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

If you have sold or transferred all your shares in **Goldbond Group Holdings Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, the licenced securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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GOLDBOND GROUP HOLDINGS LIMITED

金榜集團控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 172)

MAJOR AND CONNECTED TRANSACTIONS

**Independent financial adviser to the
independent board committee of Goldbond Group Holdings Limited**



Menlo Capital Limited

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 32 of this circular and a letter from Menlo Capital Limited, the independent financial adviser to the Independent Board Committee, containing its advice in relation to the same is set out on pages 33 to 59 of this circular.

A notice convening an extraordinary general meeting to be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong, at 10:00 a.m. on 2 June 2004 is set out on pages 145 to 148 to this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

14 May 2004

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DEFINITIONS

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

“‘A’ Preference Share(s)”	the non-interest bearing redeemable convertible preference share(s) of par value HK\$0.10 each in the existing preference share capital of the Company issued and allotted on 18 September 2001
“associates”	has the meaning ascribed to it under the Listing Rules
“‘B’ Preference Share(s)”	the non-interest bearing redeemable convertible preference share(s) of par value HK\$0.10 each in the existing preference share capital of the Company issued and allotted on 18 September 2001
“Board”	the board of Directors
“Business Day(s)”	any days (excluding Saturday) on which banks in Hong Kong are open for business
“CN Subscription Agreement”	the subscription agreement dated 19 March 2004 entered into between Wah Link and the Company in relation to the subscription of the Convertible Note by Wah Link
“Company”	Goldbond Group Holdings Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Completion Accounts”	the audited accounts of each of the Rongzhong Group as at the date of completion of the Subscription Agreement as prepared in accordance with HK GAAP
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Converted Shares”	up to a total of 411,764,705 Shares to be allotted and issued by the Company upon full conversion of the Convertible Note, based on the conversion price of HK\$0.17 per Share
“Convertible Note”	the convertible note in an aggregate principal amount of HK\$70 million to be issued by the Company to Wah Link (or its nominee) under the CN Subscription Agreement
“Directors”	the directors of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong to consider and, if thought fit, approve the Transaction Agreements, the Shareholders’ Agreement and the Management Agreements
“Five Rongzhong Companies”	the five companies controlled by Mr. Xie with operations located in Wuhan, Guangzhou, Chongqing, Changsha and Chengdu, all established under the PRC laws engaging in the loan guarantee business
“Group”	the Company and its subsidiaries
“Hangzhou Rongzhong”	a company to be established under the PRC laws and controlled by Mr. Xie, which will be engaged in the loan guarantee business in Hangzhou, the PRC
“HK GAAP”	the Hong Kong Statements of Standard Accounting Practices issued by the Hong Kong Society of Accountants and the accounting principles generally accepted in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee comprising all independent non-executive Directors, namely Mr. Ma Ho Fai and Mr. Zhang Xiao Shu, which has been formed to advise the Independent Shareholders in respect of the Transaction Agreements, the Shareholders’ Agreement and the Management Agreements
“Independent Shareholders”	Shareholders other than Mr. Wong and his associates
“Latest Practicable Date”	13 May 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange after the amendments dated 31 March 2004
“Long Stop Date”	18 July 2004 or such later date as the parties to the Subscription Agreement may agree in writing
“Management Accounts”	the unaudited management accounts of the Five Rongzhong Companies as at 31 December 2003

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“Management Agreements”	exclusive management agreements to be entered into between, among others, the Management Company and each of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong under which the Management Company will provide certain management and supporting services to the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong
“Management Company”	a wholly foreign owned enterprise wholly owned by Rongzhong BVI or a sino-foreign joint venture enterprise owned as to at least 90% by Rongzhong BVI to be established under the PRC laws for the purpose of entering into of the Management Agreements
“Menlo”	Menlo Capital Limited, a licensed corporation carrying on business in type 6 regulated activities (advising on corporate finance) under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Transaction Agreements, the Shareholders’ Agreement and the Management Agreements
“Ms. Cheng”	Ms. Cheng Xi
“Mr. Wong”	Mr. Wong Yu Lung, Charles, a Director and Vice Chairman of the Company
“Mrs. Wong”	Mrs. Wong Fang Pik Chun, the spouse of Mr. Wong
“Mr. Xie”	Mr. Xie Xiao Qing
“Nanjing Acquisition”	the acquisition of a 25% interest in the registered capital of Nanjing City Plaza by Sino Dynasty Investments Limited from Bateson Investment Limited (formerly known as Y&W Holdings Limited) pursuant to the S&P Agreement, details of which were set out in the circular of the Company dated 24 December 2003
“Nanjing City Plaza”	南京國際商城建設有限公司 (Nanjing City Plaza Construction Co., Ltd.*), a sino-foreign equity joint venture established in accordance with the laws of the PRC having a registered capital of US\$10,000,000, which is owned as to 25% by Sino Dynasty Investments Limited, a wholly owned subsidiary of the Company, as to 25% by Wah Link Real Estate Investments Limited, a company beneficially owned as to 51% by a family

* For identification purposes only

DEFINITIONS

member of Mr. Wong and 49% by Mrs. Wong, as to 48% by Bateson Investment Limited (formerly known as Y&W Holdings Limited) and as to the remaining 2% by 珠海經濟特區南華有限公司 (Zhuhai Special Economic Region South China Limited*)

“Nanjing International”

南京國際集團股份有限公司 (Nanjing International Group Limited*), a joint stock limited liability company incorporated under the laws of the PRC having a registered capital of RMB371,237,500 with approximately 67% and 33% of the entire equity interest beneficially owned by Nanjing City Plaza and various shareholders which are independent third parties not connected with the Company, the directors, chief executive, substantial shareholders of the Company or its subsidiaries or their respective associates, respectively

“Nanjing Project”

南京國際廣場一期項目 (Nanjing International Plaza Phase I Project*) and 南京國際廣場二期項目 (Nanjing International Plaza Phase II Project*)

“New Nanjing
International Shares”

100,000,000 new shares of par value of RMB1.00 each in Nanjing International subscribed by Nanjing City Plaza at the subscription price of RMB1.60 each pursuant to the S&P Agreement

“Old Listing Rules”

the Rules Governing the Listing of Securities on the Stock Exchange, prior to the amendments dated 31 March 2004

“Open Offer”

the open offer of the Company to the qualifying holders of the Shares on the basis of four offer shares for every existing Shares at a subscription price of HK\$0.10 per offer share, as more particularised in the circular of the Company dated 12 November 2003

“Option”

the option to be granted by Wah Link to Perfect Honour to require Wah Link to purchase all the interests of Perfect Honour in Rongzhong BVI comprising 3,725 shares in Rongzhong BVI and all other (if any) shares in the issued share capital of Rongzhong BVI resulting from any subdivision, consolidation and re-classification of such shares and further or addition shares in Rongzhong BVI acquired by Perfect Honour pursuant to capitalisation issue and any shareholder’s loan advanced by Perfect Honour to Rongzhong BVI

* For identification purposes only

DEFINITIONS

“Option Agreement”	the option agreement dated 19 March 2004 entered into between Perfect Honour and Wah Link in relation to the grant of the Option
“Perfect Honour”	Perfect Honour Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“PRC”	The People’s Republic of China
“PRC GAAP”	generally accepted accounting principles in the PRC
“Preference Share(s)”	‘A’ Preference Share(s) and ‘B’ Preference Share(s)
“Pro Forma Profits”	the pro forma combined profit after taxation and minority interests of Rongzhong BVI and its subsidiaries as if the Reorganisation had already been completed on 1 January 2004, as prepared in accordance with HK GAAP by a firm of auditors approved by Perfect Honour
“Reorganisation”	the corporate reorganisation of Rongzhong BVI to be undertaken, including but not limited to the establishment of the Management Company, Shanghai Rongzhong and Hangzhou Rongzhong, the entering into of the Shareholders’ Agreement and the Management Agreements
“Rongzhong BVI”	Rongzhong Group Limited, a company incorporated in the British Virgin Islands on 3 March 2004 which, its total issued share capital as at the Latest Practicable Date is one share and is wholly owned by Mr. Xie
“Rongzhong Group”	the Five Rongzhong Companies and, when upon completion of the Reorganisation, Rongzhong BVI, Shanghai Rongzhong and Hangzhou Rongzhong
“S&P Agreement”	the conditional sale and purchase agreement dated 1 December 2003 entered into between, inter alia, Sino Dynasty Investments Limited as purchaser and Bateson Investment Limited (formerly known as Y&W Holdings Limited) as vendor in respect of the Nanjing Acquisition, as supplemented by supplemental agreements dated 1 December 2003, 3 December 2003, 19 January 2004 and 24 February 2004 and such transaction was completed on 27 February 2004
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Shanghai Rongzhong”	a company to be established under the PRC laws and controlled by Mr. Xie, which will be engaged in the loan guarantee business in Shanghai, the PRC
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into between Perfect Honour, Mr. Xie, Ms. Cheng and Rongzhong BVI in relation to the control and management of Rongzhong BVI and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 19 March 2004 (as amended and supplemented by the Supplemental Agreement) entered into between Perfect Honour, Mr. Xie, Ms. Cheng and Rongzhong BVI in relation to the subscription of new shares in Rongzhong BVI
“Supplemental Agreement”	the supplemental agreement dated 30 March 2004 entered into between Perfect Honour, Mr. Xie, Ms. Cheng and Rongzhong BVI to amend and supplement the provisions of the Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transaction Agreements”	the Subscription Agreement, the CN Subscription Agreement and the Option Agreement
“Wah Link”	Wah Link Investments Limited, a company incorporated in Hong Kong with limited liability on 23 November 1990, which is owned as to 51% by a family member of Mr. Wong and as to 49% by Mrs. Wong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

Translation of Renminbi into Hong Kong dollars is based on the exchange rate of RMB1.06 to HK\$1.00.

LETTER FROM THE BOARD



GOLDBOND GROUP HOLDINGS LIMITED

金榜集團控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 172)

Executive Directors:

Mr. Wong Yu Lung, Charles
Mr. Ko Po Ming
Ms. Loh Jiah Yee, Katherine
Mr. Lan Ning
Mr. Kee Wah Sze

Registered office:

Unit 3902A, 39th Floor, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Independent non-executive Directors:

Mr. Ma Ho Fai
Mr. Zhang Xiao Shu

14 May 2004

*To the Shareholders and holders of
the Preference Shares*

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

INTRODUCTION

On 1 April 2004, the Board announced that on 19 March 2004 (i) Perfect Honour, a wholly owned subsidiary of the Company, entered into the Subscription Agreement with Mr. Xie, Ms. Cheng and Rongzhong BVI pursuant to which Perfect Honour agreed to subscribe for 3,725 new shares of Rongzhong BVI, representing 37.25% of the issued share capital of Rongzhong BVI as enlarged by such subscription, at a cash consideration of RMB62 million (equivalent to approximately HK\$58.49 million); (ii) Perfect Honour also entered into the Option Agreement with Wah Link pursuant to which Wah Link agreed to grant to Perfect Honour the Option to require Wah Link to purchase all the interests of Perfect Honour in Rongzhong BVI, comprising 3,725 shares in Rongzhong BVI and all other (if any) shares in the issued share capital of Rongzhong BVI resulting from any subdivision, consolidation and re-classification of such shares and further or addition shares in Rongzhong BVI acquired by Perfect Honour pursuant to capitalisation issue and any shareholder's loan advanced by Perfect

LETTER FROM THE BOARD

Honour to Rongzhong BVI, at an aggregate consideration of RMB62 million (equivalent to approximately HK\$58.49 million) and the face value of the shareholder's loan (if any); and (iii) the Company entered into the CN Subscription Agreement with Wah Link pursuant to which Wah Link agreed to subscribe for the Convertible Note in the principal amount of HK\$70 million at its face value.

One of the conditions precedent for completion of the Subscription Agreement is that Rongzhong BVI will undergo the Reorganisation. As part of the Reorganisation, Perfect Honour, Mr. Xie, Ms. Cheng and Rongzhong BVI will enter into the Shareholders' Agreement whereby, among other matters, Perfect Honour will assume the control of the board of directors of Rongzhong BVI and provide a shareholder's loan of up to RMB138 million (equivalent to approximately HK\$130.19 million) to Rongzhong BVI for its business expansion. Furthermore, Rongzhong BVI will set up the Management Company which will then enter into the Management Agreements with the Five Rongzhong Companies, which are currently controlled by Mr. Xie, and Shanghai Rongzhong and, Hangzhou Rongzhong, which will be set up in the second quarter of 2004 and controlled by Mr. Xie. Details of the Reorganisation are set out below.

THE SUBSCRIPTION AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT DATED 30 MARCH 2004)

Date

19 March 2004

Parties

Perfect Honour, a wholly owned subsidiary of the Company;
Mr. Xie;
Ms. Cheng; and
Rongzhong BVI, a company wholly owned by Mr. Xie.

Mr. Xie, Ms. Cheng and Rongzhong BVI are independent third parties, not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, and/or their respective associates.

Mr. Xie is the controlling shareholder of the Five Rongzhong Companies. Ms. Cheng currently is a minority shareholder interested in 10% of the equity interest of Chengdu operation, one of the Five Rongzhong Companies.

The subscription

Perfect Honour agreed to subscribe for 3,725 new shares of Rongzhong BVI at a cash consideration of RMB62 million (equivalent to approximately HK\$58.49 million) which will be paid by Perfect Honour on completion of the Subscription Agreement.

LETTER FROM THE BOARD

The consideration was arrived at after arm's length negotiation between the parties and with reference to the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005, being not less than RMB30 million and the trading multiples of the financial services providers listed on the Stock Exchange. The consideration represents a price-earnings multiple of approximately 11.0962 times of 37.25% of the average warranted Pro Forma Profits for each of the two years ending 31 December 2005 of Rongzhong BVI, which is relatively lower than the price-earnings ratios of the financial services providers listed on the Stock Exchange. The consideration also represents an indicative price-to-book ratio of approximately 1.360 times of the 37.25% of the pro forma net book value of Rongzhong BVI, after taking into account of the net book value of the Five Rongzhong Companies as at 31 December 2003. The consideration will be funded by the proceeds from the issue of the Convertible Note.

In addition, Mr. Xie and Ms. Cheng will subscribe for 3,274 and 3,000 new shares of Rongzhong BVI respectively, at cash consideration of RMB32,353,841.25 and RMB29,646,158.75 respectively.

Upon completion of the Subscription Agreement, Rongzhong BVI will be owned as to 37.25% by Perfect Honour, as to 32.75% by Mr. Xie and as to 30.00% by Ms. Cheng.

Pursuant to the Subscription Agreement, the Group shall have the right to nominate at least three representatives to the board of directors of Rongzhong BVI while Mr. Xie and Ms. Cheng together will have the right to nominate up to two representatives to such board. Therefore, the Group will control the board of directors of Rongzhong BVI and upon completion of the Subscription Agreement, Rongzhong BVI will become a subsidiary of the Company. Mr. Xie is currently a director of Rongzhong BVI and Ms. Cheng has not indicated whether she will personally act as director of Rongzhong BVI or appoint representative to do so. After arm's length negotiation between the parties to the Subscription Agreement, Perfect Honour agreed to subscribe for new shares of Rongzhong BVI at a relatively higher price per share than the price per share to be paid by Mr. Xie and Ms. Cheng as a premium paid for its control over the board of directors of Rongzhong BVI. Although Rongzhong BVI does not hold any interest in the Management Company as at the date of the Subscription Agreement and the income stream will depend on the management fee to be received by the Management Company from the Rongzhong Group, the Directors consider that, after also taking into account the established businesses of the Five Rongzhong Companies and the warranted Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005, such premium is in the interests of the Company and is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

Adjustment of the consideration

Pursuant to the Subscription Agreement, Mr. Xie and Ms. Cheng warranted the aggregate amount of the Pro Forma Profits of Rongzhong BVI for the year ending 31 December 2004. Pursuant to the Supplemental Agreement, such profit warranty provision was changed to that Mr. Xie and Ms. Cheng warranted that the aggregate amount of the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005 will not be less than RMB30 million.

LETTER FROM THE BOARD

Should Rongzhong BVI fail to meet the above profit guarantee, Mr. Xie and Ms. Cheng shall jointly and severally be obliged to pay Perfect Honour compensation calculated as below:

(RMB30 million – aggregate amount of the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005) x 5.5481 x 37.25%

The multiple of 5.5481 used in calculating the compensation is based on the consideration of RMB62 million (equivalent to approximately HK\$58.49 million) paid by Perfect Honour divided by its attributable portion of the aggregate amount of the Pro Forma Profits of RMB30 million for the two years ending 31 December 2005.

Save as above, none of the terms of the Subscription Agreement were amended or altered under the Supplemental Agreement.

Since the Supplemental Agreement extended the protection of the interests of the Group to also covering the year ending 31 December 2005, the Directors consider that the terms of the Supplemental Agreement are fair and reasonable and the entering into of the Supplemental Agreement is to the benefits of the Company and the Shareholders as a whole.

Should Rongzhong BVI fail to meet the above profit guarantee, the Company will publish an announcement, setting out details of such differences. In addition, details of such differences will also be published in the Company's next published annual report. The independent non-executive Directors will also provide a statement in the Company's next published annual report as to whether Mr. Xie and Ms. Cheng have fulfilled their obligations under the abovementioned profit guarantee.

Conditions precedent

Completion of the Subscription Agreement is conditional upon, among other things, the fulfilment or, as the case may be, waiver of the following conditions:

- (i) Mr. Xie and Ms. Cheng having subscribed for 3,274 and 3,000 new shares of Rongzhong BVI and the issue and allotment of such new shares to Mr. Xie and Ms. Cheng by Rongzhong BVI;
- (ii) the Management Company and Rongzhong BVI having entered into the Management Agreements with the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong;

LETTER FROM THE BOARD

- (iii) the provision of a PRC legal opinion by a PRC lawyer approved by Perfect Honour confirming, among other things, the legality and validity of the establishment of the Five Rongzhong Companies, Shanghai Rongzhong, Hangzhou Rongzhong and the Management Company, and the legality and validity of the entering into of the Management Agreements and other relevant agreements, and the legality and validity of the payment of the management fee to the Management Company by the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong;
- (iv) all necessary consents and approvals (or waivers) from any third parties, including but not limited to the Independent Shareholders' approval of the Subscription Agreement at the EGM, having been obtained for completion of the transactions contemplated under the Subscription Agreement;
- (v) all parties to the Subscription Agreement having agreed on the terms of the Shareholders' Agreement;
- (vi) the amendments to the articles of association of Rongzhong BVI reflecting the principal terms of the Shareholders' Agreement;
- (vii) Perfect Honour being reasonably satisfied with the results of the due diligence reviews (such as legal, financial and business due diligence reviews) on the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong;
- (viii) completion of the Reorganisation, including but not limited to, the establishment of the Management Company, Shanghai Rongzhong and Hangzhou Rongzhong, the entering into of the Shareholders' Agreement and the Management Agreements;
- (ix) Perfect Honour having obtained the Completion Accounts;
- (x) there is no material difference between the Completion Accounts and the Management Accounts;
- (xi) Perfect Honour having obtained the Management Accounts and list of properties owned and leased by the Five Rongzhong Companies within seven days after the date of the Subscription Agreement;
- (xii) Perfect Honour, Mr. Xie and Ms. Cheng having agreed to the contents of the disclosure letter in relation to the representations and warranties by Mr. Xie and Ms. Cheng under the Subscription Agreement and Perfect Honour having signed on such disclosure letter; and
- (xiii) the Company obtaining the Independent Shareholders' approval of the CN Subscription Agreement and the Option Agreement.

