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

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

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HEMBLY

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**

A notice convening the extraordinary general meeting of the Company to be held at 36th Floor, No. 1 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Wednesday, 3 March 2010 at 3:00 p.m. or any adjournment thereof is set out on pages 20 to 21 of this circular. Whether or not you are able to attend the extraordinary general meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the extraordinary general meeting should you so wish.

12 February 2010

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DEFINITIONS

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

“Announcement”	the Announcement of the Company dated 29 January 2010 in relation to the Subscription Agreement and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed thereto in the Listing Rules, unless otherwise specified
“Board”	the board of Directors
“Bond Deed”	the deed to be entered into between the Company and the Subsidiary in favour of the Subscriber and any other holders of the Convertible Bonds from time to time 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 “ Conditions ” in this circular
“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

DEFINITIONS

“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 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 from time to time for provision of guarantee in respect of all sums payable by the Company under the Convertible Bonds
“Deemed Disposal”	the deemed disposal of 5.44% of the issued share capital of the Subsidiary by the Company under the Listing Rules due to the possible issue of 575 Subsidiary Shares pursuant to exercise of the conversion rights under the Convertible Bonds
“Deemed Disposal Shares”	575 Conversion Subsidiary Shares
“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 and the issue and allotment of 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
“Issue Date”	the date on which the Convertible Bonds and the Placing Shares will be issued

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“Latest Practicable Date”	10 February 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“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
“PRC”	The People’s Republic of China
“Principal Subsidiary(ies)”	Any subsidiary 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

DEFINITIONS

“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 “ Strategic alliance ” of this circular
“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
“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

DEFINITIONS

“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 US\$1.00 each in the capital of the Subsidiary
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of PRC
“US\$”	US dollars, the lawful currency of the United States of America
“%”	per cent.

HEMBLY

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)

Executive Directors:

Mr. Ngok Yan Yu (*Chairman*)
Mr. Marcello Appella
Mr. Chan Tak Yan

Non-executive Directors:

Mr. Ho Gilbert Chi Hang
Mr. Mok Chung Kwan, Stephen

Independent Non-executive Directors:

Mr. Lo Ming Chi, Charles
Mr. Pao Ping Wing
Mr. Kwan Hung Sang, Francis
Mr. Cheng Kai Tai, Allen

Registered office:

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Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Room 302B, 3rd Floor
New World Tower
16–18 Queen's Road Central
Hong Kong

12 February 2010

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

As announced in the Company's announcement dated 29 January 2010, 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.

The purpose of this circular is to provide you with, among other things, details of the Subscription Agreement, the Bond Deed and the Deemed Disposal and the notice of the EGM.

LETTER FROM THE BOARD

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 and its manager are independent of and not connected with the Company or its connected persons.

Issue of the Convertible Bonds

Conditional upon fulfilment 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 fulfilment 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 Latest Practicable Date; and (ii) approximately 8.20% of the issued share capital of the Company as at the Latest Practicable Date 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 Latest Practicable Date; and (ii) approximately 5.44% of the issued share capital of the Subsidiary as at the Latest Practicable Date 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.

LETTER FROM THE BOARD

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.

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.

LETTER FROM THE BOARD

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 then 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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

- (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 the 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 the consent of the Subscriber:

- (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

LETTER FROM THE BOARD

- (e) it shall not sell or transfer or surrender or otherwise dispose of any right or interest in respect of its 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 Latest Practicable Date, 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 23.76% to the closing price of HK\$2.02 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) 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
- (iii) 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 fulfilment 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.

LETTER FROM THE BOARD

The Placing Shares represent (i) approximately 1.34% of the issued share capital of the Company as at the Latest Practicable Date; 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 17.33% to the closing price of HK\$2.02 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) 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
- (iii) 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 fulfilment of the following conditions:

- (a) the Bond Deed, the Deed of Guarantee, the Subordination Deed and the Strategic Alliance Agreement having 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;

LETTER FROM THE BOARD

- (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 the Deed of Guarantee, and
 - (iii) audited financial statements of the Subsidiary from 2002 up to 31 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 the Conditions except for the conditions as set forth in paragraphs (b), (c)(ii) and (d) above. If the 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.

