CHINA WIRELESS COMMUNICATIONS INC
Form 10KSB
April 09, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________________ to ________________

Commission file number: 333-49388

CHINA WIRELESS COMMUNICATIONS, INC.
(Name of small business issuer in its charter)

NEVADA	91-1966948
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7365 VILLAGE SQUARE DRIVE #1611, CASTLE ROCK, COLORADO 80108
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (720) 733-6214

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act: NONE

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. __

State issuer's revenues for its most recent fiscal year: $301,750

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: $12,026,532 AS OF MARCH 26, 2003

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 21,500,000 AS OF MARCH 26, 2003

Transitional Small Business Disclosure Format (Check one): Yes ; No X

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), we caution readers regarding forward looking statements found in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by or on our behalf. We disclaim any obligation to update forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

We are in the business of providing telecommunications services, principally in the People's Republic of China ("PRC").

BACKGROUND

We were originally incorporated by AVL Information Systems Ltd. ("AVL") and its principal officers and directors in Nevada on March 8, 1999 under the name AVL SYS International Inc.. AVL is a Canadian public company that owns and licenses certain technology and automatic vehicle location systems. AVL has incurred significant operating losses over the past six fiscal years and has a working capital deficiency, which casts doubt upon its ability to continue as a going concern. AVL and its principal officers and directors incorporated us in an effort to start anew and to take advantage of what they perceived to be the benefits of a United States publicly traded company. They believed that a U.S. publicly traded company would provide a level of credibility in the automatic vehicle location system industry, access to additional funding in the U.S. markets, and the ability for us to enter into strategic alliances for the development, manufacturing and sale of automatic vehicle location systems. We changed our name to i-Track, Inc. on March 9, 2000.

Effective September 30, 2001, we entered into a Worldwide Exclusive Distribution Agreement with AVL, covering all of the products manufactured by AVL, including the Spryte System(TM) and the Chaperone Personal Tracking Unit. These products are automatic vehicle location systems that integrate Global Positioning System technology, cellular-wireless communications and the Internet to enable companies to efficiently manage their mobile resources with location-relevant and time-sensitive information. These products are designed to enable customers to use the Internet to track the movement of their vehicles, employees, and goods and services. While there are several ways to transmit information from a vehicle to a central location, we believe these products provide significant value to customers by reducing their costs of doing business and increasing the productivity of their mobile resources.

While we were able to sell AVL's products, we realized that our level of sales would not be sufficient to sustain the costs of operating a publicly traded company. Our exclusive distribution agreement with AVL was cancelled effective as of December 31, 2002 and we began to seek another business opportunity. On March 22, 2003, we acquired all of the issued and outstanding shares of Strategic Communications Partners, Inc., a Wyoming corporation ("Strategic"), pursuant to the terms of a Share Exchange Agreement. We issued a total of 19,000,000 restricted shares of our common stock to the shareholders of Strategic, so that the Strategic shareholders as a group own approximately 88.4% of our outstanding shares of common stock.

Immediately prior to the closing of the acquisition of Strategic, we entered into an Assignment and Assumption Agreement with AVL, under which we transferred our business to AVL and AVL assumed our liabilities that related to this business. Our note receivable from a related party in the amount of $31,345 at December 31, 2002, was offset against accrued

management fees of $30,000 owed to AVL. In addition, Peter Fisher, our sole officer and a director, and Tyler Fisher, who were owed $257,410 at December 31, 2002 by us, agreed to accept stock as payment of this debt.

In connection with our acquisition of Strategic, we changed our name to China Wireless Communications, Inc. effective March 24, 2003.

STRATEGIC COMMUNICATIONS PARTNERS, INC.

Strategic was incorporated in the State of Wyoming on August 13, 2002. It provides financial, technical, and marketing services for an investment, Goldvision Technologies Ltd. ("Goldvision") in Beijing, People's Republic of China ("PRC"). Strategic Communications Partners Limited ("SCPL") is a subsidiary of Strategic. SCPL was incorporated in Hong Kong on December 9, 2002. SCPL's operations to date consist solely of supporting the Beijing investment.

On December 18, 2002, SCP entered into agreements with Goldvision, a company incorporated in the PRC, which is engaged in the business of providing satellite communication, broadband internet, content, wireless access and transport in Beijing. SCP will earn an initial 18% equity interest in Goldvision by paying $4,800,000, with the purchase price to be paid prorata over 12 months from the effective date of the agreement, which is February 18, 2003. SCP will have an 18% equity interest in Goldvision after these payments. SCP shall acquire an additional 6% equity interest in Goldvision by contributing $2,400,000 over a period of 12 months after the purchase of the initial interest. Under these agreements, SCP will receive 49% of all future net revenues from the sale of all services.

On March 4, 2003, SCPL set up a wholly owned foreign enterprise, Beijing In-Touch Information System Co. Ltd. ("In-Touch") in the PRC. In-Touch is engaged in the business of telecommunication system integration, broadband wireless access providers and providers of VPN's and other wireless access, transport and enhanced data services. Essentially, In-Touch is the exclusive provider of wireless "last mile" services to large commercial users and carriers.

As of March 24, 2003, SCP has 7 employees, 4 of which are full-time in the United States. In-Touch in Beijing has 25 full-time employees. None of our employees is covered by a collective bargaining agreement.

COMPETITION

The telecommunications industry is highly competitive. We compete with a number of other companies, including major communications companies that are more experienced and have greater financial resources. We do not hold a significant competitive position in this industry.

COMPLIANCE WITH GOVERNMENTAL REGULATIONS

Our operations are subject to various levels of government controls and regulations in the PRC.

ITEM 2. DESCRIPTION OF PROPERTY.

Our principal executive offices are located at 7365 Village Square Drive #1611, Castle Rock, Colorado, where we lease approximately 850 square feet of space on a lease expiring in July 2003.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock was approved for trading on the over-the-counter bulletin board ("OTCBB") under the symbol "ITRK" on August 7, 2001. On December 2, 2002, the symbol was changed to "ITCK" to reflect a 1-for-20 reverse stock split. The following table sets forth the range of high and low closing bid quotations of our common stock for each fiscal quarter since August 2001, as adjusted to reflect the reverse stock split:

	BID OR TRADE PRICES	
2001 FISCAL YEAR	HIGH	LOW
Quarter Ending 09/30/01...............	$20.00	$20.00
Quarter Ending 12/31/01...............	$30.00	$12.00
2002 FISCAL YEAR	HIGH	LOW
Quarter Ending 03/31/02...............	$ 8.80	$ 3.60
Quarter Ending 06/30/02...............	$ 4.80	$ 2.40
Quarter Ending 09/30/02...............	$ 2.50	$ 0.80
Quarter Ending 12/31/02...............	$ 1.20	$ 0.12

As of March 26, 2003, there were approximately 130 record holders of our common stock

On March 26, 2003, the closing price for our common stock on the OTCBB was $0.75.

The above quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

During the last two fiscal years, no cash dividends have been declared on our common stock and we do not anticipate that dividends will be paid in the foreseeable future.

As of December 31, 2002, we had an equity compensation plan that had been approved by the board of directors but not adopted by the shareholders. A 2003 Stock Plan was adopted in January 2003.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

OVERVIEW

Effective March 22, 2003, an arrangement was completed between i-Track, Inc. and Strategic Communications Partners, Inc., whereby the shareholders of Strategic exchanged all of their common shares for 19,000,000 shares of i-Track's common stock.

Following the acquisition the former shareholders of Strategic held approximately 88.4% of our total issued and outstanding common shares. Accordingly, Strategic was thereby deemed to be the acquiror. Accordingly, the transaction has been accounted for as a reverse takeover using the purchase method whereby the assets and liabilities of i-Track have been recorded at their fair market values and operating results have been included in our financial statements from the effective date of purchase. The fair value of the net assets acquired is equal to their book values.

Included in this report are the audited financial statements of i-Track as of and for the year ended December 31, 2002, the audited financial statements of Strategic as of and for the period ended December 31, 2002, and the pro forma combined balance sheet and statement of operations reflecting the acquisition transaction.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the approximate rates of exchange on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at year end are translated at the approximate rates ruling at the balance sheet date. Non-monetary assets and liabilities are translated at the rates of exchange prevailing at the time the asset or liability was acquired. Exchange gains and losses are recorded in the statement of operations.

I-TRACK, INC.

RESULTS OF OPERATIONS. i-Track generated sales of $301,750 for the year ended December 31, 2002, as compared to $60,000 for the preceding year. Cost of sales, as a percentage of sales, decreased to 83.1% from 85.6%. Accordingly, gross profit increased from $8,640 for fiscal 2001 to $51,115 for fiscal 2002. Administrative and selling expenses increased 147.9% from $34,165 in 2001 to $84,697 in 2002 due to the higher level of activity in 2002. Management and other fees to stockholders increased from $0 in 2001 to $258,000 in 2002. The increase was due to the accrual of compensation to Peter Fisher and Tyler Fisher in the aggregate amount of $258,000. They had not received any compensation in 2001. In 2001, we expensed the amounts loaned to AVL Information Systems Ltd. and its subsidiary and the accrued interest on those loans as bad debts, as we did not believe that the loans would be repaid. As a result, we incurred a net loss of $1,334,786 for the year ended December 31, 2001, as compared to $291,582 for the year ended December 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES. For the year ended December 31, 2002, we used cash of $1,894 in our operations. There were no cash financing or investing activities in 2002. In comparison, for the year ended December 31, 2001, we used cash of $30,141 in our operations, which was offset by net cash provided by financing activities of $28,334. Our public offering and the exercise of warrants resulted in net proceeds of $250,095. Of this amount, $20,000 was used to repay related party advances and $201,761 was loaned to AVL and its subsidiary.

We loaned funds to AVL and its subsidiary in 2001 to enable those entities to get the Chaperone units to market more quickly. However, we wrote off those loans as bad debts due to AVL's poor financial condition.

At December 31, 2002, we had a working capital deficiency of $294,034, as compared to a deficiency of $1,107 at December 31, 2001. Of the 2002 amount, $257,410 was due to Peter Fisher and Tyler Fisher for compensation.

The report of our independent auditor on the financial statements for the period ended December 31, 2002, includes an explanatory paragraph relating to the uncertainty of our ability to continue as a going concern. As explained elsewhere in this report, we have been dependent upon AVL and AVL's financial condition is also uncertain.

STRATEGIC COMMUNICATIONS PARTNERS, INC.

RESULTS OF OPERATIONS. Strategic was incorporated on August 13, 2002. It is considered to be in the development stage and has not yet generated revenues from planned principal operations. The period from inception

to December 31, 2002, it has incurred general and administrative expenses of $1,015,482 and a net loss of $1,014,999.

LIQUIDITY AND CAPITAL RESOURCES. For period ended December 31, 2002, Strategic used cash of $134,874 for operating activities. The most significant adjustment to reconcile the net loss to net cash used in operations is $809,350, which is the valuation of the shares of common stock issued as compensation. Investing activities also used cash of $60,000, which was an advance to a related party. See Item 12. Certain Relationships and Related Transactions. Cash of $392,450 was provided by financing activities, in the form of proceeds from the issuance of stock ($367,950) and net borrowing of $24,500.

At December 31, 2002, Strategic had a working capital surplus of $162,301, of which $197,576 was in the form of cash and cash equivalents.

PLAN OF OPERATION

As described above, i-Track completed the acquisition of Strategic in a reverse takeover transaction. Accordingly, this plan of operation discussion focuses on the proposed operations of Strategic.

Strategic will market and sell services over the existing operational Goldvision delivery networks. These services comprise telecommunications services, broadband access, and VSAT (satellite) internet services in Beijing, PRC. Goldvision has a monopoly right to wireless spectrum in this market. Goldvision has built a 155Mbps wireless ring in Beijing around its 3-Ring Road.

The Company is in discussion with several investment sources to provide the capital required to fund operations over the next several years. The Company will need to raise substantial capital over the next year to fund its commitment to Goldvision and its operations. The continuation of the Company as a going concern is dependent upon the successful implementation of its business plan, raising capital, and ultimately achieving profitable operations. However, there can be no assurance that the business plan will be successfully implemented. The inability of the company to implement the business plan successfully could adversely impact the Company's business and prospects.

The Company is also in discussions with several large Chinese national companies to provide wireless access to their customers.

The Company plans currently to increase its staffing levels only as required by its operations. The Company currently has no plans to significantly increase the number of its employees.

ITEM 7. FINANCIAL STATEMENTS.

See pages beginning with page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Effective October 5, 2001, we changed our independent auditors from Stark Winter Schenkein & Co., LLP, f/k/a Stark Tinter, & Associates, LLC, Denver, Colorado, to Edward, Melton, Ellis, Koshiw & Company, P.C., Troy, Michigan. The change was not related to the competence, practices and procedures of Stark Winter Schenkein & Co., LLP.

We believed that it would be more convenient and cost effective for us to retain auditors with offices located in the State of Michigan. Stark Winter Schenkein & Co, LLP did not maintain offices in the State of Michigan, and we identified Edward, Melton, Ellis, Koshiw & Company, P.C. as independent auditors with offices in Troy and Ann Arbor, Michigan. Our board of directors has approved the engagement of Edward, Melton, Ellis, Koshiw & Company, P.C.

Stark Winter Schenkein & Co., LLP audited our financial statements for the period March 9, 1999 (inception) to December 31, 1999 and the year ended December 31, 2000. Stark Winter Schenkein & Co., LLP's reports for such periods did not contain an adverse opinion or disclaimer of opinion, nor were the reports qualified or modified as to uncertainty, audit scope or accounting principles, except for our ability to continue as a going concern. There were no disagreements with Stark Winter Schenkein & Co., LLP on any matter of accounting principles or practices, financial statements disclosure, or auditing scope procedure, which disagreements, if not resolved to the satisfaction of Stark Winter Schenkein & Co., LLP, would have caused such firm to make reference to the subject matter of the disagreements in connection with its report on our financial statements. In addition, there were no such events as described under Item 304 of Regulation S-B during the period March 9, 1999 (inception) to December 31, 1999 and the year ended December 31, 2000, or through and to October 5, 2001.

We did not consult with Edwards, Melton, Ellis, Koshiw & Company, PC as to (i) our registration statement filed on Form SB-1; (ii) the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on our financial statements, and no written or oral advice was provided that was an important factor considered by us in reaching a decision as to an accounting, auditing or financial reporting issue.

Effective December 19, 2002, Edwards, Melton, Ellis, Koshiw & Company, P.C. ("Edwards") resigned as our independent accountant. Edwards had informed us that it was no longer going to be conducting audits of public companies.

During the two most recent fiscal years and the subsequent interim period, neither we nor anyone on our behalf consulted any other accountant regarding any of the matters identified in Item 304(a)(2) of Regulation S-B.

Edwards audited our financial statements for the year ended December 31, 2001. Edwards' report for such periods did not contain an adverse opinion or a disclaimer of opinion, nor was the report qualified or modified as to uncertainty, audit scope or accounting principles except for our ability to collect on $1,289,761 of loans receivable shown on our balance sheet at December 31, 2001 and our ability to continue as a going concern. The Edwards' report was subsequently reissued to reflect our assessment that the above loans receivable should have been written off as bad debts as of December 31, 2001.

During the two most recent fiscal years and the subsequent interim period ending December 19, 2002, there were no disagreements with Edwards on any matter of accounting principles or practices, financial statements disclosure, or auditing scope procedure, which disagreements, if not resolved to the satisfaction of Edwards, would have caused such firm to make reference to the subject matter of the disagreements in connection with its report on our financial statements. In addition, there were no such events as described under Item 304 of Regulation S-B during our two most recent fiscal years and the subsequent interim period ending December 19, 2002.

Effective February 19, 2003, we engaged The Rehmann Group, Troy, Michigan, as our principal accountant. Our board of directors has approved the engagement of The Rehmann Group.

Prior to our engagement of The Rehmann Group, we had not consulted with The Rehmann Group as to the application of accounting principles to any specific completed or contemplated transaction, or the type of audit opinion that might be rendered on our financial statements, and no written or oral advice was provided that was an important factor considered by us in reaching a decision as to an accounting, auditing or financial reporting issue.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Our executive officers and directors are:

NAME	AGE	POSITION
Phillip Allen	54	President, Chief Executive Officer and Director
Brad Woods	44	Chief Financial Officer, Secretary, Treasurer and Director
Peter W. Fisher	55	Director

Our shareholders elect our directors annually and our board of directors appoints our officers annually. Vacancies in our board are filled by the board itself. Set forth below are brief descriptions of the recent employment and business experience of our executive officers and directors.

PHILLIP ALLEN, PRESIDENT, CHIEF EXECUTIVE OFFICER AND DIRECTOR

Mr. Phillip Allen became our president, chief executive officer and a director upon the acquisition of Strategic. He has been involved in the telecommunications industry since 1990. Mr. Allen has held senior management positions with a number of development stage and startup companies including Capital Acceleration Corporation, Athena International, STA Telecommunications, GTE, VDC Telecommunications and Strategic Communications. From September 1998 to April 1999, he was the sales director for VDC Telecommunications, Denver, Colorado, where he hired and trained sales staff, negotiated carrier contracts, and defined product and service offering. From April 1999 to April 2000, he was the president of In-Touch Communications, Littleton, Colorado, a telecommunications consulting firm, which provided international enhanced services. He founded Strategic Communications Partners International in April 2000, which provided telecommunications consulting services in the area of international carrier terminations and enhanced services. He served as president of this company until July 2002. In August 2002, he founded Strategic to take advantage of the wireless broadband opportunity in China. He graduated from Central Michigan University with a B.S. degree in Business, Education and Social Sciences and an M.A. in General Educational Administration and has completed work on a doctorate program in Labor and Industrial Relations at Michigan State University.

BRAD WOODS, CHIEF FINANCIAL OFFICE, SECRETARY, TREASURER AND DIRECTOR

Mr. Brad Woods became our chief financial officer, secretary, treasurer and a director upon the acquisition of Strategic. He is a member of Breckenridge Capital Consulting Group, LLC. He has extensive experience in international investments, acquisitions, taxation, and computer applications with both public and private companies. Mr. Woods has also worked for Arthur Andersen & Co., where he executed projects for and on behalf of clients in the oil and gas, financial services, leasing, lodging, retail and light manufacturing industries. His experience includes practicing before the Securities and Exchange Commission, both with existing public companies and initial public offerings. He has also served as an advisor to numerous companies. Mr. Woods is a CPA in Colorado and received his bachelor's degree in Business Administration with an emphasis in Accounting from Colorado State University.