LETTER FROM THE BOARD

Conditions (iii), (vi) to (xi) and (xiii) above can be waived by Perfect Honour only. Other conditions above cannot be waived by any party. The above conditions precedent (subject to Perfect Honour's rights to waive the fulfilment of certain conditions precedent) shall be fulfilled by no later than 5:00 p.m. on the Long Stop Date. If the aforesaid conditions have not been fulfilled or waived by 5:00 p.m. on the Long Stop Date, the Subscription Agreement shall cease to have any effect and no party shall have any liability thereunder (but without prejudice to the rights of any party against the others for antecedent breaches of the Subscription Agreement). As at the Latest Practicable Date, condition (xi) has been fulfilled.

The Directors currently have no intention to waive any of the conditions (iii), (vi) to (xi) and (xiii) above. Should the parties to the Subscription Agreement decide not to proceed with or terminate the Subscription Agreement, the Company will make further announcement in that regard.

Completion

Completion of the Subscription Agreement shall take place within five Business Days after all the above conditions have been fulfilled or, if applicable, waived by Perfect Honour, or on such other date as may be agreed by the parties in writing.

THE OPTION AGREEMENT

Date

19 March 2004

Parties

Perfect Honour, a wholly owned subsidiary of the Company; and
Wah Link.

The grant of the Option

In consideration of HK\$1.00 to be paid by Perfect Honour to Wah Link, Wah Link agreed to grant to Perfect Honour the Option to require Wah Link to purchase all the interests of Perfect Honour in Rongzhong BVI referred below. The Option shall be exercised by Perfect Honour during a period of three years commencing from the date on which the conditions precedent under the Option Agreement have been fulfilled.

Upon the exercise of the Option, Perfect Honour will sell to Wah Link its 3,725 shares of Rongzhong BVI and all other (if any) shares in the issued share capital of Rongzhong BVI resulting from any subdivision, consolidation or re-classification of such shares and further or additional shares in Rongzhong BVI acquired by Perfect Honour pursuant to capitalisation issue and assign and transfer any shareholder's loan advanced by Perfect Honour to Rongzhong

LETTER FROM THE BOARD

BVI free from all liens, charges, encumbrances and third party rights of any kind and together with all rights attaching thereto as at the date of exercise of the Option. In return, Wah Link will pay Perfect Honour the aggregate amount of RMB62 million (equivalent to approximately HK\$58.49 million) (representing Perfect Honour's cost of subscription for the 3,725 shares of Rongzhong BVI under the Subscription Agreement) and the face value of the shareholder's loan (if any) advanced by Perfect Honour to Rongzhong BVI, in cash by no later than seven Business Days after the parties to the Option Agreement have obtained all necessary consents and approvals (or waivers) from any third parties, including but not limited to regulatory authorities.

The Company will comply with the requirements under the Listing Rules for disposals of its interests in Rongzhong BVI upon its exercise of the Option.

Conditions precedent

Completion of the Option Agreement is conditional upon fulfilment of the following conditions precedent:

- (i) the approval of the Option Agreement by the Independent Shareholders at the EGM;
- (ii) the completion of the Subscription Agreement; and
- (iii) all necessary consents and approvals (or waivers) from any third parties, including but not limited to regulatory authorities, having been obtained for completion of the transactions contemplated under the Option Agreement.

Neither Perfect Honour nor Wah Link has the right to waive any of the abovementioned conditions to the Option Agreement. In the event that the aforesaid conditions are not fulfilled on or before 18 July 2004 or such other date as may be agreed by the parties in writing, the Option Agreement shall automatically terminate and no party shall have any liability and claim against the other party (save and except antecedent breach by any party accrued prior to such termination). As at the Latest Practicable Date, none of the conditions have been fulfilled.

THE CN SUBSCRIPTION AGREEMENT

Date

19 March 2004

Parties

The Company; and
Wah Link.

LETTER FROM THE BOARD

The subscription of the Convertible Note

Wah Link agreed to subscribe (or procure the subscription by its nominee) for the Convertible Note in the principal amount of HK\$70 million at its face value.

Terms of the Convertible Note

The principal terms of the Convertible Note were determined after arm's length negotiation between the Company and Wah Link and are summarised as below:

Principal amount

HK\$70 million.

Interest

Nil.

Maturity

Unless previously converted into Converted Shares and/or redeemed, the outstanding principal amount of the Convertible Note will be automatically redeemed on the third anniversary of the issue date of the Convertible Note (the "Maturity Date").

Redemption

At any time from the date of issue of the Convertible Note up to the fifth Business Day prior to the Maturity Date, the Company may redeem all or, from time to time, part only of the Convertible Note (being HK\$1 million in the outstanding principal amount or an integral multiple thereof).

Conversion Price

HK\$0.170 per Share (subject to adjustment).

The conversion price was determined on an arm's length basis and represents (i) a discount of approximately 3.41% to the closing price of HK\$0.176 per Share as quoted on the Stock Exchange on 19 March 2004, being the last trading day immediately prior to the date of the CN Subscription Agreement; and (ii) a discount of approximately 1.73% to the average closing price of approximately HK\$0.173 per Share as quoted on the Stock Exchange for the last five trading days up to and including 19 March 2004. The Directors consider that the conversion price is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

LETTER FROM THE BOARD

Assuming full conversion of the Convertible Note at the conversion price of HK\$0.17 per Share, the Company will have to issue 411,764,705 Converted Shares which represent (i) approximately 24.77% of the existing issued share capital of the Company; and (ii) approximately 19.85% of the issued share capital of the Company as enlarged by the issue of the Converted Shares.

Conversion

Holder of the Convertible Note will have the right to convert the whole or any part of the principal amount of the Convertible Note into Converted Shares on any Business Day commencing from the date of issue of the Convertible Note up to the Business Day immediately prior to the Maturity Date. No fraction of a Share shall be issued on conversion.

The Converted Shares which fall to be issued upon conversion shall rank *pari passu* in all respects with all other existing Shares outstanding as at the date of the notice of conversion and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the notice of conversion.

Application will be made to the Stock Exchange for the listing of, and the permission to deal in, the Converted Shares but not the Convertible Note.

Transferability

The Convertible Note may be assigned or transferred (in whole or in part) to any third party which is not a connected person (as defined in the Listing Rules) of the Company, subject to the prior written approval of the Company having been obtained. The Company will inform the Stock Exchange if any connected person (as defined in the Listing Rules) becomes the holder of the Convertible Note.

Voting

Holder of the Convertible Note shall not be entitled to receive notice of, attend or vote at any meetings of the Company.

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Shareholding structure

The following table sets out the changes in shareholding structure of the Company upon conversion of the Convertible Note:

	Existing shareholding structure		Assuming full conversion of the Convertible Note	
	Shares	%	Shares	%
Allied Luck Trading Limited (<i>Note 1</i>)	497,232,000	29.91	497,232,000	23.97
Ace Solomon Investments Limited (<i>Note 2</i>)	338,888,343	20.39	338,888,343	16.34
Canasia Profits Corporation (<i>Note 3</i>)	133,701,300	8.04	133,701,300	6.45
Sparkle Power Technology Limited (<i>Note 4</i>)	65,881,800	3.96	65,881,800	3.18
Wah Link	–	–	411,764,705	19.85
Sub-total	1,035,703,443	62.30	1,447,468,148	69.79
Public	626,736,557	37.70	626,736,557	30.21
TOTAL	<u>1,662,440,000</u>	<u>100.00</u>	<u>2,074,204,705</u>	<u>100.00</u>

Notes:

- Allied Luck Trading Limited is owned as to 50% by Mr. Wong and as to the remaining 50% by Mrs. Wong.
- Ace Solomon Investments Limited is owned as to 11% by Mr. Wong, 46% by Mr. Kee Wah Sze and 43% by Ms. Loh Jiah Yee, Katherine, all of them are executive Directors.
- Canasia Profits Corporation is wholly owned by Mr. Kee Wah Sze.
- Sparkle Power Technology Limited is owned as to 50% by Ms. Loh Jiah Yee, Katherine and 50% by Mr. Ko Po Ming, an executive Director.

If Wah Link converts the Convertible Note in full such that the aggregate holding of voting rights in the Company by Wah Link and parties acting in concert with it increases to 30% or more, or in the case where Wah Link and parties acting in concert with it together hold 30% to 50% of voting rights in the Company, shall exceed the 2% creeper, Wah Link and parties acting in concert with it will be required under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company other than those already held by Wah Link and parties acting in concert with it. In such case, Wah Link and parties acting in concert with it will make a general offer or take any other appropriate actions in order to fully comply with the Takeovers Code.

Conditions precedent

Completion of the CN Subscription Agreement is conditional upon the fulfilment of the following conditions precedent:

- the approval of the CN Subscription Agreement and the issue of the Convertible Note by the Independent Shareholders at the EGM;

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- (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Converted Shares; and
- (iii) all necessary consents and approvals (or waivers) from any third parties, including but not limited to regulatory authorities, having been obtained for completion of the transactions contemplated under the CN Subscription Agreement.

Neither the Company nor Wah Link has the right to waive any of the abovementioned conditions to the CN Subscription Agreement.

Completion of the Subscription Agreement is one of the conditions precedent for the completion of the Option Agreement. The approvals of the Option Agreement and the CN Subscription Agreement by the Independent Shareholders at the EGM are also conditions precedent for completion of the Subscription Agreement, but they can be waived at the discretion of the Company. If the Option Agreement and the CN Subscription Agreement have not been approved by the Independent Shareholders at the EGM and the Company decides to proceed with the Subscription Agreement, the Directors may source other fundings to finance the subscription under the Subscription Agreement.

THE REORGANISATION

One of the conditions precedent for the Subscription Agreement is that Rongzhong BVI will undergo the Reorganisation, details of which are summarised below:

Increase of authorised share capital of Rongzhong BVI, formation of the Management Company, Shanghai Rongzhong and Hangzhou Rongzhong

Rongzhong BVI will increase its authorised share capital from the existing US\$50,000 to US\$100,000,000 by the creation of 99,950,000 new shares of US\$1 each in Rongzhong BVI. In addition, Rongzhong BVI will set up a subsidiary, the Management Company, in Wuhan, the PRC, as a wholly foreign owned enterprise or a sino-foreign joint venture enterprise under the PRC laws in which Rongzhong BVI will have at least 90% interest for the purpose of entering into the Management Agreements.

Mr. Xie will set up Shanghai Rongzhong and Hangzhou Rongzhong which will be engaged in the provision of loan guarantee services in Shanghai and Hangzhou, the PRC, respectively.

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The entering into of the Shareholders' Agreement

Each of Perfect Honour, Mr. Xie, Ms. Cheng and Rongzhong BVI will enter into the Shareholders' Agreement in respect of Rongzhong BVI and its subsidiaries, the Principal terms of which are as follows:

- (i) Perfect Honour will be entitled to appoint at least three directors to the respective boards of directors of Rongzhong BVI, the Management Company and, when becoming the subsidiaries of the Management Company, the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong, while Mr. Xie and Ms. Cheng together will be entitled to appoint up to two directors;
- (ii) Mr. Xie will be responsible for the day-to-day operation of the Management Company and, when becoming the subsidiaries of the Management Company, the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong;
- (iii) each of the shareholders will have pre-emptive rights in case of transfer of the other parties' interests in Rongzhong BVI (other than upon exercise of the Option contemplated under the Option Agreement); and
- (iv) Perfect Honour will advance to Rongzhong BVI a shareholder's loan of up to RMB138 million (equivalent to approximately HK\$130.19 million) at an interest rate of 2.5% per annum, which as and when necessary and appropriate, will be used as working capital and/or for acquisition of the Five Rongzhong Companies, Shanghai Rongzhong, Hangzhou Rongzhong and other Rongzhong Companies (if any). Such advance of shareholder's loan by Perfect Honour to Rongzhong BVI will constitute an ongoing connected transaction for the Company under Rule 14.25(2) of the Old Listing Rules, which is only subject to the disclosure requirements under the Old Listing Rules.

The entering into of the Management Agreements

It is one of the conditions precedent for the completion of the Subscription Agreement that the Management Company will enter into the Management Agreements with the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. The Management Agreements will be effective from the date of signing of such agreements for a period of two years. The rationale of the entering into of the Management Agreements is for Rongzhong BVI to participate in the loan guarantee business in the PRC and share the economic benefits of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong, which will not exceed the proposed cap for the Management Agreements as stated under the paragraph headed "Principal terms of the Management Agreements" under the section headed

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“Management Agreements – ongoing connected transactions” in this letter. Pursuant to the Management Agreements:

- (i) the Management Company will provide business management and other supporting services, including but not limited to human resources, administration and financial services, in connection with the provision of loan guarantee services to the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong;
- (ii) the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong will pay the Management Company management fees equivalent to a fixed percentage of their respective turnover, plus bonus payments if any of the Five Rongzhong Companies, Shanghai Rongzhong or Hangzhou Rongzhong records any profits, and such payment will be guaranteed by the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong;
- (iii) the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong will charge their respective equity interests in these companies to the Management Company as security for guaranteeing the payment of management fees and bonus mentioned in paragraph (ii) above; and
- (iv) each of the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong will grant a call option to Rongzhong BVI, the exercise of which will require these shareholders to sell to Rongzhong BVI their respective equity interests in the relevant companies at their respective registered capital amount up to the limit of foreign investment allowed in the relevant companies under the PRC law and regulations.

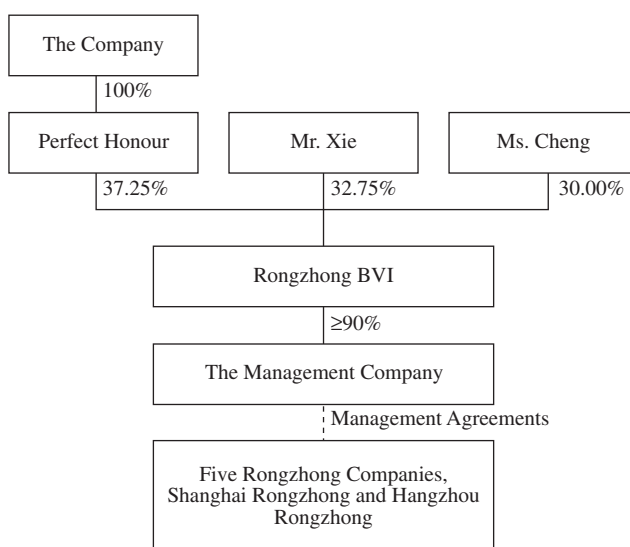
To the best knowledge and belief of the Directors, other than the call options to be granted to Rongzhong BVI, none of the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong have granted any pre-emptive rights in relation to their respective equity interests in the abovementioned companies to any third party.

As the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong are associates of Mr. Xie, who will become a substantial shareholder of Rongzhong BVI upon completion of the Subscription Agreement, the entering into of the Management Agreements by the Management Company with the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong will constitute non-exempt ongoing connected transactions of the Company under the Listing Rules. As such, the Management Agreements will be subject to the approval by the Shareholders at the EGM. To the best knowledge and belief of the Directors, none of the existing Shareholders will have a beneficial interest in the Management Agreements, therefore no Shareholder is required to abstain from voting in respect of the ordinary resolution approving the Management Agreements.

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In addition, the Company will comply with the requirements under the Listing Rules for acquisition by Rongzhong BVI (which upon completion of the Subscription Agreement, will become a subsidiary of the Company) upon the exercise of the call options to be granted under the Management Agreements. Should Rongzhong BVI decide to exercise the call options to be granted by the respective shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong, the aggregate amount payable for such acquisitions will be the proportionate registered capital of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. The aggregate registered capital of the Five Rongzhong Companies amounts to RMB62,000,000 while the registered capital of Shanghai Rongzhong and Hangzhou Rongzhong are yet to be determined.

Set out below is a corporate structural chart of Rongzhong BVI immediately after the Reorganisation and completion of the Subscription Agreement:



Note: Pursuant to the Subscription Agreement, Rongzhong BVI will not hold any interest in the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong until the exercise of the call options to be granted by the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong under the Management Agreements, which will be entered into upon completion of the Subscription Agreement and establishment of the Management Company. At present, the Directors have no intention to exercise such options.

MANAGEMENT AGREEMENTS – ONGOING CONNECTED TRANSACTIONS

Principal terms of the Management Agreements

It is one of the conditions precedent for completion of the Subscription Agreement that the Management Company will enter into the Management Agreements with the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong.

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The management fees payable by the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong to the Management Company shall be:

- (a) a fixed percentage of their respective turnover; and
- (b) bonus to be calculated on the basis of profit earned by any of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong.

The Directors expect that the aggregate annual value of the transactions contemplated under the Management Agreements will exceed 2.5% under the revenue test under Rule 14.07 of the Listing Rules or HK\$10,000,000 and accordingly, the Management Agreements will be subject to disclosure and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The Company proposes to set the maximum aggregate annual value of the transactions contemplated under the Management Agreements at HK\$5 million and HK\$30 million (the "Cap") for the two years ending 31 March 2006 respectively provided that the Company will comply with the Listing Rules when the term of the Cap expires. The Cap was determined by reference to the forecast performance of the Management Company assuming that the Reorganisation has been completed. The Directors have reviewed such forecast performance and are satisfied that it is prepared with due care and diligence.

The Cap for the Management Agreements of HK\$5 million for the year ending 31 March 2005 is determined based on (a) the full operation of the Five Rongzhong Companies during the period; (b) the addition of Shanghai Rongzhong and Hangzhou Rongzhong to the Rongzhong Group in the second quarter of 2004; (c) the increase in the size and scope of operation of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong; and (d) the internal projection of the management fees to be paid by the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong to the Management Company for its services provided during the period.

The Cap for the Management Agreements of HK\$30 million for the year ending 31 March 2006 is determined based on (a) the full operation of the Rongzhong Group; (b) the increase in the size and scope of operation of the Rongzhong Group; and (c) the internal projection of the management fees to be paid by the Rongzhong Group to the Management Company for its services provided during the period.

If during the period ending 31 March 2006, the aggregate annual value of the transactions contemplated under the Management Agreements exceeds the Cap or there is a material change to the terms of the Management Agreements, the Company will take necessary steps to ensure compliance with the Listing Rules.

The transactions contemplated under the Management Agreements are subject to the approval of the Shareholders at the EGM and annual review requirement and the reporting requirement respectively under Rules 14A.37 and 14A.41, and Rules 14A.45 and 14A.46 of the Listing Rules.

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Reasons for and benefits of the Management Agreements

The Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong require certain business management and other supporting services in connection with their operations. As the Management Company has the expertise and resources to provide such services, it would be more cost effective for one company to provide such services instead of having a management company for each of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong.

As at the Latest Practicable Date, the Management Company did not have any shareholding in the Five Rongzhong Companies, thus neither the profit and loss accounts nor the balance sheet of the Five Rongzhong Companies will be consolidated into the Management Company. The entering into of the Management Agreements will allow the Management Company to enjoy (i) the economic benefits from managing the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong (which will not exceed the proposed cap for the Management Agreements as stated under the paragraph headed “Principal terms of the Management Agreements” under the section headed “Management Agreements — ongoing connected transactions” in this letter); and (ii) the rights to acquire equity interests in any of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong should Rongzhong BVI exercise the call options to be granted under the Management Agreements. At present, the Directors have no intention to exercise such options.

The terms of the Management Agreements have been determined after arm’s length negotiations between the parties thereto and will be no less favourable than those terms offered to the Management Company than other independent third parties. Based on the above, the Directors are of the view that the terms of the Management Agreements are fair and reasonable so far as the Independent Shareholders are concerned and that the Management Agreements are on normal commercial terms and in the interest of the Company.

Condition of the Management Agreements

The Management Agreements will be subject to the obtaining of approvals from the Shareholders at the EGM to approve the Management Agreements, including the Cap, and the transactions contemplated therein.