LETTER FROM THE BOARD

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

Subject to fulfilment 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.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

The table below set out the changes to the shareholding structure of the Company (i) as at the Latest Practicable Date; (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 the Latest Practicable Date (before the issue of the Convertible Bonds or the Placing Shares)		Immediately after the issue of the Convertible Bonds and the Placing Shares (before the conversion of any part of the Convertible Bonds)		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 (before the conversion of any part of the Convertible Bonds)		Immediately after the issue of Shares upon conversion in full of the outstanding Convertible Notes (before the conversion of any part of the Convertible Bonds)		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	76,594,205 (Note 1)	10.97%	76,594,205 (Note 1)	10.82%	76,594,205 (Note 1)	8.28%	76,594,205 (Note 1)	6.77%	76,594,205 (Note 1)	7.55%
Other Directors (other than Mr. Ngok Yan Yu)	3,858,030	0.55%	3,858,030	0.55%	3,858,030	0.42%	3,858,030	0.34%	3,858,030	0.38%
Simple Success, Best View Enterprises Limited and parties acting in concert with them respectively (Note 2)	116,400,000 (Note 3)	16.67%	116,400,000 (Note 3)	16.45%	277,558,499	29.99%	483,066,666	42.71%	304,288,623	29.99%
Other Convertible Notes holders	—	—	—	—	56,700,000	6.13%	56,700,000	5.01%	56,700,000	5.59%
The Subscriber	—	—	9,341,000	1.32%	9,341,000	1.00%	9,341,000	0.83%	71,741,000	7.07%
Others	501,451,765	71.81%	501,451,765	70.86%	501,451,765	54.18%	501,451,765	44.34%	501,451,765	49.42%
Total	698,304,000	100%	707,645,000	100%	925,503,499	100%	1,131,011,666	100%	1,014,633,623	100%

Notes:

- The relevant Shares include 76,344,205 Shares 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 250,000 Shares held by the spouse of Mr. Ngok Yan Yu as at the Latest Practicable Date.
- 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. As at the Latest Practicable Date, Simple Success had Convertible Notes in the principal amount of HK\$440,000,000 and Bright Good Limited did not have any outstanding Convertible Notes.
- The relevant Shares include 40,000,000 Shares held by Simple Success and 76,400,000 Shares held by Best View Enterprises Limited (an associate of Mr. Cheng Yu Tung who is a director of New World Development Company Limited) as at the Latest Practicable Date.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Date of announcement	Transaction	Net proceeds raised	Intended use of proceeds	Actual use of proceeds
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 the 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.

LETTER FROM THE BOARD

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.

DEEMED DISPOSAL

The principal amount of the Convertible Bonds may be converted into Subsidiary Shares under certain circumstances. Assuming the principal amount of the Convertible Bonds is fully converted into the Subsidiary Shares at the initial Subsidiary Conversion Price of HK\$271,000 per Subsidiary Share, the Subsidiary will issue 575 new Subsidiary Shares, representing approximately 5.44% of the issued share capital of the Subsidiary as enlarged by the issue and allotment of such Conversion Subsidiary Shares. The Company is therefore deemed to have disposed of 5.44% interest in the issued share capital of the Subsidiary as a result of the issue of the Convertible Bonds pursuant to the Listing Rules. As the applicable percentage ratios for the Deemed Disposal under the Listing Rules is more than 5% and less than 25%, the Deemed Disposal constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules.

Information on the Group and the Subsidiary

The Group is principally engaged in manufacturing and sales of apparel and accessories and the waste-to-energy business. The Subsidiary is a limited liability company which was incorporated in the British Virgin Islands on 8 January 2003. It is an investment holding company with operating subsidiaries principally engaged in waste-to-energy projects, in which municipal solid wastes are processed and used for power generation, in the PRC. The Subsidiary also provides consultancy services in relation to waste-to-energy technology development, design, system integration, project investment, operation and maintenance of waste treatment, especially waste-to-energy projects in the PRC. The Subsidiary became an indirect wholly owned subsidiary of the Company in December 2009.