PETER W. FISHER, DIRECTOR

Mr. Fisher has been our director since April 2000, and was an officer from April 2000 until the acquisition of Strategic. Since 1992, Mr. Fisher has been the chairman and chief executive officer of AVL Information Systems Ltd., Ontario, Canada, a Canadian public company listed over-the-counter in Toronto. AVL Information Systems Ltd. develops and markets automatic vehicle location systems. From 1987 to 1992, Mr. Fisher was the president and chief executive officer of Tyrae Resources, Sarnia, Ontario, a junior capital pool corporation listed on the Alberta Stock Exchange. In that capacity, Mr. Fisher assisted in the development of stolen vehicle recovery

technology. From 1982 to 1987, he was the president of Par Sar Investment Limited, Sarnia, Ontario, a Canadian private company that provided consulting services relating to funding and structuring of private and public companies. From 1979 to 1982, Mr. Fisher was a registered representative with Richardson Securities of Canada, and from 1974 to 1979, he was an account manager and registered representative for Midland Doherty Inc. of Canada, in Sarnia, Ontario.

CONFLICTS OF INTEREST

Our officers and directors are, so long as they are our officers or directors, subject to the restriction that all opportunities contemplated by our plan of operation which come to their attention, either in the performance of their duties or in any other manner, will be considered opportunities of, and be made available to us and the companies that they are affiliated with on an equal basis. A breach of this requirement will be a breach of the fiduciary duties of the officer or director. If we or the companies with which the officers and directors are affiliated both desire to take advantage of an opportunity, then said officers and directors would abstain from negotiating and voting upon the opportunity. However, all directors may still individually take advantage of opportunities if we should decline to do so. Except as set forth above, we have not adopted any other conflict of interest policy with respect to such transactions.

COMMITTEES

We do not have any standing audit, nominating, or compensation committees of our board of directors.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.

We are not subject to Section 16(a) of the Securities Exchange Act of 1934.

ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth information about the remuneration of our chief executive officers for the last three completed fiscal years.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG TERM COMPENSATION AWARDS		PA
NAME AND PRINCIPAL NAME AND	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENSA- TION ($)	RESTRICTED STOCK AWARD(S) ($)	SECURITIES UNDERLYING OPTIONS/ SARS (#)	L P
Peter W. Fisher President (1)	2002	-0-	-0-	-0-	-0-	-0-	
Barbara Castanon President (2)	2002	-0-	-0-	-0-	-0-	-0-	
	2001	-0-	-0-	-0-	-0-	-0-	
	2000	-0-	-0-	-0-	-0-	-0-	

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(1) Mr. Fisher was the President from October 21, 2002 to March 22, 2003.
(2) Ms. Castanon was the President until October 20, 2002.

There have been no grants of stock options, stock appreciation rights, benefits under long-term incentive plans or other forms of compensation involving our officers, through December 31, 2002.

We reimburse our officers and directors for reasonable expenses incurred during the course of their performance. We have not paid our outside directors fees for their services. However, we propose to pay them in the future.

By resolution dated March 17, 2003, our board of directors approved compensation of $150,000 and $108,000 to Peter Fisher and Tyler Fisher, respectively, retroactive to December 31, 2002. Such compensation was paid by issuing 764,624 and 550,529 shares of our common stock in March 2003.

EMPLOYMENT AGREEMENTS

On March 25, 2003, we entered into employment agreements with Phillip Allen, our president and chief executive officer, and Brad Woods, our chief financial officer, secretary and treasurer. The agreements are identical. Each is for an initial term of ten years and requires an annual salary of $120,000 for the first year, with a cumulative annual increase of 10% every year commencing on the first anniversary of the agreement. If employment should terminate due to death or a disability, the salary then in effect shall continue for two years from the date of termination. If termination should occur without cause, including a termination upon a change in control, within four years of the expiration of the term of the agreement, we are obligated to pay Mr. Allen or Mr. Woods, as the case may be, an amount equal to his salary in effect during the last five years of the term of the agreement, within ten business days after the termination. For the purposes of the agreement, a change of control shall be deemed to occur upon the election of directors constituting a majority of the board who have not been nominated or approved by Mr. Allen or Mr. Woods and are not related to Mr. Allen or Mr. Woods. Each of Mr. Allen and Mr. Woods has agreed that during the period of his employment and for a period of one year following his employment, he shall not engage or have an ownership interest of more than 25% in any business directly competitive with us, or take any action that constitutes an interference with or a disruption of any of our business activities.

STOCK PLAN

On January 31, 2003, our shareholders adopted the 2003 Stock Plan, which provides for the granting of both incentive stock options and nonstatutory stock options and stock purchase rights to officers, directors, employees, and independent contractors. The total number of shares of common stock that may be issued under this plan shall not exceed 15% of shares outstanding.

The board of directors or one or more committees designated by the board administers this plan, and has the authority and discretion to do the following:

- determine the fair market value;
- select the employees, directors, or consultants to whom options and stock purchase rights may be granted;
- determine the number of shares of common stock to be covered by each option and stock purchase right granted under the Plan;
- approve forms of agreement for use under the Plan;
- determine the terms and conditions of an option or stock purchase right granted under the Plan;
- construe and interpret the terms of the Plan and awards granted under the Plan;
- prescribe, amend, and rescind rules and regulations relating to the Plan;
- modify or amend each option or stock purchase right;
- allow optionees to satisfy withholding tax obligations by electing to have the company withhold from the shares to be issued upon exercise of an option or stock purchase right that number of shares having a fair market value equal to the minimum amount required to be withheld;
- authorize any person to execute on behalf of the company any instrument required to effect the grant of an option or stock purchase right; and
- make all other determinations deemed necessary or advisable for administering the Plan.

We may grant incentive stock options with the exercise price being 100% of the bid price on the date of grant, and nonstatutory stock options with the exercise price being not less than 85% of the bid price on the date of grant. The options are subject to any vesting, special forfeiture conditions, rights of repurchase, rights of first refusal, and other transfer restrictions as may be determined by the board or committee. Options granted cannot exceed a term of ten years, except in the case of incentive stock options granted to holders of 10% of more of our total combined voting power of all classes of stock, which cannot exceed a term of five years. The options terminate upon the earliest of (1) the stated expiration date, (2) 30 days after the termination of the optionee's service for any

reason other than total and permanent disability, (3) six months after the termination of the optionee's service by reason of total and permanent disability, or (4) six months after the optionee's death.

Unless earlier terminated by the board of directors, this plan will terminate January 30, 2013.

On March 23, 2003, the board of directors declared a bonus to cover compensation not paid to certain employees and consultants working for the Company. The options granted under the Company's 2003 Stock Plan were for a total of 1,150,000 shares of common stock at a price of $0.35 per share, the fair market value of the stock as of the date of grant.

The options granted expire three years from the date of grant. The options are subject to a restriction on the sale of the shares issuable upon exercise. Persons granted 1,000,000 of the options who exercise their options may sell no more than 25% of the total number of shares covered by their respective option granted in each six-month period over the next two years. Peter Fisher, who was granted 150,000 options, may sell no more than 50% of the total number of shares covered by his option during the first six months.

The Company plans to file a registration statement covering the shares issuable upon exercise of the stock options.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table provides certain information as to the officers and directors individually and as a group, and the holders of more than 5% of the Common Stock of the Company, as of March 26, 2003:

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERC
Phillip Allen 6290 Hampton Court Castle Rock, CO 80108	3,275,000 (3)	
Brad Woods P.O. Box 4476 Frisco, CO 80443	1,425,000 (3)	
Peter W. Fisher 232 Passingham Drive Sarnia, Ontario N7T 7H4 Canada	1,514,624 (4)	
All officers and directors as a group (3 persons)	6,214,624 (5)	

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(1) To our knowledge, except as set forth in the footnotes to this table and subject to applicable community property laws, each person named in the table has sole voting and investment power with respect to the shares set forth opposite such person's name.

(2) This table is based on 21,500,000 shares of Common Stock outstanding as of March 26, 2003. If a person listed on this table has the right to obtain additional shares of Common Stock within sixty (60) days from March 26, 2003, the additional shares are deemed to be outstanding for the purpose of computing the percentage of class owned by such person, but are not

deemed to be outstanding for the purpose of computing the percentage of any other person.

(3) Includes 300,000 shares issuable upon the exercise of stock options.

(4) Includes 150,000 shares issuable upon the exercise of stock options.

(5) Includes 750,000 shares issuable upon the exercise of stock options.

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CHANGES IN CONTROL

There are no agreements known to management that may result in a change of control of our company.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Other than as disclosed below, none of our present directors, officers or principal shareholders, nor any family member of the foregoing, nor, to the best of our information and belief, any of our former directors, senior officers or principal shareholders, nor any family member of such former directors, officers or principal shareholders, has or had any material interest, direct or indirect, in any transaction, or in any proposed transaction which has materially affected or will materially affect us.

STRATEGIC COMMUNICATIONS PARTNERS, INC.

In November 2002, we remitted $60,000 to Train Top Investment & Trading Ltd., a company beneficially owned and controlled by Kent Lam, primarily for the purposes of arranging the set up of the Beijing operations. Mr. Lam is a shareholder and vice president of marketing of Strategic, as well as a shareholder of SCPL and president of our Beijing-based China operating company. This amount is shown on Strategic's balance sheet at December 31, 2002 as a receivable from a related party.

During the period ended December 31, 2002, Strategic paid amounts to related parties as follows::

NAME	RELATIONSHIP TO STRATEGIC	AMOUNT PAID	NATURE
Phillip Allen	Shareholder, Chairman of the Board, President, and Chief Executive Officer	$22,500	Consult
Iain Stewart	Shareholder	$21,000	Consult
Blake Ratcliff	Shareholder and vice president of operations	$52,500	Consult
StarTele.Com LLC	Shareholder	$13,000	Consult
Brad Woods	Shareholder and vice president and chief financial officer	$12,500	Consult

George Kriegar	Sole shareholder of StarTele.Com LLC	$7,375	Consult
StarTele.Com LLC	Shareholder	$22,750	Commiss fees

Peter Wei, one of Strategic's shareholders, is also a major shareholder of Goldvision.

I-TRACK, INC.

AVL INFORMATION SYSTEMS LTD. AVL Information Systems Ltd., Ontario, Canada, is a Canadian public company that owns and licenses certain technology and automatic vehicle location systems. AVL Information Systems Ltd. was our controlling shareholder. Peter Fisher, our sole officer and a director of our company up to the acquisition of Strategic, is also an officer and director of AVL Information Systems Ltd. Tyler Fisher, a relative of Peter Fisher and a shareholder of our company, is a director of AVL Information Systems Ltd. Peter Fisher owns

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approximately 22.6% of the outstanding shares of AVL Information Systems Ltd., and is the controlling principal of that company. Up to the acquisition of Strategic, we relied entirely upon our relationship with AVL Information Systems Ltd. and Peter Fisher. Our dependence upon AVL Information Systems Ltd. made us vulnerable to changes in the operations of AVL Information Systems Ltd.

We entered into a management services agreement with AVL Information Systems Ltd. dated as of January 1, 2002. The agreement called for a payment of $2,500 per month to AVL Information Systems Ltd. and we received manpower, equipment, and premises from AVL Information Systems in return. Management fees under this arrangement were $7,500 and $30,000 for the years ended December 31, 2001 and 2002, respectively.

Prior to the closing of the acquisition of Strategic, we transferred our business to AVL and AVL assumed our assets and liabilities that related to this business. Accordingly, AVL and we terminated the Management Services Agreement and confirmed the termination of the Worldwide Distribution Agreement. In addition, our note receivable from a related party in the amount of $31,345 at December 31, 2002, has been offset against $30,000 owed to AVL for accrued management fees and the difference has been assumed by AVL. Lastly, Peter Fisher, our sole officer and a director, and Tyler Fisher, his son, who were owed $257,410 at December 31, 2002 by us, agreed to accept stock as payment of this debt. A total of 1,315,153 shares were issued in March 2003.

PETER W. FISHER. On March 20, 2000, Mr. Fisher advanced $15,000 for working capital. On August 2, 2000, we signed a promissory note to repay Mr. Fisher by March 31, 2001. Under the promissory note, we were not required to pay interest on the money and we could prepay Mr. Fisher in whole or in part at any time prior to March 31, 2001, without penalty. Mr. Fisher forgave this note as of December 31, 2001.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

REGULATION S-B NUMBER	EXHIBIT
2.1	Share Exchange Agreement dated as of March 17, 2003 by and between i-Track, Inc. and Strategic Communications Partners, Inc. (1)
3.1	Articles of Incorporation (2)
3.2	Bylaws (2)
3.3	Certificate of Amendment to Articles of Incorporation (3)
10.1	Promissory Note dated August 20, 2000, in the amount of $15,000, payable to Peter Fisher (1)
10.2	2003 Stock Plan, as amended
10.3	Assignment and Assumption Agreement between i-Track, Inc. and AVL Information Systems Ltd. dated March 21, 2003
10.4	Sales, Marketing and Operations Agreement between Beijing Goldvision Technologies Ltd. and Strategic Communications Partners, Inc. dated December 18, 2002
10.5	Investment Contract between Beijing Goldvision Technologies Ltd. and Strategic Communications Partners, Inc. dated December 18, 2002
10.6	Extension Agreement to Investment Contract between Goldvision Technologies Ltd. and Strategic Communications Partners, Inc. dated February 7, 2003
10.7	Employment Agreement dated March 25, 2003 with Phillip Allen

REGULATION S-B NUMBER	EXHIBIT
10.8	Employment Agreement dated March 25, 2003 with Brad A. Woods
16.1	Letter from Stark Winter Schenkein & Co., LLP f/k/a Stark Tinter & Associates (4)
16.2	Letter from Edwards, Melton, Ellis, Koshiw & Company, P.C. dated January 20, 2003 (5)
21	Subsidiaries of the registrant
99.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated March 17, 2003.
(2) Incorporated by reference from the exhibits to the Registration Statement on Form SB-1 filed on November 6, 2000, File No. 333-49388.
(3) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated March 22, 2003.
(4) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated October 5, 2001.
(5) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated December 19, 2002.

Reports on Form 8-K: A report on Form 8-K dated November 19, 2002 was filed on November 26, 2002, reporting, under Item 5, a reverse stock split of our common stock. No financial statements were required to be filed with the report.

ITEM 14. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934 within 90 days of the filing date of this report. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of the date of the evaluation.

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in the preceding paragraph.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA WIRELESS COMMUNICATIONS, INC.

Date: April 7, 2003 By: /s/ PHILLIP ALLEN

Phillip Allen, President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ PHILLIP ALLEN ------------------------------------- Phillip Allen	President, Chief Executive Officer and Director (Principal Executive Officer) (Principal Executive Officer)	April 7,
/s/ BRAD WOODS ------------------------------------- Brad Woods	Chief Financial Officer, Secretary, Treasurer and Director (Principal Financial and Accounting Officer)	April 7,
/s/ PETER W. FISHER ------------------------------------- Peter W. Fisher	Director	April 7,

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CERTIFICATION

I, Phillip Allen, certify that:

1. I have reviewed this annual report on Form 10-KSB of China Wireless Communications, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 7, 2003

/s/ Phillip Allen

Phillip Allen, President
(principal executive officer)

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CERTIFICATION

I, Brad Woods, certify that:

1. I have reviewed this annual report on Form 10-KSB of China Wireless Communications, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 7, 2003

/s/ Brad Woods

Brad Woods, Chief Financial Officer

I-TRACK, INC.
FORT GRATIOT, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2002

REHMANN ROBSON
Certified Public Accountants

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I-TRACK, INC.

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REHMANN ROBSON
CERTIFIED PUBLIC ACCOUNTANTS

A member of THE REHMANN GROUP — An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

March 22, 2003

Shareholders and Board of Directors of i-Track, Inc.
Fort Gratiot, Michigan

We have audited the accompanying balance sheet of i-Track, Inc. (the "Company") as of December 31, 2002, and the related statements of operations, stockholders' deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of i-TRACK, INC. as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the financial statements, the Company is dependent on AVL Information Systems, Ltd. and AVL Information Systems, Inc., (collectively, "AVL") for all management and administrative functions. In addition, as of December 31, 2002, the Company ceased being a distributor of AVL's products, which was its sole source of revenue. The Company also has a stockholders' deficit of $294,034 at December 31, 2002. These conditions raise substantial doubt about the Company's ability to continue operating as a going concern. Management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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5750 New King Street o Suite 100 o Troy, MI 48 98 o 248-952-2676 o
Fax 248-952-5464 o www.rehmann.com

As described more completely in Note 8, in March 2003 the Company entered into a "Share Exchange Agreement" under which it will issue stock in exchange for the stock of an unrelated entity. In addition, also subsequent to year end, the Company entered into an Assignment and Assumption Agreement with its majority stockholder whereby the stockholder will assume all of the Company's assets and liabilities.

/s/ REHMANN ROBSON

Troy, Michigan

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i-Track, Inc.

BALANCE SHEET

ASSETS	DECEMBER 31 2 0 0 2
CURRENT ASSETS	
Cash	$ 778
TOTAL ASSETS - ALL CURRENT	$ 778

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable	$ 37,402
Due to stockholders	257,410
TOTAL LIABILITIES - ALL CURRENT	294,812
CONTINGENCY (NOTE 6)	
STOCKHOLDERS' DEFICIT	
Common stock, $0.001 par value, 2,500,000 shares authorized, 1,184,847 shares issued and outstanding	1,185
Additional paid-in capital	1,367,610
Accumulated deficit	(1,661,484)
Due from related companies	(1,345)
TOTAL STOCKHOLDERS' DEFICIT	(294,034)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 778

The accompanying notes are an integral part of these financial statements.

i-Track, Inc.

STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31 2 0 0 2
Sales	$ 301,750
Cost of sales	250,635
GROSS PROFIT	51,115
Administrative and selling expenses	84,697
Management and other fees to stockholders	258,000
NET LOSS	$ (291,582)
Weighted average number of common	

shares outstanding	1,184,847
Net loss per common share	$ (0.25)

The accompanying notes are an integral part of these financial statements.

i-Track, Inc.

STATEMENT OF STOCKHOLDERS' DEFICIT

	COMMON STOCK			
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT
Balances, January 1, 2002	1,184,847	$ 1,185	$ 1,367,610	$ (1,369,902)
Advances to related company	-	-	-	-
Net loss	-	-	-	(291,582)
BALANCES, DECEMBER 31, 2002	1,184,847	$ 1,185	$ 1,367,610	$ (1,661,484)

The accompanying notes are an integral part of these financial statements.

i-Track, Inc.

STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31 2 0 0 2
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (291,582)
Adjustments to reconcile net loss to net cash used in operating activities	
Management and other fees to stockholders	258,000
Changes in operating assets and liabilities which provided (used) cash:	
Advances to related companies	(1,345)
Accounts payable	33,623
Due to stockholders	(590)
NET CASH USED IN OPERATING ACTIVITIES	(1,894)
Cash, beginning of year	2,672
CASH, END OF YEAR	$ 778

The accompanying notes are an integral part of these financial statements.

i-TRACK, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

i-Track,.Inc. (formerly AVL SYS International, Inc.), "the Company", was incorporated under the laws of the state of Nevada on March 8, 1999. The Company was primarily engaged in the marketing and distribution of an automatic vehicle location system which integrates global positioning system technology, cellular-wireless communications and the internet to enable businesses to manage their mobile resources with location relevant and time sensitive information. These units are known as the "Chaperone" and "Spryte" systems. The automatic vehicle location system has been developed by AVL Information System, Ltd., and its wholly owned subsidiary AVL Information System, Inc. AVL Information Systems, Ltd. ("AVL") is the majority shareholder of the Company and determines the prices of the products purchased by the

Company.

GOING CONCERN

The Company has incurred significant operating losses since its inception, and at December 31, 2002 has a total stockholder deficit of $294,034. The Company's sole source of revenue was related to products it sold under an exclusive licensing agreement with AVL. AVL has cancelled that agreement and the Company has recognized no revenue from AVL product sales, nor any other revenue, since September 2002. In addition, the Company is dependent on AVL for administrative and management services as it has no employees, office space or equipment. Management of the Company believes that AVL's financial condition is also uncertain and its ability to continue as a going concern is in question. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management believes that the Company must merge with or be acquired by an independent entity, which is itself financially healthy, if the Company is to continue operating in the normal course of business. As discussed in more detail in Note 7, the Company signed a "Share Exchange Agreement" for such a transaction in March 2003.

REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

The Company grants credit to customers and does not require collateral for credit granted. The Company recognizes revenue when its products are delivered or services are provided.

NET LOSS PER COMMON SHARE

The Company calculates net loss per share as required by Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted loss per share is calculated by dividing net loss by the weighted average number of common shares and dilutive common stock equivalents outstanding.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

INCOME TAXES

Deferred income taxes are provided based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized.

2. DUE TO STOCKHOLDERS

The Board of Directors adopted a resolution providing for a total payment of $258,000 to Peter Fisher, a Company director, officer and stockholder, and Tyler Fisher, a stockholder. The approved liability represents payment for services rendered by the Fishers on behalf of the Company, for among other things, arranging the Company's common stock offering (Note 3), identifying potential business partners (Note 7), and overseeing the Company's operations. The Company expects to issue 1,315,153 shares of its common stock to be registered on Form S-8 for filing with the Securities and Exchange Commission in full satisfaction of this liability.

3. COMMON STOCK TRANSACTIONS

In November 2002, the Company's Board of Directors approved a 1-for-20 reverse stock split of its common stock, which was implemented effective November 30, 2002. Each 20 shares of common stock existing prior to November 30, 2002 was converted into one share of common stock. Prior to this split, the Company had 23,696,900 outstanding common shares; after the split 1,184,847 common shares were outstanding. In addition, the Company also reduced the number of its authorized common shares from 50,000,000 to 2,500,000.

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4. INCOME TAXES

As described in Note 6, the Company entered into a SHARE EXCHANGE AGREEMENT (the "Agreement") subsequent to year end. Due to the change in ownership that will result under the Agreement, the Company's net operating loss carryforwards, which are the only items impacting deferred taxes, will be forfeited pursuant to Internal Revenue Code provision.

5. COMMON STOCK OPTION PLAN

On February 19, 2002, the Company's Board of Directors adopted the "2002 Stock Plan of i-Track, Inc" (the Plan). The Plan covers outside directors, selected employees, advisors and consultants, and provides for the direct award or sale of shares and for the grant of options to purchase the Company's shares. Options granted under the Plan may include Nonstatutory Options as well as Incentive Stock Options intended to qualify under Section 422 of the Internal Revenue code. The Plan is administered by a Committee, which is either the full Board of Directors and or a committee designated by the Board.

Outside directors may receive only Nonstatutory Options (those which are not described in Sections 422(b) or 423(b) of the Internal Revenue Code) with an exercise price equal to 100 percent of the bid price of a share on the date of grant. Such options terminate at the earlier of two months after an outside director's termination (as defined in the agreement), or the fifth anniversary of the grant.

Employees (as defined in the agreement) may receive both Incentive Stock Options and Nonstatutory Options. The purchase price for employee shares shall not be less than 85% of the bid price and the exercise price of Incentive Stock Options shall not be less than 100 percent of the bid price of a share on the date of grant.

The aggregate number of shares which may be issued under the Plan shall not exceed 15% of the Company's outstanding shares, subject to certain limits as defined in the Plan. Employee options generally expire after five years.

There have been no stock awards issued under this plan as of December 31, 2002.

Although the Plan was approved by the Board of Directors, it was not approved by the stockholders. Subsequent to year end, a stock option plan was approved by the Board of Directors and stockholders (Note 8).

6. CONTINGENCY

In December 2002, the Company entered into a Settlement Agreement with Numerex Solutions LLC ("Numerex") and Cellemetry, LLC ("Cellemetry"), two businesses which provided services,

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assembly and parts for the Chaperone tracking units. Numerex asserts that, through a series of transactions, it was owed $654,453 by the Company. Numerex, Cellemetry, AVL and i-Track sought to resolve these matters by entering into the Settlement Agreement. Under the terms of the agreement, Numerex agreed to a settlement of $144,453 in exchange for, among other things, 1) AVL and i-Track transferring or licensing the operating software owned and utilized by AVL and or i-Track, 2) AVL and i-Track granting an irrevocable, non-exclusive license to use, manufacture, sell and sublicense the right to use, manufacture and sell the Chaperone asset tracking units, 3) AVL and or i-Track irrevocably selling, transferring and assigning to Numerex the right to various domain names, tradenames, trademarks, etc.

Under the agreement, i-Track and AVL are jointly and severally liable for this $144,453 liability. Subsequent to year end, AVL and i-Track entered into an Assignment and Assumption Agreement under which AVL assumed i-Track's liabilities (Note 8). Because of the joint nature of the liability and the existence of the Assumption agreement, Management believes this liability is appropriately treated as a contingency as of December 31, 2002.

7. SUBSEQUENT EVENTS

COMMON AND PREFERRED STOCK

In connection with an anticipated purchase of its common stock (see below), in January 2003 the Company increased the number of its authorized $.0001 par value common stock to 50,000,000 shares. In addition, the Company authorized 1,000,000 shares of $.01 par value preferred stock.

MERGER TRANSACTION

On March 17, 2003, the Company entered into a "Share Exchange Agreement" (the "Agreement), under which the Company acquired as a wholly owned subsidiary, a privately held Wyoming corporation, Strategic Communications Partners, Inc. (Strategic), in a stock-for-stock transaction. Under the terms of the Agreement, each holder of Strategic's common stock received 2.5 shares of the Company's common stock, such that the Strategic shareholders as a group own 19,000,000 restricted, unregistered shares, or approximately 88.4% of the Company's outstanding common stock. In connection with the Agreement, the Company changed its name to "China Wireless Communications, Inc.". As part of the transaction, all of the Company's directors, except for Peter Fisher, resigned, and two Strategic officers were appointed to fill the vacancies. The new board is expected to appoint the two Strategic directors as Chairman and President and Secretary and Treasurer, respectively.

BUSINESS ACTIVITIES

On March 21, 2003, the Company entered into an "Assignment and Assumption Agreement" with AVL whereby the Company distributed to AVL all its assets and AVL assumed all liabilities of the Company and the Company will no longer engage in its prior operations.

STOCK PLAN

In January 2003, the Company adopted the "2003 Stock Plan" which provides for the granting of both incentive stock options and nonstatutory stock options and stock purchase rights to officers, directors, employees and independent contractors. The total number of shares of common stock that may be issued under this plan shall not exceed 15% of outstanding shares and the board of directors or one or more committees designated by the board shall administer the plan.

* * * * *

i-TRACK, INC.
F/K/A AVL SYS INTERNATIONAL, INC.
(A DEVELOPMENT STAGE COMPANY)
YEAR ENDED DECEMBER 31, 2001
WITH
INDEPENDENT AUDITORS' REPORT

i-Track, Inc.
F/K/A AVL SYS International, Inc.
(A Development Stage Company)
December 31, 2001

CONTENTS

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
i-Track, Inc.
Fort Gratiot, Michigan

We have audited the accompanying balance sheet of i-Track, Inc. (a development stage company) as of December 31, 2001, and the related statements of operations, stockholders' equity (deficit), and cash flows for the year ended December 31, 2001 and the periods March 8, 1999 (inception) to December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of i-Track, Inc. as of December 31, 2000 and for the year ended December 31, 2000 and the periods March 8, 1999 (inception) to December 31, 2000, were audited by other auditors whose report dated January 21, 2001, on those financial statements included an explanatory paragraph describing conditions that raised substantial doubt about the Company's ability to continue as a going concern.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of i-Track, Inc. as of December 31, 2001 and the results of its operations and its cash flows for the year ended December 31, 2001 and the periods March 8, 1999 (inception) to December 31, 2001 in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 7 to the financial statements, the Company is dependent upon AVL Information Systems, Ltd. and AVL Information Systems, Inc. for purchase of materials it sells, provision of management services and the repayment of amounts loaned at December 31, 2001. Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 9, our opinion on the financial statements at December 31, 2001 as previously stated was qualified because we were unable to satisfy ourselves regarding the collectibility of $1,289,761 of notes receivable from related parties included as assets at December 31, 2001. Since the date of our auditors report, March 7, 2002, the financial condition of AVL Information Systems, Ltd. and AVL Information Systems, Inc. have deteriorated and these related parties have been unable to repay the notes receivable or the accrued interest receivable. Accordingly, the December 31, 2001 financial statements have been adjusted to reflect the notes receivable and accrued interest from related parties as uncollectible.

/s/ EDWARDS, MELTON, ELLIS, KOSHIW & COMPANY, P.C.

March 7, 2002
February 24, 2003

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i-Track, Inc.
F/K/A AVL SYS International, Inc.
(A Development Stage Company)
Balance Sheet
December 31, 2001

ASSETS

Current assets:	
Cash	$ 2,672
Total current assets and total assets	$ 2,672

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	$ 3,779
Operating advances-related parties	-
Total current liabilities	3,779
Stockholder's equity:	
Preferred stock, 1,000,000 shares authorized, $0.01 par value, none issued or outstanding	-
Common stock, 50,000,000 shares authorized, $0.001 par value, 23,696,900 issued and outstanding	23,697
Additional paid-in capital	1,493,453
Stock issuance costs	(148,355)
Deficit accumulated during the development stage	(1,369,902)
	(1,107)
	$ 2,672

The accompanying notes are an integral part of the financial statements.

i-Track, Inc.
F/K/A AVL SYS International, Inc.
(A Development Stage Company)
Statements of Operations

	Year ended December 31, 2001	Year ended December 31, 2000	For the March 8, 199 thro December
Revenue	$ 60,000	$ -	$
Operating expenses:			
Bad debt expense	1,301,761	-	1,
Cost of goods sold	51,360	-	
General and administrative expenses	34,165	32,087	
Management fees to related party	7,500	-	
Total costs and expenses	1,394,786	32,087	1,
Net (loss)	$ (1,334,786)	$ (32,087)	$ (1,
Weighted average number of common shares outstanding	20,569,863	18,700,000	19,
Net (loss) per common share	$ (.065)	$ -	$

The accompanying notes are an integral part of the financial statements.

i-Track, Inc.
F/K/A AVL SYS International, Inc.
(A Development Stage Company)
Statement of Changes in Stockholders' Equity (Deficit)
For the period March 8, 1999 (inception) to December 31, 2001

	COMMON STOCK		Add
	Number of Shares	Par Value	C
March 8, 1999 (inception)	-	$ -	$
Net (loss) for the period March 8 through December 31, 1999	-	-	
December 31, 1999 Balance	-	$ -	$
Issuance of stock for services ($.001 per share)	1,200,000	1,200	
Issuance of stock to satisfy debt ($.001 per share)	15,000,000	15,000	
Issuance of stock for cash ($.001 per share)	2,500,000	2,500	
Net (loss) for the year ended December 31, 2000	-	-	
December 31, 2000 balance	18,700,000	$ 18,700	$
Net (loss) for the year ended December 31, 2001	-	-	
Issuance of stock and warrants ($.10 per share)	2,500,000	2,500	
Exercise of stock warrants ($.50 per share)	2,496,900	2,497	1,

Stock Issuance costs	-	-	
December 31, 2001 balance	23,696,900	$ 23,697	$ 1,

The accompanying notes are an integral part of the financial statements.

Stock issuance Costs	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
$ -	$ -	$ -
-	(3,029)	-
$ -	$ (3,029)	$ (3,029)
-	-	1,200
-	-	15,000
-	-	2,500
-	(32,087)	(32,087)
$ -	$ (35,116)	$ (16,416)
-	(1,334,786)	(1,334,786)
-	-	250,000
-	-	1,248,450
(148,355)	-	(148,355)
$ (148,355)	$ (1,369,902)	$ (1,107)

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i-Track, Inc.
F/K/A AVL SYS International, Inc.
(A Development Stage Company)
Statements of Cash Flows

	Year ended December 31, 2001	Year ended December 31, 2000	March 8, … Dec
Cash flows from operating activities:			
Net loss	$ (1,334,786)	$ (32,087)	$
Adjustments to reconcile net (loss) to net cash used in operating activities:			
Write-off of notes receivable	1,301,761	-	
Increase (decrease) in liabilities:			
Accounts payable	2,884	895	
Issuance of stock for services	-	1,200	
	1,304,645	2,095	
Net cash (used in) operating activities	(30,141)	(29,992)	
Cash flows from investing activities	-	-	
Cash flows from financing activities:			
Proceeds (repayments) of operating advance-related party	(20,000)	31,500	
Proceeds from stock issuance	398,450	2,500	
Stock issuance costs	(148,355)	-	
Advances to related party	(201,761)	-	
Net cash used in financing activities	28,334	34,000	
Net increase (decrease) in cash	(1,807)	4,008	
Beginning cash	4,479	471	
Ending cash	$ 2,672	$ 4,479	$
Supplemental disclosure of noncash financing and investing activities:			
Issuance of 15,000,000 shares of stock to satisfy debt	$ -	$ 15,000	$
Issuance of 1,200,000 shares of stock for service rendered	$ -	$ 1,200	$
Net cash from stock proceeds received by a related corporation			

in exchange for note receivable from that related corporation	$ 1,100,000	$ -
	===============	=============

The accompanying notes are an integral part of the financial statements.

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i-Track, Inc.
F/K/A AVL SYS International, Inc.
(A Development Stage Company)
Notes to Financial Statements
December 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. NATURE OF BUSINESS

i-Track, Inc. (formerly AVL SYS International, Inc.), "the Company" was incorporated under the laws of the state of Nevada on March 8, 1999. The Company has been in the development stage since its formation. The Company is primarily engaged in the marketing and distribution of an automatic vehicle location system which integrates global positioning system technology, cellular-wireless communications and the internet to enable companies to manage their mobile resources with location relevant and time sensitive information. The automatic vehicle location system has been developed by AVL Information System, Ltd., and its wholly owned subsidiary AVL Information System, Inc. AVL Information Systems, Ltd. is the majority shareholder of the Company and determines the prices of the products purchased by the Company.

b. REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

The Company grants credit to customers and does not require collateral for credit granted. The Company recognizes revenue when its products are delivered or services are provided. The Company had two sales of products purchased from AVL Information Systems, Inc. to two customers in 2001. Based upon an analysis of the collectibility of accounts receivable at the balance sheet date, the Company does not consider an allowance for doubtful accounts to be necessary at December 31, 2001.

c. CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

d. FINANCIAL INSTRUMENTS

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2001. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, accounts receivable and accounts payable. Fair values were assumed to approximate carrying values for these financial instruments because they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. As discussed in Note 4, the fair value of the notes receivable from related parties of $1,289,761 at December 31, 2001 is dependent upon the future ability of AVL Information Systems, Ltd. and AVL Information Systems, Inc. to continue as going concerns and generate sufficient future cash flows to repay the notes receivable. As discussed in Note 9, management subsequently determined after March 7, 2002 that these note receivables were not collectible and restated the December 31, 2001 financial statements to reflect the uncollectibility of these notes receivable at December 31, 2001.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. NET INCOME (LOSS) PER COMMON SHARE

The Company calculates net income (loss) per share as required by SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares and dilutive common stock equivalents outstanding. During the periods presented common stock equivalents were not considered as their effect would be anti-dilutive.

Common shares issued for nominal consideration have been considered outstanding for the historical period presented in the computation of earnings per share.

f. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

g. BASIS FOR ASSIGNING AMOUNTS TO EQUITY SECURITIES ISSUED FOR OTHER THAN CASH

Shares of common stock issued for other than cash have been assigned amounts equal to the fair value of the services or assets received in exchange.