If the Management Agreements are not approved by the Shareholders at the EGM or such other date as the parties may agree, the Management Agreements will lapse and all the obligations and liabilities of the parties to the Management Agreements will cease and terminate except any antecedent breach accrued prior thereto.

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INFORMATION ON RONGZHONG BVI AND THE MANAGEMENT COMPANY

Rongzhong BVI is an investment holding company incorporated in the British Virgin Islands with limited liability on 3 March 2004. Rongzhong BVI did not hold any assets nor have any business activity since its incorporation, therefore its net asset value and profit and loss accounts were not available as at the Latest Practicable Date. In addition, Rongzhong BVI currently does not have any connection with the Rongzhong Group other than the call options to be granted to Rongzhong BVI upon the entering of the Management Agreements. At present, the Directors have no intention to exercise such options. As at the Latest Practicable Date, the total issued share capital of Rongzhong BVI is one share and is wholly owned by Mr. Xie. Mr. Xie is currently a director of Rongzhong BVI and Ms. Cheng has not indicated whether she will personally act as a director of Rongzhong BVI or appoint a representative to do so. As at the Latest Practicable Date, Rongzhong BVI did not have any interest in the Five Rongzhong Companies.

The Management Company will be established under the PRC laws for the purpose of entering into of the Management Agreements and will be in the form of either a wholly foreign owned enterprise wholly owned by Rongzhong BVI, or a sino-foreign joint venture enterprise owned as to at least 90% by Rongzhong BVI. As at the Latest Practicable Date, the Management Company has not yet been established, but it will be established after the proposed resolutions have been passed by the Shareholders at the EGM. At present, the parties to the Subscription Agreement have no concrete decision as to the final shareholding of Rongzhong BVI in the Management Company, therefore they are unable to identify or ascertain the holder(s) of the estimated remaining shareholding in the Management Company. As at the date of this circular, the Management Company had not yet been incorporated.

INFORMATION ON THE RONGZHONG GROUP

The Rongzhong Group was established in 2001 and is principally engaged in the provision of loan guarantee services in cooperation with banks in the PRC. The Rongzhong Group currently consists of the Five Rongzhong Companies, which are all controlled by Mr. Xie, with operations located in Wuhan, Guangzhou, Chongqing, Changsha and Chengdu. Save and except for Wuhan operation, Mr. Xie has a majority interest in each of the companies of the Rongzhong Group. In addition, the shareholders of the Rongzhong Group have expressed their intentions to grant call options to Rongzhong BVI pursuant to which, Rongzhong BVI shall have the rights to acquire all such equity interests in the Rongzhong Group. The Rongzhong Group employed approximately 550 staff as at 31 December 2003. According to the PRC legal advisers to the Company, there is no licence and/or approval requirement under the PRC laws and regulations for engaging in the loan guarantee business.

The Rongzhong Group provides loan guarantee services for individuals mainly in relation to six types of products: (1) consumables; (2) educational funds; (3) residential renovations; (4) travels and wedding functions; (5) new and second hand cars; and (6) new and second hand properties. The guarantee period for consumables is usually up to two years, while the guarantee period for cars is usually up to two years and for properties is five to ten years. When an individual decides to make a purchase and requires loan financing, the lenders

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(including banks and licensed financial institutions) and/or the vendors of the products will normally require the borrower to provide sufficient collateral and/or suitable guarantee for repayment of the loan. The Rongzhong Group will then provide a guarantee to these lenders and/or vendors and will charge the individual a guarantee fee which is usually at a fixed annual rate with reference to the loan amount. The fee varies depending on the type of products. Upon successful approval of the loan by the banks and/or the vendors of the products, the Rongzhong Group may also receive rebates from the banks and/or vendors. For the guarantees given by the Rongzhong Group in relation to cars and properties, they are secured by a charge on the underlying assets, while most of the guarantees in relation to consumables are unsecured. According to the management of the Rongzhong Group, the default rate for the past two financial years generally was low, at below 1% to the total amount guaranteed by the Rongzhong Group due to its stringent approval procedures. Also, due to the limited loan size for the consumables, the incentive for the individuals to default is relatively low.

The Rongzhong Group has formed strategic alliances with several nationwide banks in the PRC.

It is the present intention of the Rongzhong Group to continue its geographical expansion in the PRC. According to its management, the Rongzhong Group is planning to set up two more operations, Shanghai Rongzhong and Hangzhou Rongzhong in the second quarter of 2004, and with an aim to further expand its coverage in northern China such as Jinan and Beijing by the end of 2004.

The following table sets out the consolidated unaudited management accounts of the Five Rongzhong Companies (excluding the Chengdu operation which was established in February 2004), for information purposes only, prepared in accordance to the PRC accounting standard:

	Year ended 31 December	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before tax	2,838	(2,471)
Profit/(loss) after tax	1,536	(2,471)
Net asset value	50,342	18,806

BUSINESS REVIEW OF THE GROUP

The principal business of the Group is property investment and other investments in Hong Kong and the PRC. During the year ended 31 March 2003, the turnover of the Group was mainly contributed by the rental income derived from its existing property, at Golden Plaza, No. 745-747 Nathan Road, Kowloon, Hong Kong. Almost all of the total gross floor area of Golden Plaza has been leased.

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For the year ended 31 March 2003, the Group recorded a net loss attributable to shareholders of approximately HK\$71,962,000, which was mainly attributable to the deficit on revaluation of investment properties and provision for impairment in value of other investments.

As at 31 March 2003, the Group had net asset value of approximately HK\$135,491,000 and cash and bank balances of approximately HK\$13,102,000.

INFORMATION ON NANJING CITY PLAZA

On 3 December 2003, the Company announced the acquisition of a 25% equity interest in Nanjing City Plaza at a consideration of HK\$91,000,000, which has been satisfied as to HK\$90,000,000 in cash and as to HK\$1,000,000 by the issuance of 5,000,000 new Shares. Such acquisition was completed on 27 February 2004.

Nanjing City Plaza is a sino-foreign equity joint venture company incorporated in the PRC on 4 December 1992, with its registered capital of US\$10,000,000. As at the Latest Practicable Date, Nanjing City Plaza is owned as to 25% by Sino Dynasty Investments Limited, a wholly owned subsidiary of the Company, as to 25% by Wah Link Real Estate Investments Limited, a company beneficially owned as to 51% by a family member of Mr. Wong and 49% by Mrs. Wong, as to 48% by Bateson Investment Limited (formerly known as Y&W Holdings Limited) and as to the remaining 2% by 珠海經濟特區南華有限公司 (Zhuhai Special Economic Region South China Limited*).

The principal asset of Nanjing City Plaza is an approximately 67% equity interest in Nanjing International, a joint stock limited liability company incorporated in the PRC, which is principally engaged in property development in Nanjing, the PRC. Nanjing International has a fully paid registered capital of RMB371,237,500 (equivalent to approximately HK\$350,224,000) divided into 371,237,500 shares of RMB1.00 each. Nanjing International has been developing a property project in Nanjing, the PRC, namely 南京國際廣場 Nanjing International Plaza which is situated at 中國南京鼓樓區中央門街道童家巷(北)、中央路(西) (Tongjia Avenue (North) Zhongyanlu (West) Zhongyanmen Jiedao, Gulou District, Nanjing, the PRC) with a site area of approximately 35,422 sq.m.. Land use right of the Nanjing Project has a term of 50 years commencing from 19 October 1993 up to 18 October 2043. The land premium of the Nanjing Project has been duly paid by Nanjing International.

The Nanjing Project is planned to be developed in two phases. Phase I of the Nanjing Project is under construction and is expected to be completed in 2006, which comprise a shopping mall, a hotel, service apartments, residential units and office premises, with a total gross floor area of approximately 228,000 sq.m.. Phase II of the Nanjing Project is at a planning stage. It is intended that under Phase II, a 71-floor commercial building with a total gross floor area of approximately 183,000 sq.m., comprising a hotel, service apartments and office premises, will be built.

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According to the management of Nanjing International, the total investment cost of Phase I of the Nanjing Project is estimated to be approximately RMB1,473,500,000 (equivalent to approximately HK\$1,390,094,000), of which approximately RMB357,910,000 (equivalent to approximately HK\$337,651,000) has been paid up to the date of the S&P Agreement and the remaining portion of approximately RMB1,115,590,000 (equivalent to approximately HK\$1,052,443,000) is expected to be funded by the proceeds generated from the subscription of the New Nanjing International Shares by Nanjing City Plaza, sale proceeds from the pre-sale units of the Phase I of the Nanjing Project and external financing to be arranged by Nanjing International. The Phase II of the Nanjing Project is at a planning stage. The management of Nanjing International estimates that the total investment of Phase II will be approximately RMB1,500,000,000 (equivalent to approximately HK\$1,415,094,000), which is expected to be funded mainly by the sale proceeds to be generated from the sale of the units of the Phase I and, if required, external financing to be arranged by Nanjing International.

The management of Nanjing International advised that Nanjing International had a capital injection of approximately RMB160,000,000 (equivalent to approximately HK\$150,943,000) from the allotment of the 100,000,000 New Nanjing International Shares. In addition, the management of Nanjing International expects that the pre-sale of Phase I of the Nanjing Project will be commenced in the second half of 2004 and the sale proceeds from the pre-sale units will be used to finance the development cost of the remaining portion of the Phase I of the Nanjing Project. The management of Nanjing International further advised that Nanjing International will seek external financing for any shortage of funds and it is currently in negotiation with various banks in the PRC and Hong Kong for a term loan/banking facilities in meeting the funding requirements of Nanjing International for the payment of property development costs in 2004 and 2005. As it is considered not unusual to seek external financing as a partial funding source for a property development project, the Directors believe that the term loan/banking facilities will be procured by Nanjing International in the near future. Should the proceeds from the pre-sale units and external financing be insufficient for the Nanjing Projects, Nanjing International will consider other sources of funding, including but not limited to, further issue of share capital. Accordingly, the Directors are of the view that Nanjing International will be able to procure sufficient funds to complete the Nanjing Project.

Nanjing International has another loan of RMB12,000,000 from another lending bank, which is secured with part of the land use right of Phase I of the Nanjing Project with site area of approximately 2,850.4 sq.m.. Such loan has expired on 14 October 2003 and Nanjing International has reached an agreement with the lending bank to extend the loan settlement date to 13 August 2004. The management of Nanjing International intends to settle such loan on or before its maturity date.

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INFORMATION ON GOBI FUND, INC.

On 15 December 2003, the Board announced that Dragon Express Investments Limited, a wholly owned subsidiary of the Company, entered into a subscription agreement with Gobi Fund, Inc. (“Gobi Fund”) and Gobi Partners, Inc. (“Gobi Partners”) on 11 December 2003 pursuant to which Dragon Express Investments Limited agreed to subscribe for 12 units of Gobi Fund at an aggregate consideration of US\$6,000,000 (equivalent to approximately HK\$46,800,000).

Gobi Fund is a venture capital fund focusing on early stage investments in the PRC’s digital media sector, such as telecommunications, internet and broadcasting. Gobi Fund makes privately negotiated equity and equity-related investments primarily in the PRC that are developing and/or applying new technologies within the digital media sector, such as content creation, delivery, access and applications. The target capitalisation of Gobi Fund is US\$75,000,000 (equivalent to approximately HK\$585,000,000) divided into 150 units.

The first round subscription of US\$30,000,000 (equivalent to approximately HK\$234,000,000) has been fully subscribed, and the first installment which represents 25% of the total subscription amount, i.e. US\$7,500,000 (equivalent to approximately HK\$58,500,000) has been fully paid on or around 5 January 2004. The completion of second round subscription of the remaining US\$45,000,000 (equivalent to approximately HK\$351,000,000) is expected to be on or before 30 June 2004. Gobi Fund will still be in operation even if it is under-subscribed and its investment portfolio will then be adjusted according to the availability of fund.

As at the Latest Practicable Date, the second round subscription of the Gobi Fund has not yet been completed.

Strategic subscribers of Gobi Fund include NTT DoCoMo, Inc., IBM World Trade Corporation, Dragon Express Investments Limited and Gobi Partners.

Gobi Fund is sponsored and managed by Gobi Partners, the executives of Gobi Partners were previously employed by a venture capital firm based in the United States with more than US\$200,000,000 (equivalent to HK\$1,560,000,000) assets under management in June 2002 focusing on digital media opportunities in the PRC. The management team of Gobi Partners comprises multi-disciplined professionals with extensive experience in investment banking, venture capital, fund management and digital media industry in Asia and the United States. Currently, Gobi Fund is the only fund managed by Gobi Partners.

Gobi Fund is also co-sponsored by Tsinghua Venture Capital Co., Ltd., a venture capital arm of Tsinghua University, the PRC. Through strategic partnership, Gobi Fund will gain access to Tsinghua University’s extensive network, deal flows and resources. There will not be any capital investment in Gobi Fund by Tsinghua Venture Capital Co., Ltd. Gobi Partners and Tsinghua Venture Capital Co., Ltd. and their respective shareholders are not connected with the directors, chief executive and substantial shareholders of the Company or its subsidiaries and/or their respective associates.

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FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Golden Plaza, which is situated in Mongkok, Kowloon, Hong Kong with an already established niche market, continues to provide satisfactory income. Looking ahead, occupancy rate of Golden Plaza is expected to remain high. At the same time, the Board will continue to look for investment opportunities that have earning potentials, with an aim to diversify its sources of income and to develop its existing business. In particular, the Board will focus on companies in Hong Kong and the PRC which either (i) have steady income and positive cashflow, or are in industries where the barrier of entry is relatively high; or (ii) are in fast growing industries. It is the ultimate goal of the Board to make use of the Group's resources to maximise the value of the Company.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE AGREEMENTS

The Group is principally engaged in property investment and other investments in Hong Kong and the PRC. As set out in the interim report for the six months ended 30 September 2003, with the recovery of economic and investment conditions in Hong Kong and the continuing prosperity of the economy in the PRC, the Board considers that it would now be the opportune time for the Group to seek business diversification.

The Directors consider that the entering into of the Subscription Agreement as a strategic move for the Group to venture into the PRC loan guarantee industry which the Directors believe has optimistic and growth prospect. The Directors consider that the guarantee services sector, which helps the banks and financial institutions to diversify risks and facilitate the granting of loans, together with the banking and securities sectors, are imperative to the financial system in the PRC. However, when compared with the banking and securities sectors, the guarantee services sector in the PRC is relatively primitive and undeveloped. As the financial market of the PRC continues to develop, the Directors are of the view that the guarantee services sector will eventually play an important role, and therefore the Directors are optimistic on the growing prospects of the Rongzhong Group. In particular, the Rongzhong Group focuses on the provision of loan guarantee services for consumables. As consumption in the PRC is expected to experience high growth as the living standard in the PRC continues to improve and per capita income level continues to increase, the entering into of the Subscription Agreement provides an opportunity for the Group to capture the potential growth in this market and therefore the Directors consider it to be beneficial to the Group and the Shareholders as a whole are concerned.

The proceeds from the subscription under the Subscription Agreement is intended to be used to expand the business of Rongzhong BVI, including but not limited to the acquisition of interests in the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong upon exercise of the options to be granted under the Management Agreements.

LETTER FROM THE BOARD

Having considered the warranted Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005, the board control in Rongzhong BVI and the put option granted to Perfect Honour by Wah Link under the Option Agreement, the Directors believe that the consideration to be paid by the Group for the subscription under the Subscription Agreement, which represents the prospective price earnings multiple of approximately 11.0962 times the average warranted Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005, is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

In addition, upon completion of the Subscription Agreement, Rongzhong BVI will set up the Management Company for the purpose of entering into of the Management Agreements with the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong respectively. The entering into of the Management Agreements will allow the Management Company to enjoy (i) the economic benefits from managing the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong (which will not exceed the proposed cap for the Management Agreements as stated under the paragraph headed “Principal terms of the Management Agreements” under the section headed “Management Agreements — ongoing connected transactions” in this letter); and (ii) the rights to acquire equity interests in any of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong should Rongzhong BVI exercise the call options granted under the Management Agreements. Therefore, the Directors consider that the entering into of the Management Agreements is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

The entering into of the Option Agreement is to provide a protection for the Group against any unforeseeable downturn or risks of its investment in Rongzhong BVI. The Directors consider that the terms of the Option Agreement are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

The proceeds from the issue of the Convertible Note under the CN Subscription Agreement is to fund the Group’s portion of subscription under the Subscription Agreement. The Directors consider that the terms of the Convertible Note are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

The CN Subscription Agreement is not conditional on the Subscription Agreement and/or the Option Agreement. Should the Subscription Agreement not be approved by the Independent Shareholders but the CN Subscription Agreement is approved by the Independent Shareholders, the Directors intend to apply the net proceeds from the issue of the Convertible Note to finance future investments of the Group. The Directors confirm that, save as disclosed in this circular, the Company is not in negotiation of any acquisition at present.

LETTER FROM THE BOARD

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms and conditions of the Transaction Agreements, the Shareholders' Agreement and the Management Agreements, including the Cap.

Menlo has been appointed as independent financial adviser to advise the Independent Board Committee on the same. The letter is set out in the section headed "Letter of advice from Menlo" in this circular.

THE EGM

Wah Link is beneficially owned as to 51% by a family member of Mr. Wong, a Director, and as to 49% by Mrs. Wong, the spouse of Mr. Wong, and therefore Wah Link is an associate of Mr. Wong under the Listing Rules. Accordingly, the entering into of the CN Subscription Agreement and the Option Agreement will constitute connected transactions for the Company under the Old Listing Rules. The Company will seek approval from the Independent Shareholders for the CN Subscription Agreement and the Option Agreement at the EGM. As the aggregate value of the consideration of the Subscription Agreement represents more than 50% of the consolidated net tangible assets of the Group, the entering into of the Subscription Agreement constitutes a major transaction for the Company under the Old Listing Rules. The Subscription Agreement is conditional upon the Independent Shareholders approving the CN Subscription Agreement and the Option Agreement at the EGM, therefore the Subscription Agreement is also subject to the approval by the Independent Shareholders at the EGM.

Mr. Wong and his associates will abstain from voting on the proposed resolutions in relation to the Transaction Agreements.

A notice convening the EGM to be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on 2 June 2004 is set out on pages 145 to 148 to this circular. A form of proxy for use at the EGM is also enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjourned thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

POLL PROCEDURE

As at the Latest Practicable Date, Mr. Wong and his associates, who are connected persons of the Company, were interested in approximately 29.91% of the issued share capital of the Company. In view of the interest of Mr. Wong and his associates in the transactions contemplated under the Transaction Agreements, Mr. Wong and his associates will abstain from voting in respect of the proposed resolutions regarding the Transaction Agreements at the EGM. The votes to be taken at the EGM in respect of the Transaction Agreements will be taken by poll, the results of which will be announced after the EGM.

Under the articles of association of the Company, a poll can be demanded by

- (a) the Chairman;
- (b) at least three members present in person or by proxy;
- (c) any member or members present in person or by proxy and representing not less than one tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) any member or members present in person or by proxy and holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The Chairman will demand a poll at the EGM and will be scrutineered by Computershare Hong Kong Investor Services Limited.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 32 which contains its recommendation to the Independent Shareholders on the terms and conditions of the Transaction Agreements, the Shareholders' Agreement and the Management Agreements, including the Cap, and the letter of advice from Menlo, the text of which is set out on pages 33 to 59 of this circular, containing its advice to the Independent Board Committee. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
Goldbond Group Holdings Limited
Li Sang Edward
Company Secretary



GOLDBOND GROUP HOLDINGS LIMITED

金榜集團控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 172)

Registered and principal office.

