “Placing Price”         | HK\$1.67 per Placing Share   |
| “Placing Shares”        | 9,341,000 Shares to be issued to the Subscriber at the Placing Price pursuant to the Subscription Agreement  |

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| “PRC”                              | The People’s Republic of China   |
| “Principal Subsidiary(ies)”        | Subsidiaries of the Company which accounts for 5% of the consolidated turnover or consolidated total assets of the Company generally   |
| “Promissory Notes”                 | outstanding promissory note of the Company for the aggregate principal amount of HK\$55,000,000 and promissory note of Full Prosper for the principal amount of HK\$200,000,000 issued to Bright King on 11 December 2009 and a performance based promissory note of the Company for the principal amount of HK\$144,000,000 (subject to adjustment) to be issued to Bright King, all for satisfaction of part of the consideration for the Group's acquisition of the entire issued share capital of the Subsidiary, details of which are set out in the Company’s announcement dated 23 September 2009 |
| “Senior Indebtedness”              | all present and future, actual or contingent payment obligations of the Company to the Subscriber in respect of the Convertible Bonds  |
| “Shareholder(s)”                   | holder(s) of Shares  |
| “Shares”                           | ordinary shares of HK\$0.10 each in the share capital of the Company   |
| “Simple Success”                   | Simple Success Investments Limited, a wholly owned subsidiary of New World Development Company Limited, a company whose shares are listed on the Main Board of the Stock Exchange  |
| “Simple Success Convertible Notes” | outstanding convertible notes of the Company issued to Simple Success on 11 December 2009 for satisfaction of part of the consideration for the Group's acquisition of the entire issued share capital of the Subsidiary, details of which are set out in the Company’s announcement dated 23 September 2009   |
| “Stock Exchange”                   | The Stock Exchange of Hong Kong Limited  |
| “Strategic Alliance Agreement”     | the strategic alliance and co-investment agreement entered into between the Company, the Subscriber and its manager on 29 January 2010 pursuant to the Subscription Agreement, details of which are set out in the paragraph headed “ <b>Strategic alliance</b> ” of this announcement   |

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| “Subordinated Creditors”      | Simple Success and Bright King  |
| “Subordinated Indebtedness”   | all present and future, actual or contingent payment obligations of the Group to the Subordinated Creditors in respect of the Consideration Notes   |
| “Subordination Deed”          | the deed to be executed by the Company, Full Prosper, the Subordinated Creditors and the Subscriber pursuant to which, among other things, the Subordinated Creditors will agree to subordinate the Subordinated Indebtedness to the Senior Indebtedness  |
| “Subscriber”                  | Waste Resources G.P. Limited acting as general partner for and on behalf of Waste Resources Fund L.P.. Waste Resources Fund L.P. is an exempted limited partnership established in the Cayman Islands which aims to provide capital appreciation through diversified exposure to a global portfolio of waste-related investments, and/or its affiliated funds. Waste Resources Fund L.P. invests in industrial, urban and rural waste processing with a focus on high growth markets. FourWinds Capital Management, the manager of Waste Resources Fund L.P. and its affiliated funds are independent of the Company or its connected persons |
| “Subscription Agreement”      | the conditional subscription agreement entered into between the Company and the Subscriber on 29 January 2010 in relation to the proposed issue and subscription of the Convertible Bonds and the Placing Shares to the Subscriber  |
| “Subsidiary”                  | Smartview Investment Holdings Ltd., a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company. It is principally engaged in the waste-to-energy business  |
| “Subsidiary Conversion Price” | the price, initially HK\$271,000 per Subsidiary Share (subject to adjustment) at which holders of the Convertible Bonds may convert the outstanding principal amount of the Convertible Bonds into Subsidiary Shares pursuant to the Bond Deed  |
| “Subsidiary Shares”           | shares of US1.00 each in the capital of the Subsidiary  |
| “Takeovers Code”              | the Code on Takeovers and Mergers of Hong Kong  |

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| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “RMB”  | Renminbi, the lawful currency of PRC                |
| “%”    | per cent.   |

By order of the Board  
**Hembly International Holdings Limited**  
**Ngok Yan Yu**  
*Chairman*

Hong Kong, 29 January 2010

*As at the date of this announcement, the Board comprises three executive directors, namely Mr. Ngok Yan Yu, Mr. Marcello Appella and Mr. Chan Tak Yan; two non executive directors, namely Mr. Ho Gilbert Chi Hang and Mr. Mok Chung Kwan, Stephen and four independent non-executive directors, namely Mr. Lo Ming Chi, Charles, Mr. Pao Ping Wing, Mr. Kwan Hung Sang, Francis and Mr. Cheng Kai Tai, Allen.*