2. COMMON STOCK OFFERING

During 2001, the Securities and Exchange Commission approved Form SB-1/A to offer 2,500,000 units of 2,500,000 shares of common stock and 2,500,000 common stock purchase warrants for $.10 per unit. The offering resulted in the 2,500,000 units being issued for $250,000. 2,496,900 of the common stock warrants to purchase common stock for $.50 per share were exercised in 2001. The common stock proceeds of $1,498,450 were used by the Company as follows:

Payment of expenses for commissions and fees associated with the stock issuance	$ 148,355
Loans to AVL Information Systems, Ltd.	971,678
Loans to AVL Information Systems, Inc.	88,450
Working capital	289,967
Total stock proceeds	$1,498,450

2. COMMON STOCK OFFERING (continued)

A portion of the proceeds for working capital was used to make additional loans to AVL Information Systems, Ltd. and AVL Information Systems, Inc.

3. INCOME TAXES

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes", which requires use of the liability method. FAS 109 provides that deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized. The deferred tax asset of $460,900 is offset by a valuation allowance of $460,900 at December 31, 2001 because it is not more likely than not to be realized due to the going-concern uncertainty.

The provision for refundable income taxes differs from the amount computed by applying the statutory federal income tax rate to the loss before provision for income taxes. The Company's estimated effective tax rate of 34% is offset by a reserve due to the uncertainty regarding the realization of the deferred tax asset. The valuation allowance increased by approximately $448,900 for the year ended December 31, 2001.

As of December 31, 2001 the Company has a net operating loss carry forward of approximately $1,355,000, which will be available to offset future taxable income. If not used, this carry forward will expire through 2021. The deferred tax asset relating to the operating loss carry forward has been fully reserved at December 31, 2001.

4. RELATED PARTY TRANSACTIONS

The Company has a note receivable of $986,378 due from AVL Information Systems, Ltd. at December 31, 2001. The note receivable is unsecured with interest at 8% per annum and is due on demand. The Company also has a note receivable of $303,383 due from AVL Information Systems, Inc. at December

31, 2001. The note receivable is unsecured with interest at 8% per annum and is due on demand.

As discussed in Note 9, the December 31, 2001 financial statements have been restated as a result of the inability of these related parties to repay the $1,289,761 of notes receivable and $14,415 of accrued interest receivable previously reported as assets.

i-Track, Inc.
F/K/A AVL SYS International, Inc.
(A Development Stage Company)
Notes to Financial Statements
December 31, 2001

5. MANAGEMENT SERVICES AGREEMENT

The Company has a management services agreement with AVL Information Systems, Ltd. for the provision of services including manpower, supplies and premises for $2,500 per month. The agreement can be cancelled by either party with 30 days written notice. Management fees under this agreement amounted to $7,500 for the year ended December 31, 2001. Since the Company has no employees and all management decisions concerning sales, purchases and operations are controlled by individuals who are stockholders and employees of AVL Information Systems, Ltd. there is a potential conflict of interest.

6. DISTRIBUTION AGREEMENTS

The Company has a worldwide exclusive distribution agreement for products manufactured by AVL Information Systems, Inc. that is effective for as long as the Company meets certain performance criteria.

7. GOING CONCERN

The Company has been a development stage company since its inception on March 8, 1999 and has incurred significant losses since inception. The Company is dependent upon AVL Information Systems, Ltd. and its subsidiary to provide all of its products sold and to supply management services. Because of the uncertainty of AVL Information Systems, Ltd. to continue as a going concern to supply these products and services and to generate sufficient cash flow to repay the $1,289,761 of notes receivable, there is substantial doubt about the Company's ability to continue as a going concern.

The accompanying financial statements do not include an adjustment that might result from the outcome of this uncertainty.

8. SUBSEQUENT EVENT

The Board of Directors adopted a Stock Plan in February, 2002 to grant stock options to officers, directors, employees and independent contractors. The stockholders of the company have not approved adoption of the Plan.

9. RESTATEMENT OF DECEMBER 31, 2001 FINANCIAL STATEMENTS

The financial statements at December 31, 2001 as previously stated included as assets the $1,289,761 notes receivable and $14,415 of accrued interest receivable discussed in Note 4. The financial condition of AVL Information Systems, Ltd. and AVL Information Systems, Inc. have deteriorated since March 7, 2002 to the point that management does not believe either related party can repay the receivables. Accordingly, the December 31, 2001 financial statements have been adjusted to reflect the notes receivable and accrued interest receivable as uncollectible and the previously reported net loss of $16,251 increased by $1,304,176.

In addition, the financial statements at December 31, 2001 included a $14,359 accounts receivable where management discovered the goods were returned by the customer to ALV Information Systems, Inc. Therefore, accounts receivable and sales were reduced by $14,359 and the note receivable from AVL Information Systems, Inc. was increased by $12,000.

AUDITED FINANCIAL STATEMENTS
STRATEGIC COMMUNICATIONS PARTNERS, INC.
(A DEVELOPMENT STAGE COMPANY)
PERIOD FROM AUGUST 13, 2002 (DATE OF INCEPTION)
TO DECEMBER 31, 2002

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
STRATEGIC COMMUNICATIONS PARTNERS, INC.
(A Development Stage Company)

We have audited the accompanying balance sheet of Strategic Communications Partners, Inc. (a development stage company) ("the Company") as of December 31, 2002 and the related statement of operations, stockholders' equity and cash flows for the period from August 13, 2002 (date of inception) to December 31, 2002. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and the results of its operations and cash flows for the period from August 13, 2002 (date of inception) to December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the financial statements, the Company has been in the development stage since its inception and has suffered losses from operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MOORES ROWLAND

MOORES ROWLAND
CHARTERED ACCOUNTANTS
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

Date: March 14, 2003

STRATEGIC COMMUNICATIONS PARTNERS, INC.
(A Development Stage Company)

STATEMENT OF OPERATIONS
Period from August 13, 2002 (date of inception) to December 31, 2002

	NOTE	US$
OPERATING REVENUE		-
OPERATING EXPENSES		
General and administrative expenses		(1,015,482)
LOSS FROM OPERATIONS		(1,015,482)
NON-OPERATING INCOME		
Interest income		319
Other income		164
Total non-operating income		483
LOSS BEFORE INCOME TAXES		(1,014,999)
Income taxes	7	-
NET LOSS		(1,014,999)
NET LOSS PER SHARE:		
Basic	3(e)	(0.45)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	3(e)	2,248,290

The accompanying notes are an integral part of the financial statements.

STRATEGIC COMMUNICATIONS PARTNERS, INC.
(A Development Stage Company)

BALANCE SHEET
As of December 31, 2002

ASSETS	NOTE	US$
CURRENT ASSETS		
Cash and cash equivalents		197,576
Due from related party	6(b)	60,000

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TOTAL ASSETS                                                          257,576
                                                                  ===============


LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES
Accrued expenses and other accrued liabilities                         70,775
Notes payable                                      4   ttom:solid windowtext 1.0pt;padding:0in
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Total Automobiles

4,598,288

Diversified Consumer Services 0.5%

2,485,000

Education Management LLC/Education Management Finance Corp.,
Senior Subordinated Notes, 10.250% due 6/1/16

2,000,425

Hotels, Restaurants & Leisure 3.9%

	675,000
Boyd Gaming Corp., Senior Subordinated Notes, 7.125% due 2/1/16	
	470,813
	2,345,000
Buffets Inc., Senior Notes, 12.500% due 11/1/14(c)	
	35,176
	1,570,000
Caesars Entertainment Inc., Senior Subordinated Notes, 8.125% due 5/15/11	
	934,150
	1,450,000
Carrols Corp., Senior Subordinated Notes, 9.000% due 1/15/13	
	1,051,250
	618,000

Denny s Holdings Inc., Senior Notes, 10.000% due 10/1/12

565,470

1,400,000

Downstream Development Quapaw, Senior Notes, 12.000% due 10/15/15(a)

1,022,000

1,095,000

El Pollo Loco Inc., Senior Notes, 11.750% due 11/15/13

1,051,200

445,000

Fontainebleau Las Vegas Holdings LLC/Fontainebleau

Las Vegas Capital Corp., 10.250% due 6/15/15(a)

126,825

1,120,000

Harrah s Operating Co. Inc., Senior Notes, 10.750% due 2/1/16(a)

576,800

1,640,000

Indianapolis Downs LLC & Capital Corp., 11.000% due 11/1/12(a)

1,123,400

2,545,000

Inn of the Mountain Gods Resort & Casino, Senior Notes, 12.000% due 11/15/10

1,743,325

700,000

Mandalay Resort Group, Senior Subordinated Debentures, 7.625% due 7/15/13

528,500

See Notes to Financial Statements.

Schedule of investments ***continued***

September 30, 2008

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

FACE AMOUNT		SECURITY		VALUE
		Hotels, Restaurants & Leisure 3.9% *continued*		
		MGM MIRAGE Inc.:		
$	1,130,000	Notes, 6.750% due 9/1/12	$	889,875
	360,000	Senior Notes, 7.500% due 6/1/16		264,600
	225,000	Mohegan Tribal Gaming Authority, Senior Subordinated Notes, 6.875% due 2/15/15		156,375
	2,135,000	Pokagon Gaming Authority, Senior Notes, 10.375% due 6/15/14[a]		2,172,362
	1,155,000	Sbarro Inc., Senior Notes, 10.375% due 2/1/15		796,950
	790,000	Snoqualmie Entertainment Authority, Senior Secured Notes, 6.875% due 2/1/14[a][d]		572,750
		Station Casinos Inc.:		
		Senior Notes:		
	1,245,000	6.000% due 4/1/12		703,425
	2,265,000	7.750% due 8/15/16		1,240,087
	85,000	Senior Subordinated Notes, 6.625% due 3/15/18		22,950
		Total Hotels, Restaurants & Leisure		*16,048,283*
		Household Durables 1.7%		
	200,000	American Greetings Corp., Senior Notes, 7.375% due 6/1/16		183,000
	1,140,000	D.R. Horton Inc., Senior Notes, 8.000% due 2/1/09		1,127,175
	305,000	Jarden Corp., Senior Subordinated Notes, 7.500% due 5/1/17		255,437
	1,965,000	K Hovnanian Enterprises Inc., 11.500% due 5/1/13[a]		1,935,525
	1,790,000	Norcraft Cos. LP/Norcraft Finance Corp., Senior Subordinated Notes, 9.000% due 11/1/11		1,727,350
	2,210,000	Norcraft Holdings LP/Norcraft Capital Corp., Senior Discount Notes, 9.750% due 9/1/12		2,000,050
		Total Household Durables		*7,228,537*
		Internet & Catalog Retail 0.3%		
	155,000	Expedia Inc., Senior Notes, 8.500% due 7/1/16[a]		140,275
	1,030,000	Ticketmaster, Senior Notes, 10.750% due 8/1/16[a]		973,350
		Total Internet & Catalog Retail		*1,113,625*
		Media 6.0%		
		Affinion Group Inc.:		
	340,000	Senior Notes, 10.125% due 10/15/13		321,300
	3,020,000	Senior Subordinated Notes, 11.500% due 10/15/15		2,823,700
	7,895,000	CCH I LLC/CCH I Capital Corp., Senior Secured Notes, 11.000% due 10/1/15		5,250,175
	765,000	CCH II LLC/CCH II Capital Corp., Senior Notes, 10.250% due 10/1/13		646,425
	540,000	Charter Communications Holdings LLC, Senior Discount Notes, 12.125% due 1/15/12		321,300
	850,000	Charter Communications Holdings LLC/Charter Communications Holdings Capital Corp., Senior Discount Notes, 11.750% due 5/15/11		497,250

See Notes to Financial Statements.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Media 6.0% *continued*	
$ 2,930,000	Charter Communications Inc., Senior Secured Notes, 10.875% due 9/15/14[(a)]	$ 2,856,750
	CSC Holdings Inc., Senior Notes:	
1,320,000	8.125% due 7/15/09	1,310,100
760,000	6.750% due 4/15/12	700,150
1,416,000	Dex Media West LLC/Dex Media Finance Co., Senior Subordinated Notes, 9.875% due 8/15/13	881,460
660,000	DIRECTV Holdings LLC/DIRECTV Financing Co. Inc., Senior Notes, 8.375% due 3/15/13	655,050
	EchoStar DBS Corp., Senior Notes:	
640,000	6.625% due 10/1/14	515,200
630,000	7.750% due 5/31/15	537,075
2,325,000	Historic TW Inc., Senior Notes, 6.625% due 5/15/29	1,861,697
4,310,000	Idearc Inc., Senior Notes, 8.000% due 11/15/16	1,196,025
	R.H. Donnelley Corp.:	
290,000	11.750% due 5/15/15[(a)]	178,350
1,025,000	Senior Discount Notes, 6.875% due 1/15/13	404,875
1,915,000	Senior Notes, 8.875% due 1/15/16	660,675
1,060,000	Sun Media Corp., 7.625% due 2/15/13	980,500
	TL Acquisitions Inc.:	
1,080,000	Senior Notes, 10.500% due 1/15/15[(a)]	858,600
1,790,000	Senior Subordinated Notes, step bond to yield 13.249% due 7/15/15[(a)]	1,208,250
	Total Media	*24,664,907*
	Multiline Retail 1.4%	
2,405,000	Dollar General Corp., Senior Subordinated Notes, 11.875% due 7/15/17[(b)]	2,236,650
	Neiman Marcus Group Inc.:	
150,000	7.125% due 6/1/28	109,500
4,130,000	Senior Notes, 9.000% due 10/15/15[(b)]	3,479,525
15,000	Senior Subordinated Notes, 10.375% due 10/15/15	12,638
	Total Multiline Retail	*5,838,313*
	Specialty Retail 0.9%	
480,000	Ace Hardware Corp., Senior Secured Notes, 9.125% due 6/1/16[(a)]	412,800
	AutoNation Inc., Senior Notes:	
225,000	4.791% due 4/15/13[(d)]	190,688
345,000	7.000% due 4/15/14	301,875
1,735,000	Blockbuster Inc., Senior Subordinated Notes, 9.000% due 9/1/12	1,249,200
365,000	Eye Care Centers of America, Senior Subordinated Notes, 10.750% due 2/15/15	379,600

See Notes to Financial Statements.

Schedule of investments ***continued***

September 30, 2008

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

FACE AMOUNT		SECURITY	VALUE	
		Specialty Retail 0.9% *continued*		
		Michaels Stores Inc.:		
$	1,070,000	Senior Notes, 10.000% due 11/1/14	$	679,450
	730,000	Senior Subordinated Bonds, 11.375% due 11/1/16		348,575
		Total Specialty Retail		*3,562,188*
		TOTAL CONSUMER DISCRETIONARY		71,024,066
CONSUMER STAPLES 1.4%				
		Food & Staples Retailing 0.1%		
	276,000	Delhaize America Inc., Debentures, 9.000% due 4/15/31		*290,447*
		Food Products 0.7%		
		Dole Food Co. Inc., Senior Notes:		
	185,000	8.625% due 5/1/09		177,600
	2,185,000	7.250% due 6/15/10		1,933,725
	575,000	8.875% due 3/15/11		485,875
	340,000	Stater Brothers Holdings Inc., 7.750% due 4/15/15		319,600
		Total Food Products		*2,916,800*
		Household Products 0.2%		
	1,235,000	Visant Holding Corp., Senior Notes, 8.750% due 12/1/13		*1,139,287*
		Tobacco 0.4%		
		Alliance One International Inc., Senior Notes:		
	385,000	8.500% due 5/15/12		358,050
	1,270,000	11.000% due 5/15/12		1,250,950
		Total Tobacco		*1,609,000*
		TOTAL CONSUMER STAPLES		5,955,534
ENERGY 12.8%				
		Energy Equipment & Services 2.2%		
	2,305,000	ANR Pipeline Co., Debentures, 9.625% due 11/1/21		2,795,315
	1,150,000	Complete Production Services Inc., Senior Notes, 8.000% due 12/15/16		1,098,250
	1,350,000	Key Energy Services Inc., Senior Notes, 8.375% due 12/1/14		1,302,750
	625,000	Pride International Inc., Senior Notes, 7.375% due 7/15/14		600,000
	60,000	Southern Natural Gas Co., Senior Notes, 8.000% due 3/1/32		56,134
	3,270,000	Tennessee Gas Pipeline Co., Bonds, 8.375% due 6/15/32		3,148,853
		Total Energy Equipment & Services		*9,001,302*
		Oil, Gas & Consumable Fuels 10.6%		
	1,740,000	Atlas Pipeline Partners LP, 8.750% due 6/15/18[(a)]		1,644,300
	3,572,000	Belden & Blake Corp., Secured Notes, 8.750% due 7/15/12		3,268,380
		Chesapeake Energy Corp., Senior Notes:		
	2,845,000	6.625% due 1/15/16		2,567,612
	140,000	6.500% due 8/15/17		123,200

See Notes to Financial Statements.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

	FACE AMOUNT	SECURITY		VALUE
		Oil, Gas & Consumable Fuels 10.6% *continued*		
$	1,180,000	6.250% due 1/15/18	$	1,014,800
	365,000	7.250% due 12/15/18		337,625
	360,000	Compagnie Generale de Geophysique SA, Senior Notes, 7.500% due 5/15/15		345,600
	678,062	Corral Finans AB, Senior Secured Subordinated Bonds, 7.791% due 4/15/10[a][b][d]		556,011
		El Paso Corp., Medium-Term Notes:		
	540,000	7.800% due 8/1/31		457,659
	4,965,000	7.750% due 1/15/32		4,180,297
		Enterprise Products Operating LP:		
	1,310,000	Junior Subordinated Notes, 8.375% due 8/1/66		1,216,021
	620,000	Subordinated Notes, 7.034% due 1/15/68		500,656
	2,500,000	EXCO Resources Inc., Senior Notes, 7.250% due 1/15/11		2,375,000
	465,000	Inergy LP/Inergy Finance Corp., Senior Notes, 8.250% due 3/1/16		430,125
	2,535,000	International Coal Group Inc., Senior Notes, 10.250% due 7/15/14		2,275,162
		Mariner Energy Inc., Senior Notes:		
	940,000	7.500% due 4/15/13		836,600
	555,000	8.000% due 5/15/17		471,750
	1,060,000	MarkWest Energy Partners LP/MarkWest Energy Finance Corp., Senior Notes, 8.750% due 4/15/18		1,012,300
		OPTI Canada Inc., Senior Secured Notes:		
	470,000	7.875% due 12/15/14		418,300
	505,000	8.250% due 12/15/14		454,500
	1,420,000	Parallel Petroleum Corp., 10.250% due 8/1/14		1,285,100
		Petrohawk Energy Corp., Senior Notes:		
	1,075,000	9.125% due 7/15/13		1,015,875
	420,000	7.875% due 6/1/15[a]		367,500
		Petroplus Finance Ltd.:		
	630,000	6.750% due 5/1/14[a]		535,500
	1,150,000	Senior Note, 7.000% due 5/1/17[a]		960,250
	1,200,000	Quicksilver Resources Inc., 8.250% due 8/1/15		1,104,000
	4,500,000	SandRidge Energy Inc., 8.625% due 4/1/15[a][b]		4,050,000
	3,485,000	SemGroup LP, Senior Notes, 8.750% due 11/15/15[a][c][f]		365,925
	1,020,000	Southwestern Energy Co., Senior Notes, 7.500% due 2/1/18[a]		994,500
	350,000	Targa Resources Partners LP, Senior Notes, 8.250% due 7/1/16[a]		302,750
	600,000	Teekay Corp., Senior Notes, 8.875% due 7/15/11		609,000
	2,235,000	VeraSun Energy Corp., 9.375% due 6/1/17		894,000
	1,325,000	W&T Offshore Inc., Senior Notes, 8.250% due 6/15/14[a]		1,066,625
	1,275,000	Whiting Petroleum Corp., Senior Subordinated Notes, 7.000% due 2/1/14		1,090,125

See Notes to Financial Statements.