Unit 3902A, 39th Floor, Tower 1

Lippo Centre

89 Queensway

Hong Kong

14 May 2004

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the transactions contemplated under the Transaction Agreements, the Shareholders' Agreement and the Management Agreements, including the Cap, details of which are set out in the letter from the Board in the circular dated 14 May 2004 (the "Circular") to the Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from Menlo set out on pages 7 to 31 and pages 33 to 59 of the Circular respectively. We have considered and discussed with Menlo its letter of advice and the principal factors and reasons considered by it as well as its recommendation in relation to the transactions contemplated under the Transaction Agreements, the Shareholders' Agreement and the Management Agreements, including the Cap. We concur with Menlo's advice and recommend the Independent Shareholders to approve the transactions contemplated under the Transaction Agreements, the Shareholders' Agreement and the Management Agreements, including the Cap.

Yours faithfully,

Ma Ho Fai Zhang Xiao Shu

Independent Board Committee

LETTER FROM MENLO

The following is the text of a letter from Menlo in connection with the Transaction Agreements, the Shareholders' Agreement and the Management Agreements, which has been prepared for the purpose of inclusion in this circular:



Menlo Capital Limited
Room 505, Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

14 May 2004

*To the Independent Board Committee of
Goldbond Group Holdings Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS

We refer to our appointment to advise the Independent Board Committee in respect of the Transaction Agreements, the Shareholders' Agreement and the Management Agreements, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular of the Company dated 14 May 2004 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

Wah Link is beneficially owned as to 51% by a family member of Mr. Wong, a Director, and as to 49% by Mrs. Wong, the spouse of Mr. Wong, and therefore is an associate of Mr. Wong under the Listing Rules. Accordingly, the entering into of the CN Subscription Agreement and the Option Agreement constitutes connected transactions for the Company under the Old Listing Rules. The Company will seek approval from the Independent Shareholders for the CN Subscription Agreement and the Option Agreement at the EGM. As the aggregate value of the consideration of the Subscription Agreement represents more than 50% of the consolidated net tangible assets of the Group, the entering into of the Subscription Agreement constitutes a major transaction for the Company under the Old Listing Rules. The Subscription Agreement is conditional upon the Independent Shareholders' approval of the CN Subscription Agreement and the Option Agreement at the EGM; therefore the Subscription Agreement is also subject to the approval by the Independent Shareholders at the EGM at which Mr. Wong and his associates will abstain from voting in respect of the resolutions approving the same.

LETTER FROM MENLO

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors or the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge and belief, they believe there are no other facts or representations the omission of which would make any statement contained in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our advice to the Independent Board Committee in respect of the Transaction Agreements, the Shareholders' Agreement and the Management Agreements, we have taken the following principal factors and reasons into consideration:

(A) THE SUBSCRIPTION AGREEMENT

I. Background and reasons for entering into the Subscription Agreement

The principal business of the Group is property investment and other investments in Hong Kong and the PRC. During the year ended 31 March 2003, the turnover of the Group was mainly contributed by the rental income derived from its existing property located, at Golden Plaza, No. 745-747 Nathan Road, Kowloon, Hong Kong. Almost all of the total gross floor area of Golden Plaza has been leased.

For the year ended 31 March 2003, the Group recorded a net loss attributable to shareholders of approximately HK\$71,962,000, which was mainly attributable to the deficit on revaluation of investment properties and the provision for impairment in value of other investments. As at 31 March 2003, the Group had audited and restated consolidated net tangible assets value of approximately HK\$133.02 million and cash and bank balances of approximately HK\$13.10 million.

LETTER FROM MENLO

As set out in the interim report for the six months ended 30 September 2003, with the recovery of economic and investment conditions in Hong Kong and the continuing prosperity of the economy in the PRC, the Board considers that it would now be the opportune time for the Group to seek business diversification. In particular, the Board is focusing on companies in Hong Kong and the PRC which either (i) have steady income and positive cash flow, or are in industries where the barrier of entry is relatively high; or (ii) are in fast growing industries. It is the ultimate goal of the Board to make use of the Group's resources to maximise the value of the Company.

On 19 March 2004, Perfect Honour, a wholly owned subsidiary of the Company, entered into the Subscription Agreement (as supplemented by the Supplemental Agreement dated 30 March 2004) with Mr. Xie, Ms. Cheng and Rongzhong BVI. Pursuant to the Subscription Agreement, Perfect Honour, Mr. Xie and Ms. Cheng will subscribe for 3,725 new shares, 3,274 new shares and 3,000 new shares of Rongzhong BVI at cash consideration of RMB62,000,000, RMB32,353,841.25 and RMB29,646,158.75 (equivalent to approximately HK\$58.49 million, HK\$30.52 million and HK\$27.97 million) respectively. Upon completion of the Subscription Agreement, Rongzhong BVI will be owned as to 37.25%, 32.75% and 30.00% by Perfect Honour, Mr. Xie and Ms. Cheng respectively.

One of the conditions precedent for the completion of the Subscription Agreement is that Rongzhong BVI will undergo the Reorganisation pursuant to which Rongzhong BVI will enter into the Shareholders' Agreement and will set up the Management Company for the purpose of entering into the Management Agreements with the Five Rongzhong Companies, which are currently controlled by Mr. Xie, and Shanghai Rongzhong and, Hangzhou Rongzhong, which will be set up in the second quarter of 2004 and controlled by Mr. Xie. Details of the Reorganisation are set out in the Board Letter.

Rongzhong BVI is an investment holding company incorporated in the British Virgin Islands with limited liability on 3 March 2004. Rongzhong BVI has no assets nor business activity since its incorporation. In addition, Rongzhong BVI currently does not have any shareholdings in connection with the Rongzhong Group other than the call options to be granted to Rongzhong BVI upon entering of the Management Agreements. As at the Latest Practicable Date, Rongzhong BVI was wholly owned by Mr. Xie. Mr. Xie and Ms. Cheng have warranted that the aggregate amount of the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005 will not be less than RMB30 million.

The Rongzhong Group was established in 2001 and is principally engaged in the provision of loan guarantee services in cooperation with banks in the PRC. The Rongzhong Group currently consists of the Five Rongzhong Companies which are all controlled by Mr. Xie and with operations located in Wuhan, Guangzhou, Chongqing, Changsha and Chengdu of the PRC. The Rongzhong Group employed approximately 550 staff as at 31 December 2003.

LETTER FROM MENLO

The Management Company will be set up and will not have any shareholding in the Five Rongzhong Companies, therefore neither the profit and loss accounts nor the balance sheets of the Five Rongzhong Companies will be consolidated into the Management Company. The entering into of the Management Agreements allows the Management Company to enjoy (i) the economic benefits from managing the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong and (ii) the rights to acquire equity interests in any of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong should Rongzhong BVI exercises the call options to be granted under the Management Agreements. The Directors have no intention to exercise the call options at present.

The Rongzhong Group provides loan guarantee services for individuals in the five cities mainly in relation to six types of products: (1) consumables; (2) educational funds; (3) residential renovations; (4) travels and wedding functions; (5) new and second hand cars; and (6) new and second hand properties. As advised by the management of the Company, approximately 68% of the total loan guarantee services are related to consumables within which the mobile phones and personal computers account for approximately 73.53%. In other words, the mobile phones and personal computers account for approximately 50% of the total income of the loan guarantee services. The guarantee period for consumables and cars is usually up to two years, while the guarantee period for properties is five to ten years.

When an individual decides to make a purchase and requires loan financing, the lenders (including banks and licensed financial institutions) and/or the vendors of the products will typically require the borrower to provide sufficient collateral and/or suitable guarantee for repayment of the loan. The Rongzhong Group will then provide a guarantee to these lenders and/or vendors and will charge the individual a guarantee fee which is usually at a fixed rate per annum with reference to the loan amount. The guarantee fee varies depending on the type of products. Upon successful approval of the loan by the banks and/or the vendors of the products, the Rongzhong Group may also receive rebates from the banks and/or vendors. For the guarantees given by the Rongzhong Group in relation to cars and properties, they are secured by a charge on the underlying assets, while most of the guarantees in relation to consumables are unsecured. According to the management of the Rongzhong Group, the default rate for the past two financial years generally was low, which was below 1% to the total amount guaranteed by Rongzhong Group due to its stringent approval procedures. Also, due to the limited loan size for the consumables, the incentive for the individuals to default payments is relatively low.

LETTER FROM MENLO

The Rongzhong Group has formed strategic alliances with several nationwide banks in the PRC. It is the present intention of the Rongzhong Group to continue its geographical expansion in the PRC. According to its management, the Rongzhong Group is planning to set up two more operations, Shanghai Rongzhong and Hangzhou Rongzhong, in the second quarter of 2004, and with an aim to further expand its coverage in northern China such as Jinan and Beijing of the PRC by the end of 2004.

The following table sets out the consolidated unaudited management accounts of the Five Rongzhong Companies (excluding the Chengdu operation which was established in February 2004) for information purposes only, prepared in accordance to the PRC accounting standard:

	Year ended 31 December	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before tax	2,838	(2,471)
Profit/(loss) after tax	1,536	(2,471)
Net asset value	50,342	18,806

The Directors consider that the entering into of the Subscription Agreement as a strategic move for the Group to venture into the PRC loan guarantee industry which the Directors believe has optimistic and growth prospect. Since Mr. Xie and Ms. Cheng have warranted that the aggregate amount of the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005 will not be less than RMB30 million, at present the Directors have no intention to exercise the call option to be granted by the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. The Directors consider that the guarantee services sector, which helps the banks and financial institutions to diversify risks and facilitate the granting of loans, together with the banking and securities sectors, is imperative to the financial system in the PRC. However, when compared with the banking and securities sectors, the guarantee services sector in the PRC is relatively primitive and undeveloped. As the financial market of the PRC continues to develop, the Directors are of the view that the guarantee services sector will eventually play an important role, and therefore the Directors are optimistic on the growing prospects of the Rongzhong Group. In particular, the Rongzhong Group focuses on the provision of loan guarantee services for consumables. As consumption in the PRC is expected to experience high growth due to the continuous improvement of the living standard in the PRC and the continuous increase in the per capita income level, the entering into of the Subscription Agreement will provide an opportunity for the Group to capture the potential growth in this market and therefore the Directors consider it to be beneficial to the Group and the Shareholders as a whole.

LETTER FROM MENLO

The proceeds from the subscription under the Subscription Agreement is intended to be used to expand the business of Rongzhong BVI, including but not limited to the acquisition of interests in the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong upon exercise of the options to be granted under the Management Agreements. In addition, Perfect Honour will provide a shareholder's loan of up to RMB138 million (equivalent to approximately HK\$130.19 million) to Rongzhong BVI, which as and when necessary and appropriate, be used as working capital and/or for the acquisition of the Five Rongzhong Companies, Shanghai Rongzhong, Hangzhou Rongzhong and other Rongzhong Companies (if any).

The loan guarantee service in the PRC market is rather new and immature. The performance of comparable loan guarantee service providers is not available. Alternatively, since the Rongzhong Group is mainly engaged in the provision of loan guarantee services for individuals mainly in relation to consumables such as mobile phones and personal computers in the PRC, we have chosen to review the economic situation and market potential of these consumables in the PRC as detailed below.

The growth in the consumer sector in the PRC in which Rongzhong BVI operates is generally represented by the growth trend of the PRC economy and the size and purchasing power of the population concerned. According to the 2003 National Economic and Social Development Statistics Report published by the National Bureau of Statistics of China, the PRC's population has grown continuously over the past decade. The PRC's population reached 1.29 billion in 2003 whilst the urbanization rate has soared from approximately 27.5% in 1992 to approximately 40.53% in 2003. With the increasing urbanization rate in the past decade, it is expected that there are tremendous opportunities for the development of the consumer sector in the PRC in the future. Over the past decade, the PRC has been one of the world's fastest growing economies. Its gross domestic product grew from approximately RMB2.7 trillion in 1992 to approximately RMB11.7 trillion in 2003, representing a compound annual growth rate of approximately 14.3%.

Apart from the above general economic growth in the PRC, the World Telecommunication Development Report 2003 published by International Telecommunication Union ("ITU") forecasted that the mobile phone users in the PRC will be increased by approximately 100% from 2001 to 2004. The number of mobile phone increased to 16.09 sets per 100 inhabitants in 2002, representing a compound annual growth rate of approximately 73.3% from 1997 to 2002. The World Telecommunication Indicators publish by ITU in December 2003 also indicated that the penetration of mobile phones in the USA, Japan and certain European counties are in the range of 48.8 sets to 93.9 sets per 100 inhabitants. It reflects a good potential for the growth of mobile phone market in the PRC accompanying the growth of the PRC economy.

LETTER FROM MENLO

The personal computer market in the PRC also experiences a continuous growth in recent years. China Statistical Yearbook 2003 stated that there was a compound annual growth rate of approximately 51.3% from 2.60 sets to 20.63 sets per 100 households from 1997 to 2002. According to the World Telecommunication Development Report 2003 of ITU, the penetration rate of personal computer in developed countries was 36.2 sets per 100 households. These figures has not reflected the market potential for the loan guarantee business generated from the replacement of the old personal computers by the new ones in every three to four years.

Considering the favourable outlook of the economic growth in the PRC in general and the rapid growth of the mobile phone and personal computer market in the PRC in particular as reviewed in the China Statistical Yearbook 2003, National Bureau of Statistics of China and the positive growth momentum of the mobile phone and personal computer industry as forecasted by ITU as mentioned above, we consider the entering into of the Subscription Agreement is in line with the Company's strategy to diversify the businesses of the Group in the high growth market, which in turn will broaden its income base and enhance its cash flow position. On this basis, we are of the view that the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

II. Terms of the Subscription Agreement

1. *Consideration*

The consideration of RMB62 million (equivalent to approximately HK\$58.49 million) for the 3,725 new shares of Rongzhong BVI by Perfect Honour, which will be funded by the proceeds from the issue of the Convertible Note, was arrived at after arm's length negotiation between the parties to the Subscription Agreement and with reference to the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005, being not less than RMB30 million and the trading multiples of the financial services providers listed on the Stock Exchange. Such consideration represents a price-earnings multiple of approximately 11.0962 times of the 37.25% of the average warranted Pro Forma Profits for each of the two years ending 31 December 2005 of Rongzhong BVI, which is relatively lower than the price-earnings ratios of the financial services providers listed on the Stock Exchange. The consideration also represents an indicative price-to-book ratio of approximately 1.360 times of the 37.25% of the pro-forma net book value of Rongzhong BVI, after taking into account the net book value of the Five Rongzhong Companies as at 31 December 2003. Rongzhong BVI currently does not have any shareholdings in connection with the Rongzhong Group other than that Mr. Xie has agreed to procure the Rongzhong Group to grant the call options to Rongzhong BVI upon entering of the Management Agreements.

LETTER FROM MENLO

Pursuant to the Subscription Agreement, the Group shall have the right to nominate at least three representatives to the board of directors of Rongzhong BVI while Mr. Xie and Ms. Cheng together will have the right to nominate up to two representatives to such board. Therefore, the Group will control the board of directors of Rongzhong BVI and upon completion of the Subscription Agreement, Rongzhong BVI will become a subsidiary of the Company. After arm's length negotiation between the parties to the Subscription Agreement, it has been agreed that Perfect Honour will subscribe for new shares of Rongzhong BVI at a relatively higher price per share than the price per share to be paid by Mr. Xie and Ms. Cheng as a 68.5% premium paid for its control over the board of directors of Rongzhong BVI. The Directors consider that, after also taking into account the warranted Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005, such premium is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

2. Adjustment of the consideration

Pursuant to the Subscription Agreement (as amended and supplemented by the Supplemental Agreement), Mr. Xie and Ms. Cheng have warranted that the aggregate amount of the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005 shall not be less than RMB30 million. After arm's length negotiation among the parties thereto, Ms. Cheng is willing to warrant the Pro Forma Profits of Rongzhong BVI to facilitate the completion of the Subscription Agreement.

Should Rongzhong BVI fail to meet the above profit guarantee, Mr. Xie and Ms. Cheng shall jointly and severally be obliged to pay Perfect Honour compensation calculated as below:

(RMB30 million – aggregate amount of the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005) x 5.5481 x 37.25%

The multiple of 5.5481 used in calculating the compensation is based on the consideration of RMB62 million (equivalent to approximately HK\$58.49 million) to be paid by Perfect Honour divided by its attributable portion of the aggregate amount of the Pro Forma Profits of RMB30 million for the two years ending 31 December 2005.

The above warranty given by Mr. Xie and Ms. Cheng reflects their confidence in the future performance of Rongzhong BVI. The Company will be protected against the fluctuation in the earnings of Rongzhong BVI in the first two years of its operation and therefore such warranty is in the interests of the

LETTER FROM MENLO

Company and the Shareholders as a whole. The multiple of 5.5481 applied for the warranty, which is based on the price-earnings multiple under the Subscription Agreement, is acceptable so far as the interest of the Company is concerned.

We have reviewed the business projections of the Rongzhong Group for the two financial years ending 31 March 2006 provided by the management of the Company. Our opinion on the projections is discussed in the subsection “The Cap” under the section “Management Agreements” below.

Based on the above, we are of the view that the terms of the Subscription Agreement (as amended and supplemented by the Supplemental Agreement) are fair and reasonable and the entering into of the same is in the interests of the Company and the Shareholders as a whole.

III. Financial effect of the Subscription Agreement

Upon completion of the Subscription Agreement, the Group will control the board of directors of Rongzhong BVI. Accordingly, Rongzhong BVI will become a 37.25% indirectly owned subsidiary of the Company and its results will be consolidated to the financial statements of the Group. The financial effects of the Subscription Agreement are summarized as follows:

1. Net tangible assets

After completion of the Subscription Agreement but before acquisition of the Five Rongzhong Companies, Rongzhong BVI is a newly incorporated company, with its pro-forma net assets value equals to the total amount of RMB124 million of capital raised pursuant to the Subscription Agreement. The Group’s 37.25% shareholding in Rongzhong BVI represents its interest in the net assets of Rongzhong BVI of approximately RMB46.19 million (equivalent to approximately HK\$43.58 million). Hence the consideration of RMB62 million (equivalent to approximately HK\$58.49 million) for the subscription by Perfect Honour under the Subscription Agreement represents a premium of approximately RMB15.81 million (equivalent to approximately HK\$14.92 million) over the net assets of Rongzhong BVI. Such premium, which due to the subscription of the new shares of Rongzhong BVI by Perfect Honour at a relatively higher price per share than the price per share to be paid by Mr. Xie and Ms. Cheng, will reduce the net tangible assets of the Group by the same amount upon consolidation of the financial statements of Rongzhong BVI into that of the Group. This reduction in the net tangible assets upon consolidation of the Group’s accounts amounting to approximately HK\$14.92 million represents approximately 11.22% of the Group’s audited and restated consolidated net tangible assets value of approximately HK\$133.02 million as at 31 March 2003.

LETTER FROM MENLO

Taking into account that (i) the above premium is paid for the Group's control over the board of directors of Rongzhong BVI; and (ii) the warranted Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005 will give a protection to the Group against the fluctuation in the earnings of Rongzhong BVI in the first two years of its operation, the above reduction in the net tangible assets upon consolidation of the Group's accounts is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

2. *Earnings*

For the year ended 31 March 2003, the Group recorded a net loss attributable to the Shareholders of approximately HK\$71,962,000, which was mainly attributable to the deficit on revaluation of investment properties and the provision for impairment in value of other investments.

Upon completion of the Subscription Agreement, the Group will share 37.25% of the actual earnings of Rongzhong BVI to be derived from the Management Company pursuant to the Management Agreements. Pursuant to the Subscription Agreement, Mr. Xie and Ms. Cheng have warranted the aggregate amount of the Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005 will not be less than RMB30 million. However, the annual Cap of the management fee to be charged by the Management Company to the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong for the financial years ending 31 March 2005 and 31 March 2006 are HK\$5 million and HK\$30 million respectively. The Cap set a maximum amount of earnings to the Group for two financial years ending 31 March 2006.