Set out below is the audited financial information of the Subsidiary for the two years ended 31 December 2008:

	For the year ended	
	31 December	31 December
	2007	2008
	<i>(HK\$)</i>	<i>(HK\$)</i>
Turnover	128,669,000	160,051,000
Profit before taxation	20,585,000	39,174,000
Profit after taxation	15,272,000	22,277,000

Based on the audited net asset value of the Subsidiary as at 31 July 2009, the book value of the Deemed Disposal Shares amounts to HK\$14,525,000.

LETTER FROM THE BOARD

Financial effect of the issue of the Convertible Bonds and the Deemed Disposal on the Group

Upon issue of the Convertible Bonds, the total assets of the Group will be increased by an amount equivalent to the principal amount of the Convertible Bonds; and the total liabilities of the Group will be increased by an amount equal to the liability component of the Convertible Bonds.

Assuming the principal amount of the Convertible Bonds is fully converted into the Subsidiary Shares at the initial Subsidiary Conversion Price of HK\$271,000 per Subsidiary Share, the Subsidiary will cease to be an indirect wholly owned subsidiary of the Company and will become an indirect 94.56% owned subsidiary of the Company. The results of the Subsidiary will continue to be consolidated into the Group's financial results after completion of the Deemed Disposal. For illustrative purposes, the estimated gain of the group to be derived from the Deemed Disposal will be, subject to audit, approximately HK\$132,988,000 based on the audited net asset value of the Subsidiary as at 31 July 2009 assuming the principal amount of the Convertible Bonds is fully converted into the Subsidiary Shares at the initial Subsidiary Conversion Price of HK\$271,000 per Subsidiary Share.

EGM

A notice convening the EGM to be held at 36th Floor, No. 1 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Wednesday, 3 March 2010 at 3:00 p.m. or any adjournment thereof is set out on pages 20 to 21 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the EGM should you so wish.

As far as the Directors are aware of, no Director or Shareholder has a material interest in the Subscription Agreement and the transactions contemplated thereunder and no Shareholder is required to abstain from voting at the EGM.

The resolution proposed to be approved at the EGM will be taken by way of poll and an announcement will be made by the Company after the EGM regarding the results of the EGM.

RECOMMENDATION

The Board considers that the terms of the Subscription Agreement are fair and reasonable and issue of the Convertible Bonds and the Placing Shares is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution as set out in the notice of EGM.

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

HEMBLY

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Hembly International Holdings Limited (the “**Company**”) will be held at 36th Floor, No. 1 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Wednesday, 3 March 2010 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the conditional subscription agreement (the “**Subscription Agreement**”) dated 29 January 2010 and entered into between the Company and Waste Resources G.P. Limited as general partner for and on behalf of Waste Resources Fund L.P. (the “**Subscriber**”), a copy of which has been produced to the Meeting marked “**A**” and signed by the chairman of the Meeting for the purpose of identification, pursuant to which the Company agreed to issue, and the Subscriber agreed to subscribe for, the convertible bonds of the Company for the principal amount of HK\$156,000,000 (the “**Convertible Bonds**”) and 9,341,000 shares of HK\$0.10 of the Company (the “**Placing Shares**”) on the terms and conditions thereunder, and all the transactions contemplated thereunder, be and is hereby approved, ratified and confirmed;
- (b) the issue of the Convertible Bonds and the issue and allotment of the Placing Shares by the Company in accordance with the terms and conditions of the Subscription Agreement be and is hereby approved, ratified and confirmed;
- (c) the issue and allotment of new ordinary shares in the share capital of the Company which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds be and are hereby approved, ratified and confirmed; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) the directors of the Company be and are hereby authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things, as the case may be in their discretion consider necessary desirable or expedient to give effect to the Subscription Agreement and to implement all the transactions contemplated thereunder.”

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

Hong Kong, 12 February 2010

*Head office and principal place
of business in Hong Kong*
Room 302B, 3rd Floor
New World Tower
16–18 Queen’s Road Central
Hong Kong

Notes:

1. Any shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies (if the member is a holder of two or more shares) to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any shares, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders is present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy must be duly lodged at the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notorially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
4. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.