Schedule of investments *continued*

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WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

	FACE AMOUNT	SECURITY		VALUE
		Oil, Gas & Consumable Fuels 10.6% *continued*		
		Williams Cos. Inc.:		
		Notes:		
$	1,280,000	7.875% due 9/1/21	$	1,282,569
	2,320,000	8.750% due 3/15/32		2,384,823
	1,125,000	Senior Notes, 7.625% due 7/15/19		1,110,131
		Total Oil, Gas & Consumable Fuels		*43,904,571*
		TOTAL ENERGY		52,905,873
FINANCIALS 9.3%				
		Capital Markets 0.2%		
	1,080,000	Morgan Stanley, Senior Notes, 3.875% due 1/15/09		*993,684*
		Commercial Banks 0.4%		
	500,000	ATF Capital BV, Senior Notes, 9.250% due 2/21/14[a]		371,250
		TuranAlem Finance BV, Bonds:		
	1,530,000	8.250% due 1/22/37[a]		860,625
	470,000	8.250% due 1/22/37[a]		264,375
		Total Commercial Banks		*1,496,250*
		Consumer Finance 3.8%		
	1,925,000	AmeriCredit Corp., 8.500% due 7/1/15		1,617,000
		Ford Motor Credit Co.:		
		Notes:		
	925,000	7.875% due 6/15/10		706,330
	1,140,000	7.000% due 10/1/13		701,245
		Senior Notes:		
	1,037,000	8.069% due 6/15/11[d]		755,499
	1,370,000	5.538% due 1/13/12[d]		877,047
	7,610,000	12.000% due 5/15/15		5,813,203
	7,545,000	General Motors Acceptance Corp., Bonds, 8.000% due 11/1/31		2,850,018
	3,170,000	SLM Corp., 8.450% due 6/15/18		2,158,678
		Total Consumer Finance		*15,479,020*
		Diversified Financial Services 2.9%		
	1,035,000	Basell AF SCA, Senior Secured Subordinated Second Priority Notes, 8.375% due 8/15/15[a]		491,625
	1,040,000	Capmark Financial Group Inc., 5.875% due 5/10/12		518,789
	1,250,000	CCM Merger Inc., Notes, 8.000% due 8/1/13[a]		1,021,875
	1,970,000	Citigroup Inc., Junior Subordinated Notes, Preferred Securities, 8.400% due 4/30/18[d]		1,343,363
		Leucadia National Corp., Senior Notes:		
	1,220,000	8.125% due 9/15/15		1,192,550
	450,000	7.125% due 3/15/17		411,750

See Notes to Financial Statements.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Diversified Financial Services 2.9% *continued*	
	Residential Capital LLC:	
$ 3,206,000	Junior Secured Notes, 9.625% due 5/15/15[a]	$ 785,470
2,458,000	Senior Secured Notes, 8.500% due 5/15/10[a]	1,364,190
	TNK-BP Finance SA:	
1,525,000	7.875% due 3/13/18[a]	1,098,000
744,000	Senior Notes, 7.875% due 3/13/18[a]	524,520
	Vanguard Health Holdings Co.:	
2,850,000	I LLC, Senior Discount Notes, step bond to yield 12.732% due 10/1/15	2,479,500
765,000	II LLC, Senior Subordinated Notes, 9.000% due 10/1/14	742,050
	Total Diversified Financial Services	*11,973,682*
	Insurance 0.1%	
3,080,000	American International Group Inc., Junior Subordinated Debentures, 8.175% due 5/15/58[a][d]	*493,644*
	Real Estate Investment Trusts (REITs) 0.4%	
75,000	Forest City Enterprises Inc., Senior Notes, 7.625% due 6/1/15	60,375
	Ventas Realty LP/Ventas Capital Corp., Senior Notes:	
360,000	6.500% due 6/1/16	342,000
1,165,000	6.750% due 4/1/17	1,106,750
	Total Real Estate Investment Trusts (REITs)	*1,509,125*
	Real Estate Management & Development 0.5%	
1,270,000	Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes, 9.500% due 10/1/15	577,850
	Realogy Corp.:	
320,000	10.500% due 4/15/14	142,400
2,015,000	11.000% due 4/15/14[b]	780,812
2,045,000	Senior Subordinated Notes, 12.375% due 4/15/15	705,525
	Total Real Estate Management & Development	*2,206,587*
	Thrifts & Mortgage Finance 1.0%	
5,500,000	Ocwen Capital Trust I, Junior Subordinated Capital Securities, 10.875% due 8/1/27	*4,125,000*
	TOTAL FINANCIALS	38,276,992
HEALTH CARE 7.3%		
	Health Care Equipment & Supplies 0.8%	
1,270,000	Advanced Medical Optics Inc., Senior Subordinated Notes, 7.500% due 5/1/17	1,111,250
	Biomet Inc.:	
500,000	10.375% due 10/15/17[b]	497,500
1,670,000	11.625% due 10/15/17	1,686,700
	Total Health Care Equipment & Supplies	*3,295,450*

See Notes to Financial Statements.

Schedule of investments ***continued***

September 30, 2008

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

	FACE AMOUNT	SECURITY		VALUE
		Health Care Providers & Services 6.4%		
$	2,755,000	CRC Health Corp., 10.750% due 2/1/16	$	2,135,125
		DaVita Inc.:		
	230,000	Senior Notes, 6.625% due 3/15/13		219,650
	1,640,000	Senior Subordinated Notes, 7.250% due 3/15/15		1,566,200
		HCA Inc.:		
	3,920,000	Debentures, 7.500% due 11/15/95		2,621,186
		Notes:		
	990,000	6.375% due 1/15/15		784,575
	970,000	7.690% due 6/15/25		725,793
	40,000	Senior Notes, 6.250% due 2/15/13		33,600
		Senior Secured Notes:		
	1,640,000	9.250% due 11/15/16		1,599,000
	3,045,000	9.625% due 11/15/16(b)		2,900,363
	2,675,000	IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes, 8.750% due 6/15/14		2,541,250
		Tenet Healthcare Corp., Senior Notes:		
	2,310,000	6.375% due 12/1/11		2,142,525
	90,000	6.500% due 6/1/12		83,700
	4,250,000	7.375% due 2/1/13		3,888,750
		Universal Hospital Services Inc.:		
	530,000	6.303% due 6/1/15(d)		469,050
	1,990,000	Senior Secured Notes, 8.500% due 6/1/15(b)		1,865,625
	3,774,000	US Oncology Holdings Inc., Senior Notes, 8.334% due 3/15/12(b)(d)		2,905,980
		Total Health Care Providers & Services		*26,482,372*
		Pharmaceuticals 0.1%		
	4,870,000	Leiner Health Products Inc., Senior Subordinated Notes, 11.000% due 6/1/12(c)(f)		*255,675*
		TOTAL HEALTH CARE		30,033,497
INDUSTRIALS 13.7%				
		Aerospace & Defense 1.9%		
	1,120,000	BE Aerospace Inc., 8.500% due 7/1/18		1,089,200
		DRS Technologies Inc., Senior Subordinated Notes:		
	310,000	6.625% due 2/1/16		314,650
	1,405,000	7.625% due 2/1/18		1,475,250
	4,235,000	Hawker Beechcraft Acquisition Co., Senior Notes, 8.875% due 4/1/15(b)		3,853,850
	1,460,000	L-3 Communications Corp., Senior Subordinated Notes, 5.875% due 1/15/15		1,328,600
		Total Aerospace & Defense		*8,061,550*

See Notes to Financial Statements.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

FACE AMOUNT	SECURITY	VALUE
	Airlines 2.6%	
	Continental Airlines Inc., Pass-Through Certificates:	
$ 285,309	8.312% due 4/2/11[e]	$ 254,638
930,000	7.339% due 4/19/14	618,450
3,950,000	DAE Aviation Holdings Inc., Senior Notes, 11.250% due 8/1/15[a]	3,693,250
1,074,556	Delta Air Lines Inc., 8.954% due 8/10/14	832,780
	United Airlines Inc., Pass-Through Certificates:	
1,045,000	6.831% due 3/1/10	1,102,475
2,268,135	7.811% due 10/1/09	2,597,015
962,968	8.030% due 7/1/11[e]	1,013,524
460,000	6.932% due 9/1/11	540,500
	Total Airlines	*10,652,632*
	Building Products 1.6%	
	Associated Materials Inc.:	
5,125,000	Senior Discount Notes, step bond to yield 13.656% due 3/1/14	3,331,250
945,000	Senior Subordinated Notes, 9.750% due 4/15/12	935,550
880,000	Nortek Inc., Senior Secured Notes, 10.000% due 12/1/13[a]	778,800
3,800,000	NTK Holdings Inc., Senior Discount Notes, step bond to yield 11.352% due 3/1/14	1,653,000
	Total Building Products	*6,698,600*
	Commercial Services & Supplies 3.0%	
855,000	Ashtead Holdings PLC, Secured Notes, 8.625% due 8/1/15[a]	739,575
	DynCorp International LLC/DIV Capital Corp.:	
1,220,000	9.500% due 2/15/13[a]	1,204,750
4,100,000	Senior Subordinated Notes, 9.500% due 2/15/13	4,018,000
2,150,000	Interface Inc., Senior Notes, 10.375% due 2/1/10	2,203,750
2,495,000	Rental Services Corp., Senior Notes, 9.500% due 12/1/14	1,902,438
	US Investigations Services Inc.:	
2,405,000	11.750% due 5/1/16[a]	1,984,125
280,000	Senior Subordinated Notes, 10.500% due 11/1/15[a]	250,600
	Total Commercial Services & Supplies	*12,303,238*
	Construction & Engineering 0.3%	
1,460,000	CSC Holdings Inc., 8.500% due 6/15/15[a]	*1,363,275*
	Electrical Equipment 0.1%	
260,000	Sensata Technologies B.V., Senior Notes, 8.000% due 5/1/14	*221,000*
	Industrial Conglomerates 0.3%	
	Sequa Corp., Senior Notes:	
840,000	11.750% due 12/1/15[a]	709,800
868,350	13.500% due 12/1/15[a][b]	733,756
	Total Industrial Conglomerates	*1,443,556*

See Notes to Financial Statements.

Schedule of investments ***continued***

September 30, 2008

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

	FACE AMOUNT	SECURITY		VALUE
		Machinery 0.2%		
$	730,000	American Railcar Industries Inc., Senior Notes, 7.500% due 3/1/14	$	*649,700*
		Road & Rail 2.3%		
	5,965,000	Hertz Corp., Senior Subordinated Notes, 10.500% due 1/1/16		5,010,600
		Kansas City Southern de Mexico, Senior Notes:		
	2,740,000	9.375% due 5/1/12		2,808,500
	1,180,000	7.625% due 12/1/13		1,132,800
	520,000	7.375% due 6/1/14		499,200
		Total Road & Rail		*9,451,100*
		Trading Companies & Distributors 1.1%		
	1,140,000	Ashtead Capital Inc., Notes, 9.000% due 8/15/16[a]		986,100
	2,755,000	H&E Equipment Services Inc., Senior Notes, 8.375% due 7/15/16		2,052,475
	2,410,000	Penhall International Corp., Senior Secured Notes, 12.000% due 8/1/14[a]		1,674,950
		Total Trading Companies & Distributors		*4,713,525*
		Transportation Infrastructure 0.3%		
		Swift Transportation Co., Senior Secured Notes:		
	2,330,000	10.554% due 5/15/15[a][d]		733,950
	1,325,000	12.500% due 5/15/17[a]		443,875
		Total Transportation Infrastructure		*1,177,825*
		TOTAL INDUSTRIALS		56,736,001
INFORMATION TECHNOLOGY 2.2%				
		Communications Equipment 0.5%		
	3,140,000	Lucent Technologies Inc., Debentures, 6.450% due 3/15/29		*1,931,100*
		Electronic Equipment, Instruments & Components 0.2%		
		NXP BV/NXP Funding LLC, Senior Secured Notes:		
	520,000	5.541% due 10/15/13[d]		345,150
	760,000	7.875% due 10/15/14		513,000
		Total Electronic Equipment, Instruments & Components		*858,150*
		IT Services 1.1%		
	1,430,000	Ceridian Corp., Senior Notes, 12.250% due 11/15/15[a][b]		1,169,025
		First Data Corp.:		
	250,000	5.625% due 11/1/11		136,250
	1,385,000	Senior Notes, 9.875% due 9/24/15[a]		1,261,680
		SunGard Data Systems Inc.:		
	60,000	Senior Notes, 9.125% due 8/15/13		54,300
	2,300,000	Senior Subordinated Notes, 10.250% due 8/15/15		2,006,750
		Total IT Services		*4,628,005*

See Notes to Financial Statements.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Semiconductors & Semiconductor Equipment 0.1%	
		Freescale Semiconductor Inc.:	
	$ 170,000	Senior Notes, 8.875% due 12/15/14	$ 118,150
	330,000	Senior notes, 9.125% due 12/15/14[b]	209,550
		Total Semiconductors & Semiconductor Equipment	*327,700*
		Software 0.3%	
	1,820,000	Activant Solutions Inc., Senior Subordinated Notes, 9.500% due 5/1/16	*1,355,900*
		TOTAL INFORMATION TECHNOLOGY	9,100,855
MATERIALS 8.0%			
		Chemicals 1.4%	
	3,670,000	Georgia Gulf Corp., Senior Notes, 10.750% due 10/15/16	1,669,850
	800,000	Huntsman International LLC, Senior Subordinated Notes, 7.875% due 11/15/14	692,000
	1,440,000	Methanex Corp., Senior Notes, 8.750% due 8/15/12	1,490,400
	2,870,000	Montell Finance Co. BV, Debentures, 8.100% due 3/15/27[a]	1,305,850
	494,000	Westlake Chemical Corp., Senior Notes, 6.625% due 1/15/16	422,370
		Total Chemicals	*5,580,470*
		Containers & Packaging 0.7%	
	650,000	Graphic Packaging International Corp., Senior Subordinated Notes, 9.500% due 8/15/13	591,500
	525,000	Plastipak Holdings Inc., Senior Notes, 8.500% due 12/15/15[a]	446,250
	725,000	Radnor Holdings Inc., Senior Notes, 11.000% due 3/15/10[c][e][f]	0
	810,000	Rock-Tenn Co., Senior Notes, 9.250% due 3/15/16[a]	826,200
	1,090,000	Solo Cup Co., Senior Subordinated Notes, 8.500% due 2/15/14	877,450
		Total Containers & Packaging	*2,741,400*
		Metals & Mining 3.0%	
	2,090,000	Freeport-McMoRan Copper & Gold Inc., Senior Notes, 8.375% due 4/1/17	2,061,724
	880,000	Metals USA Holdings Corp., 8.791% due 7/1/12[b][d]	708,400
	2,345,000	Metals USA Inc., Senior Secured Notes, 11.125% due 12/1/15	2,262,925
	2,690,000	Noranda Aluminium Holding Corp., Senior Notes, 8.578% due 11/15/14[b][d]	1,788,850
	2,425,000	Novelis Inc., Senior Notes, 7.250% due 2/15/15	2,121,875
	4,105,000	Ryerson Inc., Senior Secured Notes, 12.000% due 11/1/15[a]	3,509,775
		Total Metals & Mining	*12,453,549*
		Paper & Forest Products 2.9%	
		Abitibi-Consolidated Co. of Canada:	
	3,295,000	15.500% due 7/15/10[a]	2,339,450
	3,590,000	Senior Secured Notes, 13.750% due 4/1/11[a]	3,590,000
		Appleton Papers Inc.:	
	125,000	Senior Notes, 8.125% due 6/15/11	110,313

See Notes to Financial Statements.