We are of the view that the sharing of 37.25% of the guaranteed earnings of Rongzhong BVI will broaden the earnings base and strengthen the profitability of the Group for the two years ending 31 December 2005 and it is in the interests of the Company and the Shareholders as a whole.

3. *Working capital and gearing*

There will be no change in the working capital and cash flow position of the Group as the financial statements of Rongzhong BVI will be consolidated to the financial statements of the Group after completion of the Subscription Agreement.

As the subscription of the 3,725 new shares of Rongzhong BVI under the Subscription Agreement will be financed by the issuance of the Convertible Note, which involves a change in the debt position of the Group, the gearing ratio of the Group will be changed in the way as discussed in the subsection headed "Financial effect of the CN Subscription Agreement" below.

IV. Opinion

Although the entering into of the Subscription Agreement will allot Perfect Honour 37.25% of the share capital of Rongzhong BVI, the Group shall have the right to nominate at least three representatives to the board of directors of Rongzhong BVI so as to control the board of directors of Rongzhong BVI. At present the Directors have no intention to exercise the call options to be granted by the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong as the aggregate amount of the Pro Forma Profits of Rongzhong BVI for the two years will be warranted.

Upon completion of the Subscription Agreement, Rongzhong BVI will become a 37.25% indirectly owned subsidiary of the Company. The sharing of the warranted Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005 provided a minimum return to the Company for two years. The sharing of the warranted Pro Forma Profits represents a return of approximately 9.01% per annum or a price-earnings multiple of approximately 11.0962 times, which is lower than the price-earnings ratios of the financial services providers listed on the Stock Exchange. We are of the view that the provision of the warranted Pro Forma Profits by Mr. Xie and Ms. Cheng is in the interest of the Company, which may outweigh the weakness of having no asset and no business of Rongzhong BVI.

In addition to the return under the warranted Pro Forma Profits of Rongzhong BVI for the two years ending 31 December 2005, its continuous profits to be generated from the Rongzhong Group for 2006 and onward is also the concern of the Shareholders. Therefore, the business nature and the potential growth of the Rongzhong Group should be considered by the Company and the Shareholders when deciding whether to enter into the Subscription Agreement. Therefore, we have analysed the market potential of Rongzhong Group's business in details.

Perfect Honour will subscribe for new shares of Rongzhong BVI at a relatively higher price per share than the price per share to be paid by Mr. Xie and Ms. Cheng at a premium of 68.5%. We are of the view that the premium is justifiable in recognising the goodwill and the established business and resources related to the operation of the Rongzhong Group. Accordingly, the time for the setting up of the business operation of Rongzhong BVI has been significantly reduced. In addition, under the management of Mr. Xie, the Rongzhong Group has well established relationship with several nationwide banks in the PRC through forming strategic alliance which is crucial to the success of the business of Rongzhong BVI. Rongzhong BVI can save substantial time and costs in establishing such alliance. Moreover, the existing 550 staff of the Rongzhong Group who are experienced in the business can maintain the efficiency and smooth running of the operation as well as participate in future expansion of Rongzhong BVI. These elements will be realised through the warranted Pro Forma Profits, the control of the board of directors of Rongzhong BVI and the call options to be granted by the respective

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shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. The granting to Perfect Honour the Option to require Wah Link to purchase all the interests of Perfect Honour in Rongzhong BVI under the Option Agreement further protects the interest of the Company in that if the present investment turns out to be not as favourable as the Company expects, the Company may exercise the Option within a period of three years and get all its money back. Details of the Option are set out in the section headed “The Option Agreement” in the Board Letter.

We have reviewed the Subscription Agreement, the Supplemental Agreement, the business projections and the assumptions. In light of the facts and analysis as mentioned above, we are of the opinion that the Subscription Agreement is fair and reasonable, and is in the interests of the Company and its Shareholders as a whole.

(B) REORGANISATION

One of the conditions precedent for the completion of the Subscription Agreement is that Rongzhong BVI will undergo the Reorganisation pursuant to which Rongzhong BVI will set up a subsidiary, the Management Company, in Wuhan, the PRC, as a wholly foreign owned enterprise or a sino-foreign joint venture enterprise under the PRC laws in which Rongzhong BVI will have at least 90% interest, for the purpose of entering into the Management Agreements. Mr. Xie will set up Shanghai Rongzhong and Hangzhou Rongzhong, which will be engaged in the provision of loan guarantee services in Shanghai and Hangzhou, the PRC, respectively.

Details of the Reorganisation are summarised below:

I. Shareholders’ Agreement

Each of Perfect Honour, Mr. Xie, Ms. Cheng and Rongzhong BVI will enter into the Shareholders’ Agreement in respect of Rongzhong BVI and its subsidiaries, the tentative terms of which can be found in the sub-section headed “The entering into of the Shareholders’ Agreement” under section headed “The Reorganisation” in the Board Letter.

Pursuant to the terms of the Shareholders’ Agreement, Perfect Honour will assume the control of the board of directors of Rongzhong BVI and provide a shareholder’s loan of up to RMB138 million (equivalent to approximately HK\$130.19 million) at an interest rate of 2.5% per annum to Rongzhong BVI for its business expansion. Mr. Xie and Ms. Cheng will not be required to provide shareholder’s loan to Rongzhong BVI. The Directors expect that the shareholder’s loan will be advanced in several stages instead of one lot. The shareholder’s loan will be used (1) as working capital to facilitate the operation of the Rongzhong Group, (2) for future business expansion of Rongzhong BVI and the Management Company and/or (3) for the acquisition of the Five Rongzhong

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Companies, Shanghai Rongzhong, Hangzhou Rongzhong and other Rongzhong Companies (if any). The aggregate registered share capital of the Five Rongzhong Companies amounts to RMB62 million while the registered capital of Shanghai Rongzhong, Hangzhou Rongzhong and other Rongzhong Companies are yet to be determined. We are of the view that the terms of the Shareholders' Agreement are fair and reasonable for sufficient funding for working capital and/or for acquisition will be provided by means of shareholders' loan. The application of the shareholder's loan will be fully controlled by the Group. There is a business risk related to the uncertainty of the unforeseeable changes of the market environment, the adoption of new policies of the PRC government or the implementation of business operation. However, the Company is covered from the exposure to business under the Option granted by Wah Link as discussed in the section "The Option Agreement" below.

The shareholder's loan may be financed by either internal resources or external funding or combination of both, depending on the availability of funding and the cost structures of different funding sources. The duration and other terms of the shareholder's loan will be fixed when further expansion of business of Rongzhong Group is scheduled. We are of the view that it is fair and reasonable for Perfect Honour to provide the shareholder's loan solely due to its control of the board of Rongzhong BVI. Rongzhong BVI will be a 37.25% indirectly owned subsidiary of the Group upon completion of the Subscription Agreement. Both the cash to be advanced under the shareholder's loan and the investment decisions of Rongzhong BVI are under the full control of the Company. However, the Company will have to comply with the requirements under the Listing Rules, including but not limited to, obtaining the Shareholders' approval for future acquisition by Rongzhong BVI upon the exercise of the call options to be granted by the respective shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. Perfect Honour can evaluate the benefits of the future investments and the cost of the shareholder's loan before arranging the loan. The decisions on the future investment and the shareholder's loan are fully controlled by Perfect Honour. Hence, the interests of the Group can be safeguarded under this circumstance.

As advised by the management of the Company, the cost of funding in respect of the above shareholder's loan will be lower than the interest rate of 2.5% per annum received. Given that Rongzhong BVI will be under the control of the Group. Therefore, the application of the shareholder's loan will be fully controlled by the Group. In addition, the financial benefits of Rongzhong BVI to be derived from the business expansion with the aid of the shareholder's loan will ultimately be transferred to the Group. In view of the aforesaid, we consider that the provision of the shareholder's loan at the interest rate of 2.5% per annum is fair and reasonable so far as the Company is concerned.

II. Management Agreements

1. Background, reasons for and the benefits of the Management Agreements

The Management Company will enter into the Management Agreements with the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. The rationale of the entering into of the Management Agreements is for Rongzhong BVI to participate in the loan guarantee business in the PRC and share the economic benefits of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong.

The Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong require certain business management and other supporting services in connection with their operations. As the Management Company has the expertise to provide such services, it would be more cost effective for one company to provide such services instead of having a management company for each of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong.

The Management Agreements shall commence from the date of signing of the Management Agreements for a period of two years. The principal terms of the Management Agreements can be found in the sub-section headed “The entering into of the Management Agreements” under the section headed “The Reorganisation” and the sub-section headed “Principal terms of the Management Agreements” under the section headed “Management Agreements – Ongoing Connected Transactions” in the Board Letter respectively.

The respective terms of the Management Agreements have been determined after arm’s length negotiations between the parties thereto and will be no less favourable than those terms offered to the Management Company than other independent third parties. Based on the above, we are of the view that the terms of the Management Agreements are fair and reasonable so far as the Independent Shareholders are concerned and that the Management Agreements are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

2. Call option

Pursuant to the Management Agreements, each of the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong will grant a call option for a period of ten years to Rongzhong BVI, pursuant to which Rongzhong BVI may require these shareholders to sell to Rongzhong BVI their respective equity interests in the relevant companies at their respective registered capital amount up to the limit of foreign investment allowed in the relevant

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companies under the PRC law and regulations. The Directors understand that the shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong are local PRC residents and independent third parties of the Group. Other than Rongzhong BVI, no other shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong will have the pre-emptive rights.

Should Rongzhong BVI decide to exercise the call options granted by the respective shareholders of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong, the aggregate amount payable for such acquisitions will be the proportionate registered capital of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. The aggregate registered share capital of the Five Rongzhong Companies amounts to RMB62 million while the registered capital of Shanghai Rongzhong and Hangzhou Rongzhong are yet to be determined.

3. *The Cap*

As stated in the Board Letter, the respective annual Cap of the management fee (“Management Fee”) to be charged by the Management Company to the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong for the financial years ending 31 March 2005 and 31 March 2006 shall not exceed HK\$5 million and HK\$30 million.

The Cap for the year ending 31 March 2005 is determined based on (a) the full operation of the Five Rongzhong Companies during the relevant period; (b) the inclusion of Shanghai Rongzhong and Hangzhou Rongzhong to the Rongzhong Group in the second quarter 2004; (c) the increase in the size and scope of operation of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong; and (d) the internal projection of the management fees to be paid by the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong to the Management Company for its services provided during the relevant period.

The Cap for the year ending 31 March 2006 is determined based on (a) the full operation of the Rongzhong Group; (b) the increase in the size and scope of operation of the Rongzhong Group; and (c) the internal projection of the management fees to be paid by the Rongzhong Group to the Management Company for its services provided during the relevant period.

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There is a substantial increase in the Cap of HK\$5 million to HK\$30 million from the years ending 31 March 2005 to 31 March 2006. There was no management fee being charged by the Management Company to the Five Rongzhong Companies. The Company has provided us the projected income and the net profits of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. The Cap is in line with the projected profits. We are of the view that it is fair and reasonable to propose the Cap, which are determined with reference to the projected income and the net profits of the Five Rongzhong Companies, Shanghai Rongzhong and Hangzhou Rongzhong. As at 1 April 2004, only one company out of the Five Rongzhong Companies is in full capacity of business operation with net profit generated. Other companies are either newly setup or to be established which will not be able to generate sufficient business turnover and net profit during the year ending 31 March 2005.

To propose the Cap, the Board has also taken into account the fast growing economy of the Changjiang River Delta lead by Shanghai, Hangzhou and other big cities in the PRC. As a major financial and economic center in the PRC, Shanghai makes significant contribution to the gross domestic product of the PRC. Being the fastest growing city in the PRC and the designated city to host the World Expo 2010, Shanghai will further strengthen its image as a metropolitan city. In view of Shanghai's pre-eminent market position, the Directors expect that its gross domestic product will continue to grow in the future, which in turn will provide a favourable business environment for Shanghai Rongzhong and Hangzhou Rongzhong to be established in the near future.

The Cap for the years ending 31 March 2005 and 31 March 2006 are HK\$5 million and HK\$30 million respectively.

We have reviewed the management accounts of Rongzhong Group up to 31 December 2003 and also the business projections of the Rongzhong Group for the financial years ending 31 March 2005, 31 March 2006 and 31 March 2007 provided by the Company. We have also obtained the explanations from the management of the Company concerning the historical performance and the projected figures with the assumptions made. The projected sales are based on the performance of the Five Rongzhong Companies in particular the well established Wuhan operation as the business model, the assumptions related to profit margin and various expenses, the signed contracts on hand for up to two years and the market potential of the PRC urban, including the individual market environment of Shanghai and Hangzhou. We are of the opinion that the projections are made with due care and diligence.

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The Cap also serves as a balance of the interest of the Company and the shareholders of the Rongzhong Group. There is no comparable of the management fee being charged by the Group to independent third party. The Directors confirmed that the Management Fee would not be less favourable than the management fee to be charged by the Group to independent third party, if any. In light of the above, we consider that the Cap is reasonable and are in the interests of the Group and the Shareholders as a whole.

In light of the above conditions, particularly the review and confirmation by the auditors of the Company on the relevant transactions contemplated under the Management Agreements, we consider that the Company has taken appropriate measure to govern its entering into the Management Agreements and hence to safeguard the interests of the Shareholders hereunder.

III. Opinion

In light of the above, we are of the opinion that the terms and conditions incorporated in the Shareholders' Agreement and the Management Agreements are fair and reasonable and the entering into the Shareholders' Agreement and the Management Agreements is in the interests of the Company and the Shareholders as a whole.

(C) THE OPTION AGREEMENT

I. Background and reason of the Option Agreement

On 19 March 2004, Perfect Honour entered into the Option Agreement with Wah Link pursuant to which Wah Link agreed to grant to Perfect Honour the Option at the sole discretion of Perfect Honour to require Wah Link to purchase all the interest of Perfect Honour in Rongzhong BVI, comprising 3,725 shares in Rongzhong BVI and any shareholder's loan advanced by Perfect Honour to Rongzhong BVI, at an aggregate amount of RMB62 million (equivalent to approximately HK\$58.9 million, representing Perfect Honour's cost of subscription for the 3,725 shares of Rongzhong BVI) and the face value of the shareholder's loan advanced by Perfect Honour to Rongzhong BVI.

As the business of Rongzhong BVI is a line of business in which the Company has never engaged in before, the potential risk of investment in Rongzhong BVI may be relatively high. Accordingly, we are of the view that the entering into the Option Agreement will provide a protection for the Group against any unforeseeable downturn or risks of its investment in Rongzhong BVI in case the present investment turns out to be not as favourable as the Company expects, such as the adverse change of the economic situation in the PRC, the unforeseeable restrictions being imposed to guarantee business

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in the PRC and/or the inefficiency of the Rongzhong Group's operation. The Company may exercise the Option within a period of three years and get all its invested fund in Rongzhong BVI back from Wah Link. On the other hand, the Option only provides a right and not an obligation to the Company and will not forbid the Company from carrying on this business in case the Company wishes. Under such case, the Company may still enjoy the financial benefits derived from the operations of Rongzhong BVI by not exercising the Option.

II. Terms of the Option Agreement

In consideration of HK\$1.00 to be paid by Perfect Honour to Wah Link, Wah Link has conditionally agreed to grant to Perfect Honour the Option to require Wah Link to purchase all the interests of Perfect Honour in Rongzhong BVI referred to above. The Option is exercisable at the sole discretion of Perfect Honour within a period of three years commencing from the date on which the conditions precedent under the Option Agreement have been fulfilled. The Company will comply with the requirements under the Listing Rules for disposals of its interests in Rongzhong BVI upon exercise of the Option. Under the conditions precedent, the Independent Shareholders at the EGM can vote for or against the approval of the Option Agreement. The interest of the Company and the Independent Shareholders is protected as neither Perfect Honour nor Wah Link has the right to waive any of the abovementioned conditions to the Option Agreement.

The Directors consider that the terms of the Option Agreement are fair and reasonable as far as the Company and the Shareholders as a whole are concerned.

In light of the fact that the Company only requires to pay a nominal consideration of HK\$1.00 for the grant of the Option, we consider that such consideration is in the interest of the Company. Moreover, we are of the opinion that the period of three years for the exercise of the Option at the sole discretion of Perfect Honour provides adequate time for the Company to familiarise the business and to review the future prospect of Rongzhong BVI and offers the Company with the flexibility to decide whether to carry on or exit from such business. On this basis, we believe that the terms of the Option Agreement as mentioned in this paragraph are fair and reasonable as far as the Company and the Shareholders as a whole are concerned.

III. Financial effect of the Option Agreement

Upon exercise of the Option under the Option Agreement, the Group will cease to have any shareholding in Rongzhong BVI. Accordingly, Rongzhong BVI will cease to be a subsidiary of the Company. As a result, the Group will not account for any results

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of Rongzhong BVI in its financial statements. The financial effects of the Option Agreement are summarised as follows:

1. *Net tangible assets*

The previous reduction in the net assets amounting to approximately HK\$14.92 million upon completion of the Subscription Agreement mentioned in the section headed “Financial effect of the Subscription Agreement” above will be eliminated. Accordingly, the consolidated net tangible assets of the Group will be increased by approximately HK\$14.92 million upon exercise of the Option.

2. *Earnings*

Prior to the exercise of the Option, the earnings or losses of Rongzhong BVI will be consolidated to the Group’s financial statements. The Group will cease to account for any further earnings or losses of Rongzhong BVI in its consolidated financial statements upon exercise of the Option.

3. *Working capital and gearing*

The cash flow to be generated from Rongzhong BVI will be consolidated into the Group’s financial statements in the coming financial periods. Save as any a reverse entry of amount of the cash flow upon the exercise of the Option, there will be no change in the working capital and cash flow position of the Group upon the exercise of the Option.

The profit or loss and the net borrowings of Rongzhong BVI will be consolidated into the Group’s financial statements in the coming financial periods. Save as any reverse entries of the profit or loss and the net borrowings upon the exercise of the Option, the gearing ratio of the Group will remain the same as the ratio of without the performance of the Subscription Agreement after the exercise of the Option. It will not involve any change in the existing capital and debt positions of the Group after the exercise of the Option.

IV. Opinion

In view of the flexibility of the Option and the protection offered under the Option, which will safeguard the downside risk of Company’s investment in Rongzhong BVI, we consider that the Option Agreement is in the interests of the Company and the Shareholders as a whole. The exercise of the Option or giving up the right to exercise will be subject to the Shareholders’ approval within the three year period.

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(D) THE CN SUBSCRIPTION AGREEMENT

I. Background and reason of the CN Subscription Agreement

On 19 March 2004, the Company entered into the CN Subscription Agreement with Wah Link pursuant to which Wah Link agreed to subscribe (or procure the subscription by its nominee) for the Convertible Note at a consideration of HK\$70 million. The proceeds from the issue of the Convertible Note under the CN Subscription Agreement is to fund the subscription for 3,725 new shares of Rongzhong BVI under the Subscription Agreement. The Directors consider that the terms of the Convertible Note are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

The CN Subscription Agreement is not conditional on the Subscription Agreement and/or the Option Agreement. Should the Subscription Agreement not be approved by the Independent Shareholders but the CN Subscription Agreement is approved by the Independent Shareholders, the Directors intend to apply the net proceeds from the issue of the Convertible Note to finance future investments of the Group. The Directors confirm that, save as disclosed in the Circular, the Company was not in negotiation with any party for any acquisition as at the Latest Practicable Date.

II. Terms of the CN Subscription Agreement

The principal terms of the Convertible Note were determined after arm's length negotiation between the Company and Wah Link and are set out in the sub-section headed "Terms of the Convertible Note" under the section headed "The CN Subscription Agreement" in the Board Letter.

1. *Interest rate*

As the Convertible Note carries no interest, the Company will have a saving in the interest payment when compared with other debt financing from outside sources. On this basis, we consider that the Convertible Note is in the interests of the Company and the Shareholders as a whole.

2. *Conversion price*

The conversion price of HK\$0.170 per Share (subject to adjustment) was determined on an arm's length basis and represents (i) a discount of approximately 3.41% to the closing price of HK\$0.176 per Share as quoted on the Stock Exchange on 19 March 2004, being the last trading day immediately prior to the date of the CN Subscription Agreement; and (ii) a discount of approximately 1.73% to the

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average closing price of approximately HK\$0.173 per Share as quoted on the Stock Exchange for the last five trading days up to and including 19 March 2004. The Directors consider that the conversion price is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

In evaluating the fairness and reasonableness of the conversion price of the Convertible Note, emphasis is placed on the historical price performance and the liquidity of the Shares. We have reviewed the movement of the average daily closing price and the average trading volume per day of the Shares since April 2003 as set out below:

	Average trading volume per day (Shares)	Total number of issued Shares	Percentage to the total of issued Shares	Average daily closing price (HK\$)	Highest closing price (HK\$)	Lowest closing price (HK\$)
2003						
April	1,559,350	3,314,880,000	0.047%	0.121	0.132	0.114
May	966,550	3,314,880,000	0.029%	0.119	0.128	0.112
June	1,183,167 x 18/ (Note 1) 0 x 2	3,314,880,000/ 331,488,000	0.032%	0.122	0.126	0.120
July	35,955	331,488,000	0.011%	0.119	0.122	0.116
August	58,869	331,488,000	0.018%	0.117	0.119	0.114
September	383,058	331,488,000	0.116%	0.129	0.148	0.118
October	1,423,949	331,488,000	0.430%	0.163	0.184	0.131
November	2,102,324	331,488,000	0.634%	0.167	0.230	0.134
December	1,715,089 x 14/ (Note 2) 19,758,175 x 4	331,488,000/ 1,657,440,000	0.667%	0.193	0.255	0.150
2004						
January	10,503,568	1,657,440,000	0.634%	0.183	0.245	0.165
February	7,077,389	1,657,440,000	0.427%	0.168	0.195	0.145
March	2,648,551	1,662,440,000	0.159%	0.177	0.185	0.170
<i>(Note 3)</i>						
April	1,097,622	1,662,440,000	0.066%	0.162	0.180	0.145
May (up to and including the Latest Practicable Date)	680,556	1,662,440,000	0.041%	0.147	0.154	0.134

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Note 1: There was a consolidation of Shares on 27 June 2003. In June 2003, there were 18 trading days with 3,314,880,000 Shares issued and 2 trading days with 331,488,000 issued consolidated Shares.

Note 2: There was an issuance of rights Shares on 23 December 2003. In December 2003, there were 14 trading days with 331,488,000 issued Shares and 4 trading days with 1,657,440,000 issued Shares or right Shares.

Note 3: There was an issuance of new Shares on 27 February 2004.

For the period from 1 April 2003 to 19 March 2004 (the “Relevant Period”), being the last trading day immediately prior to the date of the CN Subscription Agreement and save for the days on which the trading was suspended, there were 234 trading days recorded on the Stock Exchange. The trading volume per day during the Relevant Period was in the range of nil trading to 36,341,250 Shares, equivalent to the range of 0% to approximately 2.19% of the total number of issued Shares. The percentage of monthly average trading volume per day to total number of issued Shares during the Relevant Period was in the range of approximately 0.011% to 0.667%. Based on the above, we consider that the historical trading in the Shares was rather illiquid.

Assuming full conversion of the Convertible Note, the 411,764,705 Converted Shares, as detailed in the sub-section headed “Dilution of shareholding” below, represent 11.33 times of the maximum trading volume of 36,341,250 Shares per day in the Relevant Period.

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The following table summarises the price per Share of the Company and the premium/(discount) that the conversion price of the Convertible Note represent thereof:

Date/period	Closing price/average closing price of share for the Relevant period (HK\$)	Premium/(discount) of the conversion price of HK\$0.17 per Share over the Share price
As at the Latest		
Practicable Date	0.15	13.33%
As at 19 March 2004	0.176	(3.41)%
Last five trading days up to and including 19 March 2004	0.173	(1.73)%
Last ten trading days up to and including 19 March 2004	0.176	(3.41)%
One-month period up to and including 19 March 2004	0.178	(4.49)%
Three-month period up to and including 19 March 2004	0.178	(4.49)%
Six-month period up to and including 19 March 2004	0.173	(1.73)%
From 1 April 2003 up to and including 19 March 2004	0.146	16.44%

The conversion price represents a mild discount to the average closing price of the Shares for six-month period up to and including 19 March 2004 in the range of approximately 1.73% to 4.49% and a premium to the average closing price of the Shares for the Relevant Period of approximately 16.44%.

Given the historical illiquid trading in the Shares, we consider it is reasonable that the Convertible Note carries mild discount rates to the market price of the Shares, for the periods of last five days, last ten days, last one-month, last three-month and last six-month up to and including 19 March 2004 in order to compensate the nil interest payment of the Convertible Note.

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There is a 16.44% premium to the market price of the Shares for the period from 1 April 2003 up to and including 19 March 2004. We are of the view that the 16.44% premium is mainly caused by the relatively low and stale figures for the period from 1 April 2003 to 19 September 2003. Therefore we are of the view that the conversion price is fair and reasonable and in the interests of the Company so far as the Company and the Independent Shareholders are concerned.

3. *Dilution of shareholding*

Assuming full conversion of the Convertible Note at the conversion price of HK\$0.17 per Share, the Company will have to issue 411,764,705 Converted Shares which represent (i) approximately 24.77% of the existing issued share capital of the Company; and (ii) approximately 19.85% of the issued share capital of the Company as enlarged by the issue of the Converted Shares.

The following table sets out the changes in shareholding structure of the Company upon conversion of the Convertible Note:

	Existing shareholding structure		Assuming full conversion of the Convertible Note	
	Shares	%	Shares	%
Allied Luck Trading Limited (<i>Note 1</i>)	497,232,000	29.91	497,232,000	23.97
Ace Solomon Investments Limited (<i>Note 2</i>)	338,888,343	20.39	338,888,343	16.34
Canasia Profits Corporation (<i>Note 3</i>)	133,701,300	8.04	133,701,300	6.45
Sparkle Power Technology Limited (<i>Note 4</i>)	65,881,800	3.96	65,881,800	3.18
Wah Link	–	–	411,764,705	19.85
Sub-total	1,035,703,443	62.30	1,447,468,148	69.79
Public	626,736,557	37.70	626,736,557	30.21
TOTAL	<u>1,662,440,000</u>	<u>100.00</u>	<u>2,074,204,705</u>	<u>100.00</u>

Notes:

- Allied Luck Trading Limited is owned as to 50% by Mr. Wong and as to the remaining 50% by Mrs. Wong.
- Ace Solomon Investments Limited is owned as to 11% by Mr. Wong, 46% by Mr. Kee Wah Sze and 43% by Ms. Loh Jiah Yee, Katherine, all of them are executive Directors.

LETTER FROM MENLO

3. Canasia Profits Corporation is wholly owned by Mr. Kee Wah Sze, a Director.
4. Sparkle Power Technology Limited is owned as to 50% by Ms. Loh Jiah Yee, Katherine and 50% by Mr. Ko Po Ming, both of them are Directors.

As illustrated above, upon full conversion of the Convertible Note, the shareholding of the Independent Shareholders in the Company will be reduced from approximately 37.7% to approximately 30.21%, representing a dilution effect of approximately 7.49%. We consider that such dilution effect is acceptable to the Independent Shareholders.

The Independent Shareholders should note that if Wah Link converts the Convertible Note in full such that the aggregate voting rights in the Company held by Wah Link and the parties acting in concert with it increases to 30% or more, or in the case where Wah Link and parties acting in concert with it together hold 30% to 50% of voting rights in the Company, shall exceed the 2% creeper, Wah Link and the parties acting in concert with it will be required under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company other than those already held by Wah Link and the parties acting in concert with it. In such case, Wah Link and the parties acting in concert with it will make a general offer or take any other appropriate actions in order to fully comply with the Takeovers Code.

III. Financial effect of the CN Subscription Agreement

1. Net tangible assets

The improvement of net assets value to the Group under the Convertible Note depends on the amount of Convertible Note being converted into Converted Shares before the Maturity Date subject to a maximum amount of HK\$70 million. There will be no impact on the net tangible assets of the Group if Wah Link does not exercise the conversion rights under the Convertible Note.

2. Earnings

There is no impact to the earning related to the interest expense under the Convertible Note, as the Convertible Note carries no interest.

3. Working capital and gearing

There will be a cash inflow of HK\$70 million, out of which approximately HK\$58.49 million will be utilised to subscribe for 3,725 new shares of Rongzhong BVI pursuant to the Subscription Agreement. The net cash inflow of approximately HK\$11.51 million represents an improvement of working capital by the same amount.

LETTER FROM MENLO

Should the Subscription Agreement not be approved by the Independent Shareholders but the CN Subscription Agreement is approved by the Independent Shareholders, the Directors intend to apply the net proceeds from the issue of the Convertible Note to finance future investments of the Group. There will be an improvement of cash position by HK\$70 million until future investments are determined, if any.

Unless the Convertible Note is converted into Shares, the issuance of the Convertible Note will create a higher gearing position in terms of total liabilities (expressed as total liabilities to net tangible assets) to the Group from 171% to 224% according to the audited and restated consolidated net tangible assets of the Group as at 31 March 2003, expressed as total liabilities to net tangible assets.

IV. Opinion

In light of the above, we are of the opinion that the CN Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

As mentioned above, although the entering into of the Subscription Agreement will allot Perfect Honour only 37.25% of the share capital of Rongzhong BVI, the Group will control the board of directors of Rongzhong BVI. Therefore, upon completion of the Subscription Agreement, Rongzhong BVI will become a 37.25% indirectly owned subsidiary of the Company. The sharing of the warranted Pro Forma Profits for the two years ending 31 December 2005, which represents a return of approximately 9.01% per annum or a price-earnings multiple of approximately 11.0962 times, will outweigh the weakness of having no asset and no business of Rongzhong BVI. The Option Agreement further protects the interest of the Company as Wah Link has agreed to grant to Perfect Honour the Option to be exercisable at the sole discretion of Perfect Honour to require Wah Link to purchase all the interest of Perfect Honour in Rongzhong BVI. For instance, if the present investment turns out to be not as favourable as the Company expects, such as the adverse change of the economic situation in the PRC, the unforeseeable restrictions being imposed to guarantee business in the PRC and/or the inefficiency of Rongzhong Group operation, the Company may exercise the Option within a period of three year and get all its invested fund in Rongzhong BVI back from Wah Link. The exercise of the Option or giving up the right to exercise will be subject to the Shareholders' approval within the three year period. We are of the view that it provides adequate time for the Company to familiarise with the business and to review the future prospect of Rongzhong BVI and offers the Company with the flexibility to decide whether to carry on or exit from such business.

LETTER FROM MENLO

Taking into consideration of the above principal factors, we are of the view that the respective terms of the Transaction Agreements, the Shareholders' Agreement and the Management Agreements are fair and reasonable so far as the interests of the Company and the Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the respective ordinary resolutions to be proposed at the EGM to approve the Transaction Agreements, the Shareholders' Agreement and the Management Agreements.

Yours faithfully,

For and on behalf of

Menlo Capital Limited

Michael Leung Idy Cheung

Director

Director

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants of Nanjing City Plaza Construction Company Limited, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Hong Kong

24 December 2003

The Directors
Nanjing City Plaza Construction Company Limited
Goldbond Capital (Asia) Limited

Dear Sirs,

Pursuant to a conditional sale and purchase agreement entered into on 1 December 2003 (the "S&P Agreement"), as described more fully in the Section headed The S&P Agreement in the circular of Goldbond Group Holdings Limited ("Goldbond") dated 24 December 2003 (the "Circular"), Sino Dynasty Investments Limited, a wholly owned subsidiary of Goldbond, agreed to purchase a 25% interest in Nanjing City Plaza Construction Company Limited ("Company") and its subsidiaries (hereafter collectively referred to as "the Group") at a consideration of HK\$91,000,000 (the "Nanjing Acquisition").

We set out below our report on the financial information relating to the Group, including the summaries of the proforma consolidated income statements and consolidated statement of changes in equity of the Group for each of the three years ended 31 December 2002 and the ten months ended 31 October 2003 (the "relevant period") and the proforma consolidated balance sheets of the Group as at 31 December 2000, 2001 and 2002 and 31 October 2003 (the "Financial Information") for inclusion in the Circular.

The Company is a Sino-foreign equity joint venture company established in the People's Republic of China (the "PRC") on 4 December 1992 for an operating period of 20 years in accordance with the Law of the People's Republic of China and related regulations applicable

to Sino-foreign equity joint venture enterprises. The principal activities of the Group are property development in the PRC. The Company is the holding company of the following companies:

Name of company	Place and date of incorporation/ establishment	Proportion of ownership interest		Registered capital	Principal activities
		Direct	Indirect		
Nanjing International Group Limited ("Nanjing International") 南京國際集團股份有限公司	PRC/8 June 1993	51%	-	RMB271,237,500	Property development
Nanjing International Group Advertising 南京國際集團廣告展覽中心	PRC/14 August 1993	-	51%	RMB2,000,000	Dormant

For the purpose of this report, we have examined the audited financial statements or, where appropriate, unaudited management accounts of the companies comprising the Group for the relevant period, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants ("HKSA").

The statutory financial statements of the Group for each of the three years ended 31 December 2002 were prepared in accordance with the relevant PRC accounting rules and regulations ("PRC GAAP"). For the year ended 31 December 2000, the financial statements of the Group were audited by Jiangsu Dingxin Certified Public Accountants, a firm of certified public accountants registered in the PRC. For the years ended 31 December 2001 and 2002, the financial statements of the Group were audited by Jiangsu Zhongxing Certified Public Accountants, a firm of certified public accountants registered in the PRC. As a basis for forming an opinion on the Financial Information of the Group, for the purpose of this report, we have carried out appropriate audit procedures in respect of the proforma consolidated financial statements of the Group for the relevant period in accordance with Statements of Auditing Standards issued by the HKSA and, where considered appropriate, made adjustments considered necessary to restate the financial statements to conform with accounting principles generally accepted in Hong Kong.

The audit opinions issued by the PRC auditors on the audited financial statements of Nanjing International for the years ended 31 December 2001 and 2002 contained a qualification stating that no deferred taxation had been provided on the revaluation surplus of the property under development in Nanjing, the PRC, and no adjustment had been made to the financial statements with respect to the portion of land surrendered to a bank for the settlement of loans. We have satisfied ourselves by carrying out additional audit procedures so as to determine that any material adjustments required with respect to the above referenced items have been incorporated into the Group's proforma consolidated financial statements for the relevant period presented in this report in accordance with the basis of presentation set out in Section 1 below.

We have not audited any financial statements of the Group in respect of any period subsequent to 31 October 2003.

The directors of respective companies comprising the Group are responsible for the preparation of the Financial Information which gives a true and fair view. The Financial Information as set out in this report has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the Group and on the basis set out in Section 1 below, after making such adjustments as are appropriate. In preparing the Financial Information, financial statements and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion on the Financial Information.

In forming our opinion, we have considered the adequacy of the disclosure made in Section 1(b) of the Financial Information which assumes that the Nanjing Acquisition of the Group will be completed and the Group will have sufficient funding to enable the Group to repay in full its financial obligations as they fall due. The failure of the Company and the Group to obtain adequate financing and generate profitable results in the future, could cause the Company and the Group to not continue as a going concern. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the Financial Information and our opinion is not qualified in this respect.

In our opinion, the Financial Information set out below together with the notes thereto, for the purpose of this report gives a true and fair view of the consolidated results of the Group for the relevant period and of the state of affairs of the Company and the Group as at 31 December 2000, 2001 and 2002 and 31 October 2003.

1 BASIS OF PRESENTATION

- (a) The following changes in equity interests of Nanjing International took place during the relevant period:
- (i) on 3 June 2000, Nanjing International became an associate of the Company, which held 44.5% of its equity interest following a disposal of 15.5% of the equity interest to the existing minority shareholders; and
 - (ii) on 10 October 2003, the Company acquired an additional 6.5% equity interest in Nanjing International at a consideration of RMB37,065,000, which increased the Company's equity interest in Nanjing International to 51%, and Nanjing International became a subsidiary of the Company.

The proforma consolidated income statements of the companies now comprising the Group for the relevant period have been prepared as if the current group structure had been in existence throughout the entire relevant period. The proforma consolidated balance sheets of the Group as at 31 December 2000, 2001 and 2002 and 31 October 2003 have been prepared to present the assets and liabilities of the Group as at the respective dates as if the current group structure had been in existence as at those dates. All significant intra-group transactions and balances have been eliminated on consolidation.

- (b) The Financial Information has been prepared on the normal going concern basis notwithstanding the default in settlement of bank loans (see Note 4 (f)(i) below). The use of this basis assumes that the Nanjing Acquisition will be approved by the shareholders of Goldbond, that sufficient financial assistance will be provided to the Group to enable it to meet its obligations as they fall due in the foreseeable future.
- (c) As the Group is in technical default under certain of its loan covenants, the principal amounts of the loans became immediately repayable. No attempt has been made to classify liabilities into long-term or short-term as the repayment of loans will be subject to the completion of Nanjing Acquisition.
- (d) The measurement basis used in the preparation of the Financial Information is historical cost.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the Financial Information included in this report are set out below.

These accounting policies would be acceptable under accounting principles generally accepted in Hong Kong ("HKGAAP"). The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") as applicable to an Accountants' Report.

(a) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is included in the Financial Information, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the proforma consolidated balance sheet at fair value with changes in fair value recognised in the proforma consolidated income statement as they arise.

(b) Investments

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investments. Investments are stated in the proforma consolidated balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the proforma consolidated income statement, such provisions being determined for each investment individually.
- (ii) Provisions against the carrying value of investments are written back when the circumstances and events that led to the write-down or written-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

- (iii) Profits or losses on disposal of investments are determined as the difference between the estimated new disposal proceeds and the carrying amount of the investments and are accounted for in the proforma consolidated income statement as they arise.

(c) Fixed assets

- (i) Fixed assets are carried in the proforma consolidated balance sheets at cost less accumulated depreciation (See note 2(d)) and impairment losses (See note 2(e)).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the proforma consolidated income statement on the date of retirement or disposal.

(d) Depreciation

(i) Properties under development

No depreciation is provided on properties under development.

(ii) Fixed assets

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives, after taking into account their estimated residue value, as follows:

Furniture, fixtures and equipment	10% - 23% per annum
Motor vehicles	16% per annum

(e) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- properties under development; and
- investment in subsidiaries (other than those stated at fair value in note 2(a) above).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the proforma consolidated income statement in the year in which the reversals are recognised.

(f) Properties under development

Properties under development is stated at the lower of cost and net realisable value less impairment losses (see note 2(e) above). Property development costs include borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

Net realisable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

(g) Development expenditure

Construction and other costs, including borrowing costs and expenses relating to the marketing and sale of development properties prior to the issuance of a completion certificate by the relevant government authorities, are included as part of properties under development.

(h) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the proforma consolidated income statement as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognised in the proforma consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(ii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(i) Income tax

(i) Income tax for the relevant period comprises current and deferred tax. Income tax is recognised in the proforma consolidated income statement except to the extent that it related to items recognised directly to equity, in which case it is recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxation profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

- (iv) Current and deferred tax assets and liabilities are offset if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authorities on either:
 - the same taxable entity, or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(j) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the proforma consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(k) Borrowing costs

Borrowing costs are expensed in the proforma consolidated income statement in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(l) Retirement costs

The Group's contributions to government retirement benefit schemes are charged to the proforma consolidated income statement when incurred.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible

obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Related parties

For the purposes of this report, a party is considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(p) Segment reporting

No analysis of the Group's segmental information by business or geographical segments is presented as the Group is solely engaged in property development in the PRC. All identifiable assets and liabilities of the Group are located in the PRC.