Schedule of investments ***continued***

September 30, 2008

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Paper & Forest Products 2.9% *continued*	
	$ 2,410,000	Senior Subordinated Notes, 9.750% due 6/15/14	$ 1,861,725
		NewPage Corp., Senior Secured Notes:	
	2,755,000	9.051% due 5/1/12[d]	2,479,500
	430,000	10.000% due 5/1/12	387,000
	789,511	Newpage Holding Corp., 9.986% due 11/1/13[b][d]	702,665
	830,000	Verso Paper Holdings LLC, 11.375% due 8/1/16	676,450
		Total Paper & Forest Products	*12,147,103*
		TOTAL MATERIALS	32,922,522
TELECOMMUNICATION SERVICES 9.2%			
		Diversified Telecommunication Services 6.4%	
	385,000	Cincinnati Bell Telephone Co., Senior Debentures, 6.300% due 12/1/28	275,275
		Citizens Communications Co.:	
	160,000	Debentures, 7.050% due 10/1/46	92,000
	2,125,000	Senior Notes, 7.875% due 1/15/27	1,604,375
	1,555,000	GT Group Telecom Inc., Senior Discount Notes, 13.250% due 2/1/10[c][e][f]	0
		Hawaiian Telcom Communications Inc.:	
	130,000	Senior Notes, 9.750% due 5/1/13	26,650
	980,000	Senior Subordinated Notes, 12.500% due 5/1/15	142,100
	4,250,000	Intelsat Corp., 9.250% due 8/15/14[a]	3,995,000
	170,000	Intelsat Jackson Holdings Ltd., 9.500% due 6/15/16[a]	158,950
	3,390,000	Level 3 Financing Inc., Senior Notes, 9.250% due 11/1/14	2,576,400
	2,200,000	Nordic Telephone Co. Holdings, Senior Secured Bonds, 8.875% due 5/1/16[a]	2,013,000
		Qwest Communications International Inc.:	
	500,000	7.250% due 2/15/11	476,250
		Senior Notes:	
	250,000	6.304% due 2/15/09[d]	248,125
	1,440,000	7.500% due 2/15/14	1,252,800
	4,245,000	Telcordia Technologies Inc., Senior Subordinated Notes, 10.000% due 3/15/13[a]	3,438,450
	3,977,000	Virgin Media Finance PLC, Senior Notes, 9.125% due 8/15/16	3,350,622
	3,950,000	Wind Acquisition Finance SA, Senior Bonds, 10.750% due 12/1/15[a]	3,890,750
	3,100,000	Windstream Corp., Senior Notes, 8.625% due 8/1/16	2,875,250
		Total Diversified Telecommunication Services	*26,415,997*
		Wireless Telecommunication Services 2.8%	
	1,340,000	ALLTEL Communications Inc., Senior Notes, 10.375% due 12/1/17[a][b]	1,534,300
	610,000	iPCS Inc., 4.926% due 5/1/13[d]	500,200
	760,000	MetroPCS Wireless Inc., Senior Notes, 9.250% due 11/1/14	714,400

See Notes to Financial Statements.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

	FACE AMOUNT	SECURITY	VALUE
		Wireless Telecommunication Services 2.8% *continued*	
		Sprint Capital Corp.:	
$	5,550,000	Notes, 8.750% due 3/15/32	$ 4,338,102
	3,250,000	Senior Notes, 6.875% due 11/15/28	2,182,284
	3,700,000	True Move Co., Ltd., 10.750% due 12/16/13[(a)]	2,516,000
		Total Wireless Telecommunication Services	*11,785,286*
		TOTAL TELECOMMUNICATION SERVICES	38,201,283
UTILITIES 9.0%			
		Electric Utilities 0.9%	
	124,000	Orion Power Holdings Inc., Senior Notes, 12.000% due 5/1/10	120,900
	4,230,000	Texas Competitive Electric Holding Co. LLC, Senior Notes, 10.500% due 11/1/16[(a)(b)]	3,606,075
		Total Electric Utilities	*3,726,975*
		Gas Utilities 0.6%	
	3,050,000	Suburban Propane Partners LP/Suburban Energy Finance Corp., Senior Notes, 6.875% due 12/15/13	*2,714,500*
		Independent Power Producers & Energy Traders 7.5%	
		AES Corp., Senior Notes:	
	3,435,000	8.000% due 10/15/17	3,117,262
	560,000	8.000% due 6/1/20[(a)]	492,800
		Dynegy Holdings Inc.:	
	2,090,000	Senior Debentures, 7.625% due 10/15/26	1,536,150
	1,890,000	Senior Notes, 7.750% due 6/1/19	1,521,450
	320,000	Dynegy Inc., 7.670% due 11/8/16	290,400
		Edison Mission Energy, Senior Notes:	
	1,670,000	7.750% due 6/15/16	1,578,150
	1,150,000	7.200% due 5/15/19	1,017,750
	1,785,000	7.625% due 5/15/27	1,454,775
	15,420,000	Energy Future Holdings, Senior Notes, 11.250% due 11/1/17[(a)(b)]	13,107,000
	1,159,410	Mirant Mid Atlantic LLC, Pass-Through Certificates, 10.060% due 12/30/28	1,307,235
	1,200,000	Mirant North America LLC, Senior Notes, 7.375% due 12/31/13	1,134,000
		NRG Energy Inc., Senior Notes:	
	500,000	7.250% due 2/1/14	465,000
	4,220,000	7.375% due 2/1/16	3,808,550
	165,000	7.375% due 1/15/17	150,563
		Total Independent Power Producers & Energy Traders	*30,981,085*
		TOTAL UTILITIES	37,422,560
		TOTAL CORPORATE BONDS & NOTES (Cost $464,033,952)	372,579,183

See Notes to Financial Statements.

Schedule of investments ***continued***

September 30, 2008

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

FACE AMOUNT	SECURITY	VALUE
ASSET-BACKED SECURITY 0.0%		
FINANCIAL 0.0%		
	Diversified Financial Services 0.0%	
$ 9,956,016	Airplanes Pass-Through Trust, Subordinated Notes, 10.875% due 3/15/19[c][e][f] (Cost $10,632,308)	$ 0
CONVERTIBLE BONDS & NOTES 0.4%		
CONSUMER DISCRETIONARY 0.1%		
	Media 0.1%	
570,000	Virgin Media Inc., 6.500% due 11/15/16[a]	*364,088*
INDUSTRIALS 0.3%		
	Marine 0.3%	
1,685,000	Horizon Lines Inc., 4.250% due 8/15/12	*1,278,494*
	TOTAL CONVERTIBLE BONDS & NOTES (Cost $1,862,941)	1,642,582
COLLATERALIZED MORTGAGE OBLIGATION 0.2%		
1,710,554	Countrywide Home Loan Mortgage Pass-Through Trust, 5.214% due 4/20/35[d] (Cost $1,039,820)	1,026,332
COLLATERALIZED SENIOR LOANS 2.0%		
CONSUMER DISCRETIONARY 0.4%		
	Auto Components 0.4%	
2,196,835	Allison Transmission, Term Loan B, 5.338% due 8/7/14[d]	1,825,726
ENERGY 0.9%		
	Energy Equipment & Services 0.6%	
2,541,220	Turbo Beta Ltd., Term Loan, 14.500% due 3/15/18[b][d][f]	*2,452,277*
	Oil, Gas & Consumable Fuels 0.3%	
1,500,000	Stallion Oilfield Services, Term Loan, 8.361% due 7/31/12[d]	*1,365,000*
	TOTAL ENERGY	3,817,277
INDUSTRIALS 0.2%		
	Trading Companies & Distributors 0.2%	
1,120,195	Penhall International Corp., Term Loan, 9.883% due 4/1/12[a][d]	728,127
MATERIALS 0.5%		
	Containers & Packaging 0.4%	
2,744,241	Berry Plastics Corp., Senior Term Loan, 9.791% due 6/15/14[d]	*1,646,544*
	Paper & Forest Products 0.1%	
448,000	Verso Paper Holdings LLC, 9.033% due 2/1/13[d]	*369,600*
	TOTAL MATERIALS	2,016,144
	TOTAL COLLATERALIZED SENIOR LOANS (Cost $10,250,069)	8,387,274
SOVEREIGN BOND 0.7%		
	Russia 0.7%	
2,856,500	Russian Federation, 7.500% due 3/31/30[a] (Cost $3,131,232)	2,928,341

See Notes to Financial Statements.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

SHARES	SECURITY		VALUE
COMMON STOCKS 0.0%			
CONSUMER DISCRETIONARY 0.0%			
	Household Durables 0.0%		
4,660,992	Home Interiors & Gifts Inc.(e)(f)*	$	5
CONSUMER STAPLES 0.0%			
	Food Products 0.0%		
73,499	Aurora Foods Inc.(e)(f)*		0
MATERIALS 0.0%			
	Chemicals 0.0%		
1	Pliant Corp.(e)(f)*		0
TELECOMMUNICATION SERVICES 0.0%			
	Diversified Telecommunication Services 0.0%		
3,736	McLeodUSA Inc., Class A Shares(e)(f)*		0
20,125	Pagemart Wireless(e)(f)*		201
	TOTAL TELECOMMUNICATION SERVICES		201
	TOTAL COMMON STOCKS		
	(Cost $2,167,617)		206
CONVERTIBLE PREFERRED STOCKS 0.9%			
FINANCIALS 0.9%			
	Diversified Financial Services 0.9%		
3,030	Bank of America Corp., 7.250%		2,539,140
25,100	Citigroup Inc., 6.500%		1,029,100
	TOTAL CONVERTIBLE PREFERRED STOCKS		
	(Cost $4,263,006)		3,568,240
PREFERRED STOCKS 0.2%			
CONSUMER DISCRETIONARY 0.2%			
	Automobiles 0.2%		
22,300	Ford Motor Co., 7.400%		158,999
17,100	Ford Motor Co., 8.000%		116,964
1,600	Ford Motor Co., Series F, 7.550%		15,600
900	General Motors Corp., 7.250%		6,219
10,100	General Motors Corp., Senior Notes, 7.250%		70,599
2,600	General Motors Corp., Senior Notes, 7.375%		18,310
31,700	General Motors Corp., Senior Notes, 7.500%		224,436
	Total Automobiles		*611,127*
	Media 0.0%		
4	ION Media Networks Inc., Series B, 12.000%*		*2,600*
	TOTAL CONSUMER DISCRETIONARY		613,727

See Notes to Financial Statements.

Schedule of investments ***continued***

September 30, 2008

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

SHARES	SECURITY	VALUE
FINANCIALS 0.0%		
	Diversified Financial Services 0.0%	
3,400	Preferred Plus Trust, Series FRD-1, 7.400%	$ 27,030
8,400	Saturns, Series F 2003-5, 8.125%	58,800
	Total Diversified Financial Services	*85,830*
	Thrifts & Mortgage Finance 0.0%	
37,200	Federal National Mortgage Association (FNMA), 8.250%[(g)]	*81,096*
	TOTAL FINANCIALS	166,926
	TOTAL PREFERRED STOCKS (Cost $2,619,800)	780,653
WARRANTS		
WARRANTS 0.0%		
1,705	Cybernet Internet Services International Inc., Expires 7/1/09[(e)(f)*]	0
1,555	GT Group Telecom Inc., Class B Shares, Expires 2/1/10[(a)(e)(f)*]	0
1,185	IWO Holdings Inc., Expires 1/15/11[(a)(e)(f)*]	0
1,000	Jazztel PLC, Expires 7/15/10[(e)(f)*]	0
1,765	Merrill Corp., Class B Shares, Expires 5/5/09[(a)(e)(f)*]	0
3,510	Viasystems Group Inc., Expires 1/12/10[(e)(f)*]	0
	TOTAL WARRANTS (Cost $623,616)	0
	TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost $500,624,361)	390,912,811

FACE AMOUNT	SECURITY	VALUE
SHORT-TERM INVESTMENTS 3.0%		
	Sovereign Bonds 1.2%	
	Egypt Treasury Bills:	
13,250,000EGP	Zero coupon bond to yield 6.505% due 11/4/08	2,410,819
12,850,000EGP	Zero coupon bond to yield 6.501% due 11/11/08	2,335,112
	Total Sovereign Bonds (Cost $4,728,170)	*4,745,931*
	Repurchase Agreement 1.8%	
7,417,000	Morgan Stanley tri-party repurchase agreement dated 9/30/08, 1.250% due 10/1/08; Proceeds at maturity $7,417,258; (Fully collateralized by U.S. government agency obligation, 3.250% due 4/9/13; Market value $7,687,952) (Cost $7,417,000)	*7,417,000*
	TOTAL SHORT-TERM INVESTMENTS (Cost $12,145,170)	12,162,931
	TOTAL INVESTMENTS 97.5% (Cost $512,769,531#)	403,075,742
	Other Assets in Excess of Liabilities 2.5%	10,497,625
	TOTAL NET ASSETS 100.0%	$ 413,573,367

See Notes to Financial Statements.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

* Non-income producing security.

Face amount denominated in U.S. dollars, unless otherwise noted.

(a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

(b) Payment-in-kind security for which part of the income earned may be paid as additional principal.

(c) Security is currently in default.

(d) Variable rate security. Interest rate disclosed is that which is in effect at September 30, 2008.

(e) Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).

(f) Illiquid security.

(g) On September 7, 2008, the Federal Housing Finance Agency placed Fannie Mae and Freddie Mac into Conservatorship.

Aggregate cost for federal income tax purposes is $514,373,118.

Abbreviation used in this schedule:

EGP Egyptian Pound

SCHEDULE OF WRITTEN OPTIONS

NOTIONAL PAR	REFERENCE ENTITY	EXPIRATION DATE	STRIKE PRICE	VALUE
$1,900,000	Credit default swaption with Credit Suisse First Boston Inc. to buy protection on Dow Jones CDX.NA.HY.10 Index, Call[e]	10/20/08	$0.90	$ (21,683)
1,900,000	Credit default swaption with Credit Suisse First Boston Inc. to buy protection on Dow Jones CDX.NA.HY.10 Index, Call[e]	11/20/08	0.90	(29,745)
1,900,000	Credit default swaption with Credit Suisse First Boston Inc. to sell protection on Dow Jones CDX.NA.HY.10 Index, Put[e]	10/20/08	0.90	(25,483)
1,900,000	Credit default swaption with Credit Suisse First Boston Inc. to sell protection on Dow Jones CDX.NA.HY.10 Index,	11/20/08	0.90	(46,341)

Put[e]	
TOTAL WRITTEN OPTIONS	
(Premiums Received $166,250)	$ (123,252)

See Notes to Financial Statements.

Statement of assets and liabilities

September 30, 2008

ASSETS:	
Investments, at value (Cost $512,769,531)	$ 403,075,742
Cash	632
Dividends and interest receivable	12,599,886
Receivable for securities sold	2,953,418
Prepaid expenses	37,849
Other receivables	289,606
Total Assets	*418,957,133*
LIABILITIES:	
Payable for securities purchased	4,777,995
Investment management fee payable	290,227
Written options, at value (premium received $166,250)	123,252
Directors fees payable	18,285
Accrued expenses	174,007
Total Liabilities	*5,383,766*
TOTAL NET ASSETS	$ 413,573,367
NET ASSETS:	
Par value ($0.001 par value; 73,927,179 shares issued and outstanding; 500,000,000 shares authorized)	$ 73,927
Paid-in capital in excess of par value	812,718,557
Undistributed net investment income	4,195,350
Accumulated net realized loss on investments, written options and swap contracts	(293,763,676)
Net unrealized depreciation on investments and written options	(109,650,791)
TOTAL NET ASSETS	$ 413,573,367
Shares Outstanding	73,927,179
Net Asset Value	$5.59

See Notes to Financial Statements.

Statement of operations

For the Year Ended September 30, 2008

INVESTMENT INCOME:	
Interest	$ 47,292,016
Dividends	464,950
Total Investment Income	*47,756,966*
EXPENSES:	
Investment management fee (Note 2)	3,843,413
Excise tax (Note 1)	117,735
Legal fees	88,363
Directors fees	84,613
Shareholder reports	78,319
Stock exchange listing fees	61,284
Audit and tax	40,780
Custody fees	15,144
Insurance	10,820
Transfer agent fees	9,855
Miscellaneous expenses	9,515
Total Expenses	*4,359,841*
Less: Fees paid indirectly (Note 1)	(410)
Net Expenses	*4,359,431*
NET INVESTMENT INCOME	43,397,535
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, WRITTEN OPTIONS AND SWAP CONTRACTS (NOTES 1 AND 3):	
Net Realized Gain (Loss) From:	
Investment transactions	(16,321,741)
Written options	166,250
Swap contracts	46,408
Net Realized Loss	*(16,109,083)*
Change in Net Unrealized Appreciation/Depreciation From:	
Investments	(91,840,126)
Written options	42,998
Change in Net Unrealized Appreciation/Depreciation	*(91,797,128)*
NET LOSS ON INVESTMENTS, WRITTEN OPTIONS AND SWAP CONTRACTS	(107,906,211)
DECREASE IN NET ASSETS FROM OPERATIONS	$ (64,508,676)

See Notes to Financial Statements.

Statements of changes in net assets

FOR THE YEARS ENDED SEPTEMBER 30,	2008	2007
OPERATIONS:		
Net investment income	$ 43,397,535	$ 40,455,743
Net realized gain (loss)	(16,109,083)	6,000,875
Change in net unrealized appreciation/depreciation	(91,797,128)	(11,732,306)
Increase (Decrease) in Net Assets From Operations	*(64,508,676)*	*34,724,312*
DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):		
Net investment income	(41,768,856)	(41,273,544)
Decrease in Net Assets From Distributions to Shareholders	*(41,768,856)*	*(41,273,544)*
DECREASE IN NET ASSETS	(106,277,532)	(6,549,232)
NET ASSETS:		
Beginning of year	519,850,899	526,400,131
End of year*	$ 413,573,367	$ 519,850,899
* Includes undistributed net investment income of:	$4,195,350	$1,914,803

See Notes to Financial Statements.

Financial highlights

FOR A SHARE OF CAPITAL STOCK OUTSTANDING THROUGHOUT EACH YEAR ENDED SEPTEMBER 30:

	2008[1]	2007[1]	2006[1]	2005[1]	2004[1]
NET ASSET VALUE, BEGINNING OF YEAR	$7.03	$7.12	$7.15	$7.28	$7.08
INCOME (LOSS) FROM OPERATIONS:					
Net investment income	0.59	0.55	0.54	0.52	0.56
Net realized and unrealized gain (loss)	(1.46)	(0.08)	(0.07)	(0.10)	0.24
Total income (loss) from operations	*(0.87)*	*0.47*	*0.47*	*0.42*	*0.80*
LESS DISTRIBUTIONS FROM:					
Net investment income	(0.57)	(0.56)	(0.50)	(0.55)	(0.57)
Return of capital					(0.03)
Total distributions	*(0.57)*	*(0.56)*	*(0.50)*	*(0.55)*	*(0.60)*
NET ASSET VALUE, END OF YEAR	$5.59	$7.03	$7.12	$7.15	$7.28
MARKET PRICE, END OF YEAR	$4.34	$6.47	$6.37	$6.29	$6.83
Total return, based on NAV[2,3]	*(12.32)%*	*7.29%*	*7.98%*	*6.69%*	*12.05%*
Total return, based on Market Price[3]	*(26.04)%*	*10.37%*	*9.82%*	*0.04%*	*4.97%*
NET ASSETS, END OF YEAR (MILLIONS)	$414	$520	$526	$529	$538
RATIOS TO AVERAGE NET ASSETS:					
Gross expenses	0.91%	0.85%4	0.90%	1.25%	1.26%
Net expenses	0.915	0.854,6	0.906	1.25	1.26
Net investment income	9.03	7.55	7.62	7.07	7.73
PORTFOLIO TURNOVER RATE	54%	56%	65%	22%	31%

1 Per share amounts have been calculated using the average shares method.

2 Performance figures may reflect fee waivers and/or expense reimbursements. In the absence of fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

3 The total return calculation assumes that distributions are reinvested in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

4 Included in the expense ratios are certain non-recurring restructuring (and reorganization, if applicable) fees that were incurred by the Fund during the period. Without these fees, the gross and net expense ratios would both have been 0.84%.

5 There was no impact to the expense ratio as a result of fees paid indirectly.

6 Reflects fee waivers and/or expense reimbursements.

See Notes to Financial Statements.

Notes to financial statements

1. Organization and significant accounting policies

Western Asset High Income Opportunity Fund Inc. (the Fund) was incorporated in Maryland and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s primary investment objective is to seek high current income. Capital appreciation is a secondary objective.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

(a) Investment valuation. Debt securities are valued at the mean between the last quoted bid and asked prices provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market, and are valued at the mean between the bid and asked prices as of close of business of that market. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund may value these securities at fair value as determined in accordance with the procedures approved by the Fund s Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates fair value.

(b) Repurchase agreements. When entering into repurchase agreements, it is the Fund s policy that its custodian or a third party custodian take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market to ensure the adequacy of the collateral. If the seller defaults, and the market value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Written options. When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily to reflect the current market value of the option written. If the option expires, the Fund realizes a gain from investments equal to the amount

of the premium received. When a written call option is exercised, the difference between the premium received plus the option exercise price and the Fund s basis in the underlying security (in the case of a covered written call option), or the cost to purchase the underlying security (in the case of an uncovered written call option), including brokerage commission, is treated as a realized gain or loss. When a written put option is exercised, the amount of the premium received is added to the cost of the security purchased by the Fund from the exercise of the written put option to form the Fund s basis in the underlying security purchased. The writer or buyer of an option traded on an exchange can liquidate the position before the exercise of the option by entering into a closing transaction. The cost of a closing transaction is deducted from the original premium received resulting in a realized gain or loss to the Fund.

The risk in writing a covered call option is that the Fund may forego the opportunity of profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised. The risk in writing a call option is that the Fund is exposed to the risk of loss if the market price of the underlying security increases. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(d) Credit default swaps. The Fund may enter into credit default swap (CDS) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate issuers or sovereign issuers of an emerging country, on a specified obligation. The Fund may use a CDS to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where a Fund has exposure to the sovereign issuer) or to take an active long or short position with respect to the likelihood of a particular issuer s default. As a seller of protection, the Fund generally receives an upfront payment or a fixed rate of income throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will pay to the buyer of the protection an amount up to the notional value of the swap, and in certain instances take delivery of the security. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Payments received or made at the beginning of the measurement period are reflected as such on the Statement of Assets and Liabilities. These upfront payments are recorded as realized gain or loss on the Statement of Operations and are amortized over the life of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Fund are recorded as realized gain or loss on the Statement of Operations.

Notes to financial statements ***continued***

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

(e) Credit and market risk. The Fund invests in high-yield instruments that are subject to certain credit and market risks. The yields of high-yield obligations reflect, among other things, perceived credit and market risks. The Fund s investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

(f) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults on an expected interest payment, the Fund s policy is to generally halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default.

(g) Distributions to shareholders. Distributions from net investment income for the Fund, if any, are declared and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Distributions are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

(h) Fees paid indirectly. The Fund s custody fees are reduced according to a fee arrangement, which provides for a reduction based on the level of cash deposited with the custodian by the Fund. If material, the amount is shown as a reduction of expenses on the Statement of Operations.

(i) Federal and other taxes. It is the Fund s policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute substantially all of its taxable income and net realized gains, if any, to shareholders each year. Therefore, no federal income tax provision is required in the Fund s financial statements. However, due to the timing of when distributions are made, the Fund may be subject to an excise tax of 4% of the amount by which 98% of the Fund s annual taxable income exceeds the distributions from such taxable income for the year.

Management has analyzed the Fund s tax positions taken on federal income tax returns for all open tax years and has concluded that as of September 30, 2008, no provision for income tax would be required in the Fund s financial statements.

The Fund s federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

(j) Reclassification. GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share. During the current year, the following reclassifications have been made:

	Undistributed net investment income	Accumulated net realized loss	Paid-in Capital
(a)	$117,735	$27,749,619	$(27,867,354)
(b)	534,133	(534,133)	

(a) Reclassifications are primarily due to a non-deductible excise tax accrued by the Fund and the expiration of a capital loss carryover.

(b) Reclassifications are primarily due to differences between book and tax amortization of premium on fixed income securities, income from mortgage backed securities treated as capital gains for tax purposes, book/tax differences in the treatment of consent fees and book/tax differences in the treatment of swap contracts.

2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund s investment manager. Western Asset Management Company (Western Asset) and Western Asset Management Company Limited (Western Asset Limited) are the Fund s subadvisers. LMPFA, Western Asset and Western Asset Limited are wholly-owned subsidiaries of Legg Mason, Inc. (Legg Mason).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.80% of the Fund s average daily net assets.

LMPFA has delegated to Western Asset the day-to-day portfolio management of the Fund. Western Asset Limited provides certain advisory services to the Fund relating to currency transactions and investments in non-U.S. dollar denominated debt securities. Western Asset Limited does not receive any compensation from the Fund. For its services, LMPFA pays Western Asset 70% of the net management fee it receives from the Fund. In turn, Western Asset pays Western Asset Limited a sub-advisory fee of 0.30% on the assets managed by Western Asset Limited.

The Fund had adopted an unfunded, non-qualified deferred compensation plan (the Plan) which allowed non-interested directors (Directors) to defer the receipt of all or a portion of the directors fees earned until a later date specified by the Directors. The deferred balances are reported in the Statement of Operations under Directors fees and are considered a general obligation of the Fund and any payments made pursuant to the Plan will be made from the Fund s general assets. The Plan was terminated effective January 1, 2006. This change

Notes to financial statements *continued*

will have no effect on fees previously deferred. As of September 30, 2008, the Fund had accrued $16,095 as deferred compensation payable.

Certain officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

3. Investments

During the year ended September 30, 2008, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	$248,940,236
Sales	258,217,979

At September 30, 2008, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	$ 2,007,880
Gross unrealized depreciation	(113,305,256)
Net unrealized depreciation	$(111,297,376)

During the year ended September 30, 2008, written option transactions for the Fund were as follows:

	NUMBER OF CONTRACTS	PREMIUMS
Written options, outstanding September 30, 2007		
Options written	14,600,000	$ 332,500
Options closed		
Options expired	(7,000,000)	(166,250)
Written options, outstanding September 30, 2008	7,600,000	$166,250

4. Distributions subsequent to September 30, 2008

On August 14, 2008, the Fund s Board declared two dividends, each in the amount of $0.05 per share, payable on October 31, 2008 and November 28, 2008 to shareholders of record on October 24, 2008 and November 21, 2008, respectively.

5. Income tax information and distributions to shareholders

The tax character of distributions paid during the fiscal years ended September 30, were as follows:

	2008	2007
Distributions Paid From:		
Ordinary Income	$41,768,856	$41,273,544

As of September 30, 2008, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income net	$ 4,445,506
Capital loss carryforward*	(276,188,983)
Other book/tax temporary differences(a)	(16,221,262)
Unrealized appreciation/(depreciation)(b)	(111,254,378)
Total accumulated earnings / (losses) net	$(399,219,117)

* As of September 30, 2008, the Fund had the following net capital loss carryforward remaining:

Year of Expiration	Amount
9/30/2009	$ (69,256,717)
9/30/2010	(141,417,884)
9/30/2011	(62,116,725)
9/30/2012	(2,542,282)
9/30/2016	(855,375)
	$(276,188,983)

These amounts will be available to offset any future taxable capital gains.

(a) Other book/tax temporary differences are attributable primarily to the deferral of post-October capital losses for tax purposes, differences between book/tax accrual of interest income on securities in default and book/tax differences in the timing of the deductibility of various expenses.

(b) The difference between book-basis and tax-basis unrealized appreciation/(depreciation) is attributable primarily to the tax deferral of losses on wash sales and the difference between book and tax amortization methods for premiums on fixed income securities.

6. Recent accounting pronouncements

On September 20, 2006, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. The application of FAS 157 is required for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management has determined that there is no material impact to the Fund s valuation policies as a result of adopting FAS 157. The Fund will implement the disclosure requirements beginning with its December 31, 2008 Form N-Q.

* * *

In March 2008, FASB issued the Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161). FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. FAS 161 requires enhanced disclosures about the Fund s derivative and hedging activities, including how such activities are accounted for and their effect on the Fund s financial position, performance and cash flows. Management is currently evaluating the impact the adoption of FAS 161 will have on the Fund s financial statements and related disclosures.

Report of independent registered public accounting firm

The Board of Directors and Shareholders
Western Asset High Income Opportunity Fund Inc.:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Western Asset High Income Opportunity Fund Inc. as of September 30, 2008, and the related statement of operations for the year then ended, and the statements of changes in net assets for each of the years in the two-year period then ended and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of September 30, 2008, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Western Asset High Income Opportunity Fund Inc. as of September 30, 2008, and the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York
November 24, 2008

Additional information (unaudited)

Information about Directors and Officers

The business and affairs of Western Asset High Income Opportunity Fund Inc. (Fund) are managed under the direction of the Board of Directors. Information pertaining to the Directors and Officers of the Fund is set forth below.

NON-INTERESTED DIRECTORS:

CAROL L. COLMAN
c/o Chairman of the Fund, Legg Mason & Co., LLC (Legg Mason), 620 Eighth Avenue, New York, NY 10018

Birth year	1946
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class I
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	President, Colman Consulting Co.
Number of portfolios in fund complex overseen by director (including the Fund)	23
Other board memberships held by Director	None

DANIEL P. CRONIN
c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue, New York, NY 10018

Birth year	1946
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class I
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	Retired; Formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by director (including the Fund)	23
Other board memberships held by Director	None

PAOLO M. CUCCHI
c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue, New York, NY 10018

Birth year	1941
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	Professor of Italian and French languages, Drew University (since 1984); Formerly, Vice President and Dean of College of Liberal Arts at Drew University (from 1984 to 2008)
Number of portfolios in fund complex overseen by director (including the Fund)	23
Other board memberships held by Director	None

Additional information (unaudited) ***continued***

Information about Directors and Officers

LESLIE H. GELB
c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue, New York, NY 10018

Birth year	1937
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class III
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	President Emeritus and Senior Board Fellow, The Council on Foreign Relations (since 2003); Formerly, President, The Council on Foreign Relations; Formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by director (including the Fund)	23
Other board memberships held by Director	Director of two registered investment companies advised by Blackstone Asia Advisors LLC (Blackstone Advisors): India Fund Inc. and Asia Tigers Fund, Inc.

WILLIAM R. HUTCHINSON
c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue, New York, NY 10018

Birth year	1942
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class III
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	President, W.R. Hutchinson & Associates Inc. (since 2001)
Number of portfolios in fund complex overseen by director (including the Fund)	23
Other board memberships held by Director	Director of Associated Banc-Corp.

RIORDAN ROETT
c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue, New York, NY 10018

Birth year	1938

Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class III
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	The Sarita and Don Johnston Professor of Political Science and Director, of Western Hemisphere Studies, Paul H. Nitze School of Avanced International Studies, The Johns Hopkins University (since 1993)
Number of portfolios in fund complex overseen by director (including the Fund)	23
Other board memberships held by Director	None

JESWALD W. SALACUSE
c/o Chairman of the Fund, Legg Mason, 620 Eighth Avenue, New York, NY 10018

Birth year	1938
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class I
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	Henry J. Braker Professor of Commercial Law, The Fletcher School of Law and Diplomacy, Tufts University (since 1986); President, Arbitration Tribunal, World Bank/ICSID (since 2004)
Number of portfolios in fund complex overseen by director (including the Fund)	23
Other board memberships held by Director	Director of two registered investment companies advised by Blackstone Advisors

INTERESTED DIRECTORS:

R. JAY GERKEN, CFA2
Legg Mason, 620 Eighth Avenue, New York, NY 10018

Birth year	1951
Position(s) held with Fund1	Director, Chairman, President and Chief Executive Officer, Class II
Term of office1 and length of time served	Since 2002
Principal occupation(s) during past 5 years	Managing Director, Legg Mason; Chairman of the Board and Trustee/Director of 163 funds associated with Legg Mason Partners Fund Advisor, LLC. (LMPFA) and its affiliates; President of LMPFA (since 2006); Chairman, President and Chief Executive Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates; Formerly, Chairman, Smith Barney Fund Management LLC (SBFM) and Citi Fund Management, Inc. (CFM) (2002 to 2005); Formerly, Chairman, President and Chief Executive Officer, Travelers Investment Advisers Inc. (2002 to 2005)
Number of portfolios in fund complex overseen by director (including the Fund)	148
Other board memberships held by Director	None

OFFICERS:

KAPREL OZSOLAK
Legg Mason, 55 Water Street, New York, NY 10041

Birth year	1965
Position(s) held with Fund1	Chief Financial Officer and Treasurer
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	Director of Legg Mason; Chief Financial Officer and Treasurer of certain funds associated with Legg Mason; Formerly, Controller of certain funds associated with certain predecessor firms of Legg Mason (from 2002 to 2004)

Additional information (unaudited) ***continued***

Information about Directors and Officers

TED P. BECKER
Legg Mason, 620 Eighth Avenue, New York, NY 10018

Birth year	1951
Position(s) held with Fund1	Chief Compliance Officer
Term of office1 and length of time served	Since 2006
Principal occupation(s) during past 5 years	Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance at Legg Mason, (since 2005); Chief Compliance Officer with certain mutual funds associated with Legg Mason, LMPFA and certain affiliates (since 2006); Formerly, Managing Director of Compliance at Citigroup Asset Management (CAM) or its predecessors (from 2002 to 2005)

ROBERT I. FRENKEL
Legg Mason, 100 First Stamford Place, Stamford, CT 06902

Birth year	1954
Position(s) held with Fund1	Secretary and Chief Legal Officer
Term of office1 and length of time served	Since 2003
Principal occupation(s) during past 5 years	Managing Director and General Counsel of Global Mutual Funds for Legg Mason and its predecessor (since 1994); Secretary and Chief Legal Officer of mutual funds associated with Legg Mason (since 2003); Formerly, Secretary of CFM (from 2001 to 2004)

THOMAS C. MANDIA
Legg Mason, 100 First Stamford Place, Stamford, CT 06902

Birth year	1962
Position(s) held with Fund1	Assistant Secretary
Term of office1 and length of time served	Since 2006
Principal occupation(s) during past 5 years	Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005); Managing Director and Deputy General Counsel for CAM (from 1992 to 2005); Assistant Secretary of certain mutual funds associated with Legg Mason

STEVEN FRANK
Legg Mason, 55 Water Street, New York, NY 10041

Birth year	1967
Position(s) held with Fund1	Controller
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	Vice President of Legg Mason (since 2002); Controller of certain funds associated with Legg Mason or its predecessors (since 2005); Formerly, Assistant Controller of certain mutual funds associated with Legg Mason predecessors (from 2001 to 2005)

ALBERT LASKAJ
Legg Mason, 55 Water Street, New York, NY 10041

Birth year	1977
Position(s) held with Fund1	Controller
Term of office1 and length of time served	Since 2007
Principal occupation(s) during past 5 years	Vice President of Legg Mason (since 2008); Controller of certain funds associated with Legg Mason (Since 2007); Formerly, Assistant Controller of certain mutual funds associated with Legg Mason (from 2005 to 2007); Formerly, Accounting Manager of certain mutual funds associated with certain predecessor firms of Legg Mason (from 2003 to 2005)

1 The Fund s Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2011, year 2009 and year 2010, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund s executive officers are chosen each year at the first meeting of the Fund s Board of Directors following the Annual Meeting of Stockholders, to hold office until the meeting of the Board following the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

2 Mr. Gerken is an interested person of the Fund as defined in the 1940 Act, because Mr. Gerken is an officer of LMPFA and certain of its affiliates.

Annual chief executive officer and chief financial officer certifications (unaudited)

The Fund s Chief Executive Officer has submitted to the NYSE the required annual certification, and the Fund also has included the certifications of the Fund s Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund s Form N-CSR filed with the SEC for the period of this report.

Dividend reinvestment plan (unaudited)

Under the Fund s Dividend Reinvestment Plan (Plan), a shareholder whose shares of common stock are registered in his own name will have all distributions from the Fund reinvested automatically by American Stock Transfer & Trust Company (AST), as purchasing agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in street name) will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own common stock registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to shareholders who do not participate in the Plan will be paid by check mailed directly to the record holder by or under the direction of AST as dividend paying agent.

The number of shares of common stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. When the market price of the common stock is equal to or exceeds the net asset value (NAV) per share of the common stock on the determination date (generally, the record date for the distribution), the Plan participants will be issued shares of common stock by the Fund at a price equal to the greater of NAV determined as described below or 95% of the market price of the common stock.