3 PROFORMA CONSOLIDATED INCOME STATEMENTS

The following is a summary of the proforma consolidated income statements of the Group for the relevant period, after making such adjustments as are appropriate and on the basis set out in Section 1 above:

		Year ended 31 December 2000	Year ended 31 December 2001	Year ended 31 December 2002	Ten months ended 31 October 2003
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Other revenue	(a)	4,077	3,054	631	461
Administrative expenses		(3,133)	(3,712)	(4,774)	(4,127)
Profit/(loss) from operations		944	(658)	(4,143)	(3,666)
Finance costs	(b)	(4,809)	(2,563)	(2,561)	(1,929)
Loss from ordinary activities before taxation	(b)	(3,865)	(3,221)	(6,704)	(5,595)
Taxation	(c)	–	104	1,261	1,247
Loss from ordinary activities after taxation		(3,865)	(3,117)	(5,443)	(4,348)
Minority interests		(228)	347	1,154	1,248
Loss attributable to shareholders	(f)	(4,093)	(2,770)	(4,289)	(3,100)
Accumulated losses brought forward		(30,313)	(34,406)	(37,176)	(41,465)
Accumulated losses carried forward		<u>(34,406)</u>	<u>(37,176)</u>	<u>(41,465)</u>	<u>(44,565)</u>

PROFORMA STATEMENT OF CHANGES IN EQUITY

The net loss in the above proforma consolidated income statements is the only change in equity for the relevant period.

(a) Other revenue

	Year ended 31 December 2000 <i>RMB'000</i>	Year ended 31 December 2001 <i>RMB'000</i>	Year ended 31 December 2002 <i>RMB'000</i>	Ten months ended 31 October 2003 <i>RMB'000</i>
Rental income	4,023	3,051	451	267
Sundry income	54	3	180	194
	<u>4,077</u>	<u>3,054</u>	<u>631</u>	<u>461</u>

(b) Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

(i) Finance costs

	Year ended 31 December 2000 <i>RMB'000</i>	Year ended 31 December 2001 <i>RMB'000</i>	Year ended 31 December 2002 <i>RMB'000</i>	Ten months ended 31 October 2003 <i>RMB'000</i>
Bank interest	6,522	5,061	6,198	6,479
Interest on other borrowings	2,420	2,420	2,420	2,023
Other borrowing costs	–	–	3,932	4,163
Less: Borrowing costs capitalised into properties under development *	(4,133)	(4,918)	(9,989)	(10,736)
	<u>4,809</u>	<u>2,563</u>	<u>2,561</u>	<u>1,929</u>

* Borrowing costs have been capitalised at rates ranging from 4.9% to 18% per annum.

(ii) *Staff costs*

	Year ended 31 December 2000 RMB'000	Year ended 31 December 2001 RMB'000	Year ended 31 December 2002 RMB'000	Ten months ended 31 October 2003 RMB'000
Retirement benefit contributions	107	202	180	228
Salaries, wages and other benefits	681	1,071	1,048	1,276
	<u>788</u>	<u>1,273</u>	<u>1,228</u>	<u>1,504</u>
Number of staff	<u>25</u>	<u>25</u>	<u>25</u>	<u>25</u>

(iii) *Other items*

	Year ended 31 December 2000 RMB'000	Year ended 31 December 2001 RMB'000	Year ended 31 December 2002 RMB'000	Ten months ended 31 October 2003 RMB'000
Auditors' remuneration	11	8	11	13
Operating lease charges in respect of properties	420	420	420	350
Rentals receivable from properties less direct outgoings of RMB179,000 (2002: RMB147,000; 2001: RMB540,000; 2000: RMB754,000)	(3,269)	(2,511)	(304)	(88)
Depreciation	<u>158</u>	<u>58</u>	<u>68</u>	<u>67</u>

(c) Taxation

Taxation in the proforma consolidated income statements represents:

	Year ended 31 December 2000 RMB'000	Year ended 31 December 2001 RMB'000	Year ended 31 December 2002 RMB'000	Ten months ended 31 October 2003 RMB'000
PRC income tax	–	–	–	–
Deferred taxation (<i>note 4(i)</i>)	–	104	1,261	1,247
	<u>–</u>	<u>104</u>	<u>1,261</u>	<u>1,247</u>

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the relevant period.

Profits of the companies in the PRC are subject to PRC income tax.

As a foreign invested enterprise, the Company, being established in the PRC, is required under the Foreign Investment Enterprise and Foreign Enterprise Income Tax Law to pay income tax at the rate of 33% of the estimated assessable profits during the relevant period. The subsidiaries of the Company are domestic enterprises established in the PRC and the applicable income tax rate is 33%. No provision for PRC Income Tax was made as the Group sustained losses for taxation purposes during the relevant period.

(d) Directors' remuneration

Details of directors' remuneration are as follows:

	Year ended 31 December 2000 RMB'000	Year ended 31 December 2001 RMB'000	Year ended 31 December 2002 RMB'000	Ten months ended 31 October 2003 RMB'000
Salary, allowances and other benefits	<u>44</u>	<u>51</u>	<u>51</u>	<u>100</u>
Number of directors	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

The remuneration of the directors falls within the following bands:

	Year ended 31 December 2000 <i>Number</i>	Year ended 31 December 2001 <i>Number</i>	Year ended 31 December 2002 <i>Number</i>	Ten months ended 31 October 2003 <i>Number</i>
RMBNil – RMB500,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

Save as disclosed above, no directors' remuneration has been paid or is payable by the Group during the relevant period. There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

(e) Individuals with highest emoluments

The five highest paid individuals of the Group include one (2002: nil, 2001: nil and 2000: one) director of the Group whose remuneration is disclosed in note 3(d) above. Details of emoluments paid by the Group to the remaining highest paid individuals are set out below:

	Year ended 31 December 2000 <i>RMB'000</i>	Year ended 31 December 2001 <i>RMB'000</i>	Year ended 31 December 2002 <i>RMB'000</i>	Ten months ended 31 October 2003 <i>RMB'000</i>
Salary, allowances and other benefits	169	323	325	413
Retirement benefit contributions	<u>21</u>	<u>22</u>	<u>26</u>	<u>22</u>
	<u>190</u>	<u>345</u>	<u>351</u>	<u>435</u>

The remuneration of the four (2002: five, 2001: five and 2000: four) highest paid individuals falls within the following bands:

	Year ended 31 December 2000 <i>Number</i>	Year ended 31 December 2001 <i>Number</i>	Year ended 31 December 2002 <i>Number</i>	Ten months ended 31 October 2003 <i>Number</i>
RMBNil - RMB500,000	<u>4</u>	<u>5</u>	<u>5</u>	<u>4</u>

During the relevant period, no emoluments were paid by the Group to the directors or any of the above highest paid individuals as an inducement, to join or upon joining the Group or as compensation for loss of office.

(f) Loss attributable to shareholders

The proforma consolidated loss attributable to shareholders include a loss of RMB1,801,000 (2002: RMB3,087,000, 2001: RMB2,408,000, 2000: RMB4,330,000), which has been dealt with in the financial statements of the Company.

(g) Dividends

No dividends have been paid or declared by the Company and its subsidiaries during the relevant period.

(h) Retirement benefits

The Group participates in the pension scheme organised by the PRC government authorities whereby the Group is required to pay annual contribution at 21% of the basic salaries of its employees.

Under the scheme, retirement benefits of the existing and retiring employees are payable by the PRC government authorities. The Group has no further obligations beyond the annual contributions. The Group does not operate any other schemes for retirement benefits provided to the Group's employees.

4 PROFORMA BALANCE SHEETS

The following is a summary of the proforma consolidated balance sheets of the Group and proforma balance sheets of the Company for the relevant period, after making such adjustments as are appropriate and on the basis set out in Section 1 above:

The Group

		31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets					
Fixed assets	<i>(a)</i>	353	320	320	334
Properties held for development	<i>(c)</i>	316,310	316,310	316,310	316,345
Investment – unlisted		525	525	525	–
		<u>317,188</u>	<u>317,155</u>	<u>317,155</u>	<u>316,679</u>
Current assets					
Properties under development	<i>(c)</i>	500,186	510,987	546,682	583,700
Amounts due from minority shareholders	<i>(d)</i>	4,576	4,576	6,182	6,785
Other receivables and prepayments	<i>(e)</i>	1,693	2,288	2,039	1,497
Cash and cash equivalents		490	1,155	792	1,848
		<u>506,945</u>	<u>519,006</u>	<u>555,695</u>	<u>593,830</u>
Current liabilities					
Bank loans	<i>(f)</i>	84,800	83,800	119,400	179,000
Other loans	<i>(g)</i>	84,072	95,057	109,188	113,995
Creditors and accrued expenses	<i>(h)</i>	101,943	107,208	100,870	79,718
		<u>270,815</u>	<u>286,065</u>	<u>329,458</u>	<u>372,713</u>
Net current assets		<u>236,130</u>	<u>232,941</u>	<u>226,237</u>	<u>221,117</u>
Total assets less current liabilities		<u>553,318</u>	<u>550,096</u>	<u>543,392</u>	<u>537,796</u>
Non-current liability					
Deferred taxation	<i>(i)</i>	147,775	147,671	146,410	145,163
Minority interests		<u>243,186</u>	<u>242,838</u>	<u>241,684</u>	<u>240,435</u>
NET ASSETS		<u>162,357</u>	<u>159,587</u>	<u>155,298</u>	<u>152,198</u>
Capital and reserves					
Paid-up capital		57,550	57,550	57,550	57,550
Reserves	<i>(j)</i>	104,807	102,037	97,748	94,648
		<u>162,357</u>	<u>159,587</u>	<u>155,298</u>	<u>152,198</u>

The Company

		31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets					
Fixed assets	(a)	76	76	76	76
Interest in subsidiary	(b)	164,624	169,124	170,774	150,721
Investment – unlisted		525	525	525	–
		<u>165,225</u>	<u>169,725</u>	<u>171,375</u>	<u>150,797</u>
Current assets					
Other receivables and prepayments	(e)	1,319	1,159	266	–
Cash and cash equivalents		410	94	56	31
		<u>1,729</u>	<u>1,253</u>	<u>322</u>	<u>31</u>
Current liabilities					
Bank loan	(f)	15,000	15,000	15,000	15,000
Other loans	(g)	43,407	47,774	44,263	37,065
Creditors and accrued expenses	(h)	63,602	65,667	72,984	61,114
		<u>122,009</u>	<u>128,441</u>	<u>132,247</u>	<u>113,179</u>
Net current liabilities		<u>(120,280)</u>	<u>(127,188)</u>	<u>(131,925)</u>	<u>(113,148)</u>
NET ASSETS		<u>44,945</u>	<u>42,537</u>	<u>39,450</u>	<u>37,649</u>
Capital and reserves					
Share capital		57,550	57,550	57,550	57,550
Reserves	(j)	(12,605)	(15,013)	(18,100)	(19,901)
		<u>44,945</u>	<u>42,537</u>	<u>39,450</u>	<u>37,649</u>

(a) Fixed assets

The Group

	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost			
At 1 January 2000	1,296	756	2,052
Additions	55	–	55
Disposals	(116)	–	(116)
	<u>1,235</u>	<u>756</u>	<u>1,991</u>
At 31 December 2000	1,235	756	1,991
Accumulated depreciation			
At 1 January 2000	913	680	1,593
Charge for the year	158	–	158
Written back on disposal	(113)	–	(113)
	<u>958</u>	<u>680</u>	<u>1,638</u>
At 31 December 2000	958	680	1,638
Net book value			
At 31 December 2000	<u>277</u>	<u>76</u>	<u>353</u>
Cost			
At 1 January 2001	1,235	756	1,991
Additions	25	–	25
Disposals	(54)	–	(54)
	<u>1,206</u>	<u>756</u>	<u>1,962</u>
At 31 December 2001	1,206	756	1,962
Accumulated depreciation			
At 1 January 2001	958	680	1,638
Charge for the year	58	–	58
Written back on disposal	(54)	–	(54)
	<u>962</u>	<u>680</u>	<u>1,642</u>
At 31 December 2001	962	680	1,642
Net book value			
At 31 December 2001	<u>244</u>	<u>76</u>	<u>320</u>

The Group

	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost			
At 1 January 2002	1,206	756	1,962
Additions	73	–	73
Disposals	(612)	–	(612)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	667	756	1,423
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 1 January 2002	962	680	1,642
Charge for the year	68	–	68
Written back on disposal	(607)	–	(607)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	423	680	1,103
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2002	244	76	320
	<hr/>	<hr/>	<hr/>
Cost			
At 1 January 2003	667	756	1,423
Additions	81	–	81
	<hr/>	<hr/>	<hr/>
At 31 October 2003	748	756	1,504
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 1 January 2003	423	680	1,103
Charge for the period	67	–	67
	<hr/>	<hr/>	<hr/>
At 31 October 2003	490	680	1,170
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 October 2003	258	76	334
	<hr/>	<hr/>	<hr/>

The Company**Motor vehicles**
*RMB'000***Cost**At 1 January 2000, 31 December 2000, 2001 and
2002 and 31 October 2003

756

Accumulated depreciationAt 1 January 2000, 31 December 2000, 2001 and
2002 and 31 October 2003

680

Net book valueAt 31 December 2000, 2001 and 2002 and
31 October 2003

76

(b) Interest in subsidiary

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	135,740	135,740	135,740	135,740
Amount due from a subsidiary	28,884	33,384	35,034	14,981
	<u>164,624</u>	<u>169,124</u>	<u>170,774</u>	<u>150,721</u>

Details of the Company's interest in its principal subsidiary are as follows:

Name of company	Place and date of incorporation/ establishment	Proportion of ownership interest	Registered capital	Principal activity
Nanjing International	PRC/8 June 1993	51%	RMB 271,237,500	Property development

(c) Properties held for development and properties under development

	31 December 2000 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>	31 December 2002 <i>RMB'000</i>	31 October 2003 <i>RMB'000</i>
Acquisition cost of land use right	490,024	490,024	490,024	490,024
Development and incidental costs	261,509	267,392	293,098	319,415
Borrowing costs capitalised	64,963	69,881	79,870	90,606
	<u>816,496</u>	<u>827,297</u>	<u>862,992</u>	<u>900,045</u>

Represented by:

Properties held for development	316,310	316,310	316,310	316,345
Properties under development	500,186	510,987	546,682	583,700
	<u>816,496</u>	<u>827,297</u>	<u>862,992</u>	<u>900,045</u>

The land use right were acquired from the Bureau of Land Resources Nanjing in 1993. Pursuant to the rules and regulations applicable to joint stock companies in the PRC, the land use right were valued on an open market value basis in 1993 by Shenzhen Shekou Schinda Certified Public Accountants, a firm of independent certified public accountants, registered in the PRC.

(d) Amounts due from minority shareholders

The amounts due from minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

(e) Other receivables and prepayments**The Group**

	31 December 2000 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>	31 December 2002 <i>RMB'000</i>	31 October 2003 <i>RMB'000</i>
Other receivables	251	815	1,092	596
Prepayments	1,442	1,473	947	901
	<u>1,693</u>	<u>2,288</u>	<u>2,039</u>	<u>1,497</u>

The Company

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	221	221	216	–
Prepayments	1,098	938	50	–
	<u>1,319</u>	<u>1,159</u>	<u>266</u>	<u>–</u>

(f) Bank loans

Bank loans are interest-bearing and repayable as follows:

The Group

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year or on demand	84,800	83,800	75,900	61,000
After 2 years but within 5 years	–	–	43,500	118,000
	<u>84,800</u>	<u>83,800</u>	<u>119,400</u>	<u>179,000</u>

The Company

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year or on demand	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>

Bank loans were secured as follows:

The Group

	31 December 2000 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>	31 December 2002 <i>RMB'000</i>	31 October 2003 <i>RMB'000</i>
Secured	56,800	55,800	56,000	56,000
Unsecured	28,000	28,000	63,400	123,000
	<u>84,800</u>	<u>83,800</u>	<u>119,400</u>	<u>179,000</u>

The Company

	31 December 2000 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>	31 December 2002 <i>RMB'000</i>	31 October 2003 <i>RMB'000</i>
Secured	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>

- (i) Bank loans of RMB29,000,000 were originally secured by 8,029 square metres of the land use right included in properties held for development with a carrying value of RMB10,438,000 as at 31 October 2003 (2002: RMB10,438,000, 2001: RMB10,438,000 and 2000: RMB10,438,000). The land use right was surrendered to the bank to settle the overdue principal and accrued interest totalling RMB48,600,000. The bank loans are classified as a current liability in the proforma consolidated balance sheets as an agreement was entered into with the bank whereby the Group agreed to settle the outstanding loan balance and repossess the land use right on or before 30 October 2003. However, the loan was not settled by the due date and the bank has indicated that the due date has been extended to 31 December 2003.
- (ii) A bank loan of RMB12,000,000 was secured by 2,850 square metres of the land use right included in properties held for development with a carrying value of RMB 3,705,000 (2002: RMB3,705,000, 2001: RMB3,705,000 and 2000: RMB1,269,000). The bank loan as at 31 October 2003 expired on 14 October 2003 but remains classified as a current liability in the proforma consolidated balance sheets at the respective balance sheet dates as a restructuring agreement has been reached in October 2003 with the bank to extend the loan settlement date to 13 August 2004.

- (iii) A bank loan of RMB15,000,000 was secured by 6 million shares of Nanjing International, the Company's subsidiary which represent 2.2% of the registered capital of Nanjing International.

(g) Other loans

Other loans represent unsecured advances with no fixed terms of repayment payable to the following related parties:

The Group

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shareholder	6,297	7,163	7,153	–
Minority shareholders	74,872	76,532	88,271	87,570
Director	45	5,604	2,906	2,860
Related parties	2,858	5,758	10,858	23,565
	<u>84,072</u>	<u>95,057</u>	<u>109,188</u>	<u>113,995</u>

The Company

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shareholder	6,297	7,163	7,153	–
Director	45	3,546	45	–
Related parties	37,065	37,065	37,065	37,065
	<u>43,407</u>	<u>47,774</u>	<u>44,263</u>	<u>37,065</u>

Other loans were interest-free with the exception of the advances from minority shareholders and amounts due to other related parties which bear interest at rates ranging from 5.9% to 20%.

(h) Creditors and accrued expenses**The Group**

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and other payables	44,360	45,177	51,720	31,559
Accrued expenses	57,583	62,031	49,150	48,159
	<u>101,943</u>	<u>107,208</u>	<u>100,870</u>	<u>79,718</u>

The Company

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and other payables	44,994	44,995	50,247	36,654
Accrued expenses	18,608	20,672	22,737	24,460
	<u>63,602</u>	<u>65,667</u>	<u>72,984</u>	<u>61,114</u>

Included in trade and other payables are trade payables with the following ageing analysis:

The Group and the Company

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month or on demand	<u>42,208</u>	<u>42,016</u>	<u>42,016</u>	<u>22,016</u>

The Group entered into a contract with a contractor in February 1993 to perform the demolition, evacuation and clearing work on the land on which the Nanjing City Plaza is situated at a contract sum of RMB200 million. Upon settlement of approximately 80% of the contract sum, the two parties were in dispute in respect of certain alleged non-compliances with the terms and conditions of the contract, including that the demolition, evacuation and clearing work should have been completed by the contractor

in 1993. The dispute was unresolved and brought to court. Subsequently, the parcel of land was foreclosed by the court. The case was finally resolved in April 2003 as the Group received a court order to settle the remaining balance of RMB42 million by September 2003 and the contractor had to complete the relevant work and return the land to the Group. However, a final balance of RMB22 million was not settled by the due date. The directors have agreed to settle the outstanding balance on or before 31 December 2003 and the court has indicated that the land would be returned to the Group upon full settlement.