If the market price of the common stock is less than the NAV of the common stock at the time of valuation (which is the close of business on the determination date) AST will buy common stock in the open market, on the stock exchange or elsewhere, for the participants accounts. If following the commencement of the purchases and before AST has completed its purchases, the market price exceeds the NAV of the common stock as of the valuation time, AST will attempt to terminate purchases in the open market and cause the Fund to issue the remaining portion of the dividend or distribution in shares at a price equal to the greater of (a) NAV as of the valuation time or (b) 95% of the then current market price. In this case, the number of shares received by a Plan participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. To the extent AST is unable to stop open market purchases and cause the Fund to issue the remaining shares, the average per share purchase price paid by AST may exceed the NAV of the common stock as of the valuation time, resulting in the acquisition of fewer shares than if the distribution had been paid in common stock issued by the Fund at such net asset value. AST will begin to purchase common stock on the open market as soon as practicable after the determination date for distributions, but in no event shall such purchases continue later than 30 days after the payment date for such distribution, or the record date for a succeeding distribution, except when necessary to comply with applicable provisions of the federal securities laws.

AST maintains all shareholder accounts in the Plan and furnishes written confirmation of all transactions in each account, including information needed by a

Dividend reinvestment plan (unaudited) ***continued***

shareholder for personal and tax records. The automatic reinvestment of distributions will not relieve Plan participants of any income tax that may be payable on the distributions. Common stock in the account of each Plan participant will be held by AST in uncertificated form in the name of each Plan participant.

Plan participants are subject to no charge for reinvesting distributions under the Plan. AST s fees for handling the reinvestment of distributions will be paid by the Fund. No brokerage charges apply with respect to shares of common stock issued directly by the Fund under the Plan. Each Plan participant will, however, bear a proportionate share of any brokerage commissions actually incurred with respect to any open market purchases made under the Plan.

Experience under the Plan may indicate that changes to it are desirable. The Fund reserves the right to amend or terminate the Plan as applied to any distribution paid subsequent to written notice of the change sent to participants at least 30 days before the record date for the distributions. The Plan also may be amended or terminated by AST, with the Fund s prior written consent, on at least 30 days written notice to Plan participants. All correspondence concerning the Plan should be directed by mail to American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038 or by telephone at 1-877-366-6441.

Western Asset High Income Opportunity Fund Inc.

Directors
Carol L. Colman
Daniel P. Cronin
Paolo M. Cucchi
Leslie H. Gelb
R. Jay Gerken, CFA
Chairman
William R. Hutchinson
Riordan Roett
Jeswald W. Salacuse

Officers
R. Jay Gerken, CFA
President and Chief Executive Officer

Kaprel Ozsolak
Chief Financial Officer and Treasurer

Ted P. Becker
Chief Compliance Officer

Robert I. Frenkel
Secretary and Chief Legal Officer

Thomas C. Mandia
Assistant Secretary

Steven Frank
Controller

Albert Laskaj
Controller

Western Asset High Income Opportunity Fund Inc.
55 Water Street
New York, NY 10041

Investment manager
Legg Mason Partners Fund Advisor, LLC

Subadvisers
Western Asset Management Company
Western Asset Management Company Limited

Custodian
State Street Bank and Trust Company
225 Franklin Street
Boston, Massachusetts 02110

Transfer agent
American Stock Transfer &
Trust Company
59 Maiden Lane
New York, New York 10038

Independent registered public accounting firm
KPMG LLP
345 Park Avenue
New York, New York 10154

Legal counsel
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017

New York Stock Exchange Symbol
HIO

Western Asset High Income Opportunity Fund Inc.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.
55 Water Street
New York, New York 10041

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase, at market prices, shares of its common stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund s Forms N-Q are available on the SEC s website at www.sec.gov. The Fund s Forms N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-800-451-2010.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio transactions are available (1) without charge, upon request, by calling 1-800-451-2010, (2) on the Fund s website at www.leggmason.com/cef and (3) on the SEC s website at www.sec.gov.

This report is transmitted to the shareholders of Western Asset High Income Opportunity Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

American Stock
Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

WASX010408 11/08 SR08-684

ITEM 2. CODE OF ETHICS.

The registrant has adopted a code of ethics that applies to the registrant s principal executive officer, principal financial officer, principal accounting officer or controller.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Directors of the registrant has determined that William R. Hutchinson, a member of the Board s Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert, and has designated Mr. Hutchinson as the Audit Committee s financial expert. Mr. Hutchinson is an independent Director pursuant to paragraph (a)(2) of Item 3 to Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

a) Audit Fees. The aggregate fees billed in the last two fiscal years ending September 30, 2007 and September 30, 2008 (the Reporting Periods) for professional services rendered by the Registrant s principal accountant (the Auditor) for the audit of the Registrant s annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were $31,000 in 2007 and $32,600 in 2008.

b) Audit-Related Fees. There were no fees billed in the Reporting Periods for assurance and related services by the Auditor that are reasonably related to the performance of the audit of the Registrant s financial statements and are not reported under paragraph (a) of the Item 4 for Western Asset High Income Opportunity Fund Inc.

In addition, there were no Audit-Related Fees billed in the Reporting Period for assurance and related services by the Auditor to the Registrant s investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Western Asset High Income Opportunity Fund Inc. (service affiliates), that were reasonably related to the performance of the annual audit of the service affiliates. Accordingly, there were no such fees that required pre-approval by the Audit Committee for the Reporting Periods (prior to August 6, 2003 services provided by the Auditor were not required to be pre-approved).

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were $6,000 in 2007 and $3,200 in 2008. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item 4 for the Western Asset High Income Opportunity Fund Inc..

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA), and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to Western Asset High Income Opportunity Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee s pre approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund s independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee duly implements policies and procedures by which such services are approved other than by the full Committee.

The Committee shall not approve non-audit services that the Committee believes impairs the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services does not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund (Covered Service Providers) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the Western Asset High Income Opportunity Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 0% for 2007 and 2008; Tax Fees were 100% and 0% for 2007 and 2008; and Other Fees were 100% and 0% for 2007 and 2008.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to Western Asset High Income Opportunity Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to Western Asset High Income Opportunity Fund Inc. during the reporting period were $0 in 2008.

(h) Yes. Western Asset High Income Opportunity Fund Inc. s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant s independence. All services provided by the Auditor to the Western Asset High Income Opportunity Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

a) *The independent board members are acting as the registrant s audit committee as specified in Section 3(a)(58)(B) of the Exchange Act.* The Audit Committee consists of the following Board members:

William R. Hutchinson

Paolo M. Cucchi

Daniel P. Cronin

Carol L. Colman

Leslie H. Gelb

Dr. Riordan Roett

Jeswald W. Salacuse

b) Not applicable

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Proxy Voting Guidelines and Procedures

Legg Mason Partners Fund Advisor, LLC (LMPFA) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

The subadviser s Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund s portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-425-6432, (2) on the fund s website at http://www.leggmason.com/individualinvestors and (3) on the SEC s website at http://www.sec.gov.

Background

Western Asset Management Company (WA) and Western Asset Management Company Limited (WAML) (together Western Asset) have adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 (Advisers Act). Our authority to vote the proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that WA and WAML may so consult and agree with each other) regarding the voting of any securities owned by its clients.

Policy

Western Asset s proxy voting procedures are designed and implemented in a way that is reasonably expected to ensure that proxy matters are handled in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration Western Asset s contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent Western Asset deems appropriate).

Procedures

Responsibility and Oversight

The Western Asset Compliance Department (Compliance Department) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support (Corporate Actions). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

Client Authority

Prior to August 1, 2003, all existing client investment management agreements (IMAs) will be reviewed to determine whether Western Asset has authority to vote client proxies. At account start-up, or upon amendment of an IMA, the applicable client IMA are similarly reviewed. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Client Account Transition Team maintains a matrix of proxy voting authority.

Proxy Gathering

Registered owners of record, client custodians, client banks and trustees (Proxy Recipients) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Prior to August 1, 2003, Proxy Recipients of existing clients will be reminded of the appropriate routing to Corporate Actions for proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

Proxy Voting

Once proxy materials are received by Corporate Actions, they are forwarded to the Compliance Department for coordination and the following actions:

a. Proxies are reviewed to determine accounts impacted.

b. Impacted accounts are checked to confirm Western Asset voting authority.

c. Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)

d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client s proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

e. Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst s or portfolio manager s basis for their decision is documented and maintained by the Compliance Department.

f. Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

Timing

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

Recordkeeping

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

a. A copy of Western Asset s policies and procedures.

b. Copies of proxy statements received regarding client securities.

c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.

d. Each written client request for proxy voting records and Western Asset s written response to both verbal and written client requests.

e. A proxy log including:

1. Issuer name;

2. Exchange ticker symbol of the issuer s shares to be voted;

3. Council on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;

4. A brief identification of the matter voted on;

5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;

6. Whether a vote was cast on the matter;

7. A record of how the vote was cast; and

8. Whether the vote was cast for or against the recommendation of the issuer s management team.

Records are maintained in an easily accessible place for five years, the first two in Western Asset s offices.

Disclosure

Part II of both the WA Form ADV and the WAML Form ADV contain a description of Western Asset s proxy policies. Prior to August 1, 2003, Western Asset will deliver Part II of its revised Form ADV to all existing clients, along with a letter identifying the new disclosure. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

Conflicts of Interest

All proxies are reviewed by the Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

1. Whether Western Asset (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;

2. Whether Western Asset or an officer or director of Western Asset or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, Voting Persons) is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and

3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

Voting Guidelines

Western Asset s substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company s board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

I. Board Approved Proposals

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

1. Matters relating to the Board of Directors

Western Asset votes proxies for the election of the company s nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

d. Votes are cast on a case-by-case basis in contested elections of directors.

2. Matters relating to Executive Compensation

Western Asset generally favors compensation programs that relate executive compensation to a company s long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.

b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.

c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock s current market price.

d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

3. Matters relating to Capitalization

The management of a company s capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company s capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

a. Western Asset votes for proposals relating to the authorization of additional common stock.

b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).

c. Western Asset votes for proposals authorizing share repurchase programs.

4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions

Western Asset votes these issues on a case-by-case basis on board-approved transactions.

5. Matters relating to Anti-Takeover Measures

Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

a. Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.

b. Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

6. Other Business Matters

Western Asset votes for board-approved proposals approving such routine business matters such as changing the company s name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

a. Western Asset votes on a case-by-case basis on proposals to amend a company s charter or bylaws.

b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

II. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in a company s proxy statement. These proposals generally seek to change some aspect of a company s corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company s board of directors on all shareholder proposals, except as follows:

1. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.

2. Western Asset votes for shareholder proposals that are consistent with Western Asset s proxy voting guidelines for board-approved proposals.

3. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

III. Voting Shares of Investment Companies

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

1. Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients portfolios.

2. Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

IV. Voting Shares of Foreign Issuers

In the event Western Asset is required to vote on securities held in foreign issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

1. Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.

2. Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.

3. Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

4. Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company s outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company s outstanding common stock where shareholders have preemptive rights.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a)(1):

NAME AND ADDRESS	LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
S. Kenneth Leech Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; Chief Investment Officer of Western Asset since 1998.
Stephen A. Walsh Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; Deputy Chief Investment Officer of Western Asset since 2000.
Keith J. Gardner Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; portfolio manager and research analyst at Western Asset since 1994.
Detlev Schlichter Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; portfolio manager at Western Asset since 2001.
Michael C. Buchanan Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; Managing Director and head of U.S. Credit Products from 2003-2005 at Credit Suisse Asset Management; Executive Vice President and portfolio manager for Janus Capital in 2003; Managing Director and head of High Yield Trading from 1998-2003 at Blackrock Financial Management.

(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL

The following tables set forth certain additional information with respect to the fund s portfolio managers for the fund. Unless noted otherwise, all information is provided as of August 31, 2008.

Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the fund) for which the fund s portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Portfolio Manager(s)	**Registered Investment Companies**	**Other Pooled Investment Vehicles**	**Other Accounts**
S. Kenneth Leech	115 registered investment companies with $111.1 billion in total assets under management	275 Other pooled investment vehicles with $222.5 billion in assets under management	1,006Other accounts with $251.6 billion in total assets under management*
Stephen A. Walsh	115 registered investment companies with $111.1 billion in total assets under management	275 Other pooled investment vehicles with $222.5 billion in assets under management	1,006 Other accounts with $251.6 billion in total assets under management*
Keith J. Gardner	7 registered investment companies with $1.1 billion in total assets under management	8 Other pooled investment vehicles with $1.1 billion in assets under management	0 Other accounts with $0 million in total assets under management
Michael C. Buchanan	*17* registered investment Companies with $7.9 billion in total assets under management	9 Other pooled investment vehicles with $ 5.4 billion in assets under management	18 Other accounts with $2.1 billion in total assets under management**
Detlev Schlichter	*2* registered investment Companies with $0.2 billion in total assets under management	29 Other pooled investment vehicles with $3.9 billion in assets under management	67 Other accounts with $23.3 billion in total assets under management***

* Includes 94 accounts managed, totaling $26.4 billion, for which advisory fee is performance based.

** Includes 19 accounts managed, totaling $6.2 billion, for which advisory fee is performance based.

The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company (Western Asset). Mr. Leech and Mr. Walsh are involved in the management of all the Firm s portfolios, but they are not solely responsible for particular portfolios. Western Asset s investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. They are responsible for overseeing implementation of Western Asset s overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.

(a)(3): *Portfolio Manager Compensation*

With respect to the compensation of the portfolio managers, the Advisers compensation system assigns each employee a total compensation target and a respective cap, which are derived from annual market surveys that benchmark each role with their job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results.

Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the Advisers, and are determined by the professional s job function and performance as measured by a formal review process. All bonuses are completely discretionary. One of the principal factors considered is a portfolio manager s investment performance versus appropriate peer groups and benchmarks. Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. Because portfolio managers are generally responsible for multiple accounts (including the Portfolio) with similar investment strategies, they are compensated on the performance of the aggregate group of similar accounts, rather than a specific account, though relative performance against the stated benchmark and its applicable Lipper peer group is considered. A smaller portion of a bonus payment is derived from factors that include client service, business development, length of service to the Adviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the Adviser s business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason, Inc. stock options and long-term incentives that vest over a set period of time past the award date.

Potential Conflicts of Interest

Potential conflicts of interest may arise in connection with the management of multiple accounts (including accounts managed in a personal capacity). These could include potential conflicts of interest related to the knowledge and timing of a Portfolio s trades, investment opportunities and broker selection. Portfolio managers may be privy to the size, timing and possible market impact of a Portfolio s trades.

It is possible that an investment opportunity may be suitable for both a Portfolio and other accounts managed by a portfolio manager, but may not be available in sufficient quantities for both the Portfolio and the other accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by a Portfolio and another account. A conflict may arise where the portfolio manager may have an incentive to treat an account preferentially as compared to a Portfolio because the account pays a performance-based fee or the portfolio manager, the Advisers or an affiliate has an interest in the account. The Advisers have adopted procedures for allocation of portfolio transactions and investment opportunities across multiple client accounts on a fair and equitable basis over time. All eligible accounts that can participate in a trade share the same price on a pro-rata allocation basis in an attempt to mitigate any conflict of interest. Trades are allocated among similarly managed accounts to maintain consistency of portfolio strategy, taking into account cash availability, investment restrictions and guidelines, and portfolio composition versus strategy.

With respect to securities transactions for the Portfolios, the Advisers determine which broker or dealer to use to execute each order, consistent with their duty to seek best execution of the transaction. However, with respect to certain other accounts (such as pooled investment vehicles that are not registered investment companies and other accounts managed for organizations and individuals), the Advisers may be limited by the client with respect to the selection of brokers or dealers or may be instructed to direct trades through a particular broker or dealer. In these cases, trades for a Portfolio in a particular security may be placed separately from, rather than aggregated with, such other accounts. Having separate transactions with respect to a security may temporarily affect the market price of the security or the execution of the transaction, or both, to the possible detriment of a Portfolio or the other account(s) involved. Additionally, the management of multiple Portfolios and/or other accounts may result in a portfolio manager devoting unequal time and attention to the management of each Portfolio and/or other account.

It is theoretically possible that portfolio managers could use information to the advantage of other accounts they manage and to the possible detriment of a Portfolio. For example, a portfolio manager could short sell a security for an account immediately prior to a Portfolio s sale of that security. To address this conflict, the Advisers have adopted procedures for reviewing and comparing selected trades of alternative investment accounts (which may make directional trades such as short sales) with long only accounts (which include the Portfolios) for timing and pattern related issues. Trading decisions for alternative investment and long only accounts may not be identical even though the same Portfolio Manager may manage both types of accounts. Whether the Adviser allocates a particular investment opportunity to only alternative investment accounts or to alternative investment and long only accounts will depend on the investment strategy being implemented. If, under the circumstances, an investment opportunity is appropriate for both its alternative investment and long only accounts, then it will be allocated to both on a pro-rata basis.

A portfolio manager may also face other potential conflicts of interest in managing a Portfolio, and the description above is not a complete description of every conflict of interest that could be deemed to exist in managing both a Portfolio and the other accounts listed above.

(a)(4): *Portfolio Manager Securities Ownership*

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of August 31, 2008.

Portfolio Manager(s)	**Dollar Range of Portfolio Securities Beneficially Owned**
S. Kenneth Leech	A
Stephen A. Walsh	E
Keith J. Gardner	A
Michael C. Buchanan	A
Detlev Schlichter	A

Dollar Range ownership is as follows:
A: none
B: $1 - $10,000
C: 10,001 - $50,000
D: $50,001 - $100,000
E: $100,001 - $500,000
F: $500,001 - $1 million
G: over $1 million

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

None.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant s principal executive officer and principal financial officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a- 3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant s last fiscal half-year (the registrant s second fiscal half-year in the case of an annual report) that have materially affected, or are likely to materially affect the registrant s internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this Report to be signed on its behalf by the undersigned, there unto duly authorized.

Western Asset High Income Opportunity Fund Inc.

By: /s/ **R. Jay Gerken**
(R. Jay Gerken)
Chief Executive Officer of
Western Asset High Income Opportunity Fund Inc.

Date: December 3, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ **R. Jay Gerken**
(R. Jay Gerken)
Chief Executive Officer of
Western Asset High Income Opportunity Fund Inc.

Date: December 3, 2008

By: /s/ **Kaprel Ozsolak**
(Kaprel Ozsolak)
Chief Financial Officer of
Western Asset High Income Opportunity Fund Inc.

Date: December 3, 2008