(i) **Deferred taxation****The Group**

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance brought forward	147,775	147,775	147,671	146,410
Transferred from proforma consolidated income statement (<i>note 3(c)</i>)	–	(104)	(1,261)	(1,247)
Balance carried forward	<u>147,775</u>	<u>147,671</u>	<u>146,410</u>	<u>145,163</u>

The components of deferred tax assets and liabilities recognised in the proforma consolidated balance sheets are as follow:

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revaluation surplus of land	147,775	147,775	147,775	147,775
Accumulated tax losses	–	(104)	(1,365)	(2,612)
	<u>147,775</u>	<u>147,671</u>	<u>146,410</u>	<u>145,163</u>

Deferred taxation has been provided on the revaluation surplus of the land situated in Nanjing, the PRC, included in properties held for development and properties under development to the extent that a liability is anticipated.

(j) Reserves

The Group

	31 December 2000 RMB'000	31 December 2001 RMB'000	31 December 2002 RMB'000	31 October 2003 RMB'000
Accumulated losses:				
Balance brought forward	(30,313)	(34,406)	(37,176)	(41,465)
Loss for the year/period	(4,093)	(2,770)	(4,289)	(3,100)
Balance carried forward	(34,406)	(37,176)	(41,465)	(44,565)
Capital reserve:				
Balance brought forward and carried forward	139,213	139,213	139,213	139,213
Total	104,807	102,037	97,748	94,648

The Company

	31 December 2000 RMB'000	31 December 2001 RMB'000	31 December 2002 RMB'000	31 October 2003 RMB'000
Accumulated losses:				
Balance brought forward	(10,725)	(15,055)	(17,463)	(20,550)
Loss for the year/period	(4,330)	(2,408)	(3,087)	(1,801)
Balance carried forward	(15,055)	(17,463)	(20,550)	(22,351)
Capital reserve:				
Balance brought forward and carried forward	2,450	2,450	2,450	2,450
Total	(12,605)	(15,013)	(18,100)	(19,901)

(k) Commitments*(i) Capital commitments*

The Group had the following capital commitments in relation to the construction costs of the properties under development not provided for in the Financial Information:

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	4,605	44,209	41,096	737,406
	<u>4,605</u>	<u>44,209</u>	<u>41,096</u>	<u>737,406</u>

The balance at 31 October 2003 is substantially comprised of commitments for the construction and material costs of developing Phase I of the Nanjing City Plaza.

(ii) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases is payable as follows:

	31 December 2000	31 December 2001	31 December 2002	31 October 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	420	420	420	210
After 1 year but within 5 years	1,050	630	210	–
	<u>1,470</u>	<u>1,050</u>	<u>630</u>	<u>210</u>

The Group leases a property as an office premises under operating lease. The lease typically runs for an initial period of three years, with an option to renew the lease when all terms are renegotiated. The lease does not include any contingent rental.

(l) Material related party transactions

(i) No material related party transactions were made by the Group, or the Company during the relevant period, except for the following:

- advances made from related parties as disclosed in note 4(1)(ii) below and accrued interest of RMB501,000 (2002: RMB594,000, 2001: RMB594,000 and 2000: RMB594,000) was payable to related parties; and
- the disposal of unlisted long term investment to 上海寧高國際投資公司, a company controlled by the director of the Company, at a cost of RMB525,000.

(ii) Balances with related parties

(a) Amounts due from related parties:

The Group

	31 December 2000 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>	31 December 2002 <i>RMB'000</i>	31 October 2003 <i>RMB'000</i>
Included in amounts due from minority shareholders:				
南京南華北方實業 有限責任公司	81	81	1,687	2,291

The Company

	31 December 2000 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>	31 December 2002 <i>RMB'000</i>	31 October 2003 <i>RMB'000</i>
Included in other receivables and prepayments:				
南京南華北方實業 有限責任公司	81	81	87	-

(b) Amounts due to related parties:

The Group

	31 December 2000 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>	31 December 2002 <i>RMB'000</i>	31 October 2003 <i>RMB'000</i>
Included in other loans:				
Amount due to a shareholder – 珠海經濟特區南華 有限公司	6,297	7,163	7,153	–
Amount due to a director	45	5,604	2,906	2,860
Amounts due to related parties – 珠海金鑫集團公司	–	900	–	8,300
上海寧高國際投資公司	–	–	–	6,407
Amounts due to minority shareholders – 中國石化集團揚子石油 化工有限責任公司	19,197	19,791	20,385	20,886
蘇州天翔裝飾裝璜 工程有限公司	37,065	37,065	45,643	42,920
	<u>37,065</u>	<u>37,065</u>	<u>45,643</u>	<u>42,920</u>

The Company

	31 December 2000 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>	31 December 2002 <i>RMB'000</i>	31 October 2003 <i>RMB'000</i>
Included in other loans:				
Amount due to a shareholder – 珠海經濟特區南華 有限公司	6,297	7,163	7,153	–
Amount due to a director	45	3,545	45	–
Amount due to a related party – 蘇州天翔裝飾裝璜 工程有限公司	37,065	37,065	37,065	37,065
	<u>37,065</u>	<u>37,065</u>	<u>37,065</u>	<u>37,065</u>

The terms of amounts due from/to the related parties have been disclosed in the relevant notes to the Financial Information above.

The directors of the Company are of the opinion that the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business.

(m) Contingent liabilities

At 31 October 2003, the Group had contingent liabilities not provided for in the Financial Information as follows:

- (i) A counter guarantee was issued to a third party in return for a guarantee received by the Group from this third party in respect of a banking facility of RMB118,000,000 which was fully utilised by the Group as at 31 October 2003. The loan was secured by the following items:
 - Pledge of the Nanjing City Plaza's Phase I land use right;
 - Personal guarantees of Mr. Wang Boyang and Mr. Pei Jiakang, directors of the Nanjing International; and
 - Corporate guarantee of 中投信用擔保有限公司.
- (ii) The Group entered into acquisition agreements with the Bureau of Land Resources Nanjing to acquire the land use rights for the development of the Nanjing City Plaza. Under these agreements, the Group was required to complete the construction of the Nanjing City Plaza on or before 31 December 1998. At 31 October 2003, construction is ongoing. The Bureau of Land Resources Nanjing may, therefore, impose penalties on the Group for failure to meet its obligations.

In addition, under these agreements, the total gross floor area of the Nanjing City Plaza should not exceed 180,000 square metres. The total estimated gross floor area of the Nanjing City Plaza is planned to be approximately 371,000 square metres upon completion, therefore the Bureau of Land Resources Nanjing may impose penalties on the Group or may repossess the property from the Group.

However, the directors of the Company confirmed that they have agreed with the Bureau of Land Resources Nanjing to rectify the acquisition agreements and waive all the penalties for the above failures. Management strongly believes that the Bureau of Land Resources Nanjing will not impose penalties or repossess the property from the Group.

(n) Ultimate holding company

The directors of the Company consider the ultimate holding company to be Y&W Holdings Limited, a company incorporated in the British Virgin Islands.

5 DISTRIBUTABLE RESERVES

As at 31 December 2000, 2001 and 2002 and 31 October 2003, the Company had no distributable reserves.

6 DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of the relevant period by the Company or any of the companies now comprising the Group to the directors of the Company. Under the arrangement presently in force, the estimated aggregate amount of directors' remuneration payable for the year ending 31 December 2003 is approximately RMB20,000 excluding management bonuses which are payable at the Group's discretion.

7 SUBSEQUENT EVENTS

The following transactions took place subsequent to 30 October 2003:

- (i) The Company has entered into an agreement with a bank on 20 November 2003 to settle a loan of RMB15,000,000 by two instalments in June 2004 and December 2004. Thereafter, a waiver of the accumulated bank interest of RMB20,700,000 would be granted to the Group which would represent a reduction of the cost of properties under development of an equivalent amount.
- (ii) The Group has obtained a written consent from a bank on 12 December 2003 to settle a loan of RMB29,000,000 and accrued interests of RMB19,600,000 on or before 25 December 2003 by an amount of RMB42,780,000. As a result of the settlement, the Group would record a reduction in cost of properties under development of approximately RMB5,820,000.
- (iii) On 15 December 2003, the Group entered into a debt restructuring agreement with a minority shareholder and paid a sum of RMB9,675,000 to settle the outstanding debt balance of RMB26,260,000, which comprises the principal of RMB9,100,000 and accumulated interests of RMB17,160,000. As a result of the debt restructuring, the Group would record a reduction in cost of properties under development of approximately RMB16,585,000.

- (iv) The Group has convened meetings with the creditors and banks to negotiate and restructure debts settlement arrangements. The negotiation is in progress and no final resolution of the debts settlement arrangements has been made up to the date of this report.
- (v) On 24 December 2003, Sallmanns (Far East) Limited, an independent property valuer, has carried out a valuation of Phase I of the Nanjing City Plaza on the depreciated replacement cost basis as at 30 November 2003 at RMB656,976,000. The Financial Information of the Group did not incorporate any revaluation surplus arising from the above valuation.

8 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 31 October 2003.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

A. UNAUDITED PROFORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP

The following statement of proforma unaudited adjusted consolidated net tangible assets of the Group based on the audited consolidated net tangible assets of the Group as at 31 March 2003 after taking into account the effects of the Open Offer, the Nanjing Acquisition and certain other subsequent events of the Group since 31 March 2003, as described below:

	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 31 March 2003	135,491
<i>Less:</i> Deferred taxation	<u>(2,468)</u>
Audited and restated consolidated net tangible assets of the Group as at 31 March 2003	133,023
<i>Add:</i> Unaudited consolidated profit of the Group for the six months ended 30 September 2003 (inclusive of revaluation surplus)	<u>15,106</u>
Unaudited consolidated net tangible assets of the Group as at 30 September 2003	148,129
<i>Add:</i> Net proceeds from the Open Offer, net of expenses	131,695
<i>Add:</i> 25% of net assets of Nanjing City Plaza as at 31 October 2003	35,896
<i>Less:</i> Consideration in cash for the Nanjing Acquisition	(90,000)
<i>Add:</i> Net proceeds from the CN Subscription	70,000
<i>Add:</i> 37.25% of net assets of Rongzhong BVI	43,575
<i>Less:</i> Consideration in cash for subscription of shares in Rongzhong BVI	<u>(58,490)</u>
Proforma unaudited adjusted consolidated net tangible assets of the Group	<u><u>280,805</u></u>
Proforma unaudited adjusted consolidated net tangible assets per Share (based on 1,662,440,000 Shares in issue on the Latest Practicable Date)	<u><u>HK\$0.17</u></u>

B. INDEBTEDNESS

At the close of business on 31 March 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK\$202 million, comprising secured bank borrowings of approximately HK\$191 million, and unsecured loan of HK\$11 million from a related company.

Save as referred to above or as otherwise disclosed herein and apart from intra-group liabilities, the Group did not have, as at the close of business on 31 March 2004, any mortgages, charges, debentures or other loan capital or bank overdraft, loans or other similar indebtedness or hire-purchase commitments or any guarantees or other material contingent liabilities.

C. MATERIAL ADVERSE CHANGES

Save as disclosed in the Company's interim report for the six months ended 30 September 2003, an extract of which is set out on pages 125 to 137 under the paragraph headed "Unaudited interim financial information" in this Appendix, the Open Offer and the Nanjing Acquisition, the Directors are not aware of any material changes in the financial or trading position or prospects of the Group since 31 March 2003, being the date of the latest audited consolidated financial statements of the Group were made up.

D. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the subscription monies of approximately HK\$70 million derived from the subscription of the Convertible Note by Wah Link, the Group has sufficient working capital for its present requirements.

E. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated results of the Group for each of the three years ended 31 March 2003 and the audited consolidated balance sheets of the Group as at 31 March 2001, 31 March 2002 and 31 March 2003. The information is extracted from the audited consolidated financial statements of the Group:

Results

	Year ended 31 March		
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	23,175	23,051	23,203
Direct outgoings	(322)	(1,772)	(3,420)
	<u>22,853</u>	<u>21,279</u>	<u>19,783</u>
Other revenue	2,529	6,480	22,136
Other net loss	(2,272)	–	–
Administrative expenses	(5,644)	(9,445)	(17,295)
Other operating expenses	(2,668)	(1,106)	–
Gain on disposal of interest in associates	5,112	17,877	–
Provision for impairment in value of goodwill	–	(78,400)	–
Provision for losses on restructuring	–	–	(590,700)
Provision for impairment in value of other investments	(60,000)	–	–
Deficit on revaluation of investment properties	(15,080)	(70)	(25,000)
Loss on disposal of a property under redevelopment	–	–	(339,344)
Loss from operations	(55,170)	(43,385)	(930,420)
Finance costs	(15,792)	(31,743)	(94,138)
Share of loss of an associate	–	(3,837)	(99,811)
Loss from ordinary activities before taxation	(70,962)	(78,965)	(1,124,369)
Taxation	(1,000)	–	(18)
Loss attributable to shareholders	<u>(71,962)</u>	<u>(78,965)</u>	<u>(1,124,387)</u>
Loss per share – Basic	<u>HK\$0.02</u>	<u>HK\$0.04</u>	<u>HK\$2.78</u>

Assets and liabilities

	Year ended 31 March		
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL ASSETS	360,615	482,865	591,097
TOTAL LIABILITIES	225,124	355,790	698,701
	<u>135,491</u>	<u>127,075</u>	<u>(107,604)</u>

F. AUDITED FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated profit and loss account of the Group for each of the three years ended 31 March 2003, the audited consolidated balance sheet of the Group as at 31 March 2002 and 2003 and the audited cash flow statement for the two years ended 31 March 2003 together with the relevant notes thereto as extracted from the annual report of the Company for the year ended 31 March 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Year ended 31 March	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	23,175	23,051
Direct outgoings		(322)	(1,772)
		<u>22,853</u>	<u>21,279</u>
Other revenue	3	2,529	6,480
Other net loss	3	(2,272)	–
Administrative expenses		(5,644)	(9,445)
Other operating expenses		(2,668)	(1,106)
Gain on disposal of interest in associates		5,112	17,877
Provision for impairment in value of goodwill		–	(78,400)
Provision for impairment in value of other investments		(60,000)	–
Deficit on revaluation of investment properties		(15,080)	(70)
Loss from operations		(55,170)	(43,385)
Finance costs	4(a)	(15,792)	(31,743)
Share of loss of an associate		–	(3,837)
Loss from ordinary activities before taxation	4	(70,962)	(78,965)
Taxation	5(a)	(1,000)	–
Loss attributable to shareholders	8	<u>(71,962)</u>	<u>(78,965)</u>
Loss per share – Basic	9	<u>HK\$0.02</u>	<u>HK\$0.04</u>

The notes on pages 105 to 124 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	As at 31 March	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets	10	336,146	350,730
Interest in an associate	12	–	–
Other investments	13	3,000	–
		<u>339,146</u>	<u>350,730</u>
Current assets			
Trading securities	14	2,840	
Accounts receivable	15	4,061	3,306
Prepayments, deposits and other receivables		1,466	1,733
Cash and cash equivalents	16	13,102	127,096
		<u>21,469</u>	<u>132,135</u>
Current liabilities			
Interest-bearing bank loans and other borrowings	17	10,992	8,394
Amounts due to related companies	18	13,616	91,446
Other payables and accruals		17,654	20,761
Taxation	5(b)	950	–
		<u>43,212</u>	<u>120,601</u>
Net current (liabilities)/assets		<u>(21,743)</u>	<u>11,534</u>
Total assets less current liabilities		<u>317,403</u>	<u>362,264</u>
Non-current liabilities			
Interest-bearing bank loans and other borrowings	17	(181,912)	(175,189)
Convertible bonds	19	–	(60,000)
		<u>(181,912)</u>	<u>(235,189)</u>
		<u>135,491</u>	<u>127,075</u>
Capital and reserves			
Share capital	21	999,720	479,320
Reserves	22	(864,229)	(352,245)
		<u>135,491</u>	<u>127,075</u>

The notes on pages 105 to 124 form part of these financial statements.

BALANCE SHEET

		As at 31 March	
		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets	<i>10</i>	346	–
Interest in subsidiaries	<i>11</i>	324,241	342,907
Other investments	<i>13</i>	3,000	–
		<u>327,587</u>	<u>342,907</u>
Current assets			
Interests in subsidiaries	<i>11</i>	10,992	8,394
Prepayments, deposits and other receivables		375	938
Cash and cash equivalents	<i>16</i>	10,603	121,471
		<u>21,970</u>	<u>130,803</u>
Current liabilities			
Interest-bearing bank loans and other borrowings	<i>17</i>	10,992	8,394
Amounts due to related companies	<i>18</i>	13,616	91,446
Other payables and accruals		7,471	11,318
		<u>32,079</u>	<u>111,158</u>
Net current (liabilities)/assets		<u>(10,109)</u>	<u>19,645</u>
Total assets less current liabilities		<u>317,478</u>	<u>362,552</u>
Non-current liabilities			
Interest-bearing bank loans and other borrowings	<i>17</i>	(181,912)	(175,189)
Convertible bonds	<i>19</i>	–	(60,000)
		<u>(181,912)</u>	<u>(235,189)</u>
		<u>135,566</u>	<u>127,363</u>
Capital and reserves			
Share capital	<i>21</i>	999,720	479,320
Reserves	<i>22</i>	(864,154)	(351,957)
		<u>135,566</u>	<u>127,363</u>

The notes on pages 105 to 124 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 March	
	2003	2002
	HK\$'000	HK\$'000
Shareholders' equity at the beginning of the year	127,075	(107,604)
Surplus on revaluation of other investments	3,000	–
Exchange loss released upon disposal of an associate	–	84
Release of goodwill upon disposal of an associate	–	(14,124)
Net gains/(losses) not recognised in the profit and loss account	3,000	(14,040)
Net loss for the year	(71,962)	(78,965)
Movements in share capital and reserves		
– Issue of new ordinary shares under the Placement	60,000	73,700
– Issue of new ordinary shares under Rights Issue	460,400	86,120
– Issue of new preference shares	–	171,000
– Bonus issue	(441,984)	–
– Share issue expenses	(1,038)	(3,136)
Net increase in shareholders' equity arising from capital transactions	77,378	327,684
Shareholders' equity at the end of the year	135,491	127,075

The notes on pages 105 to 124 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	Year ended 31 March	
		2003	2002
		<i>HK\$'000</i>	<i>restated</i> <i>HK\$'000</i>
Operating activities			
Loss from ordinary activities before taxation		(70,962)	(78,965)
Adjustments for:			
– Interest income		(1,656)	(709)
– Depreciation		16	–
– Provision for impairment in value of other investments		60,000	–
– Deficit on revaluation of investment properties		15,080	70
– Finance costs		15,792	31,743
– Gain on disposal of interest in associates		(5,112)	(17,877)
– Net unrealised loss in respect of trading securities		2,272	–
– Provision for doubtful debts		2,612	1,106
– Provision for impairment in value of goodwill		–	78,400
– Share of loss of an associate		–	3,837
– Fixed assets written off		–	24
– Gain on disposal of other investments		–	(5,295)
		<hr/>	<hr/>
Operating results before changes in working capital		18,042	12,334
Decrease/(increase) in prepayments, deposits and other receivables		267	(1,337)
Increase in accounts receivable		(3,367)	(354)
(Decrease)/increase in other payables and accruals		(616)	1,501
Increase in amounts due to related companies		–	483
		<hr/>	<hr/>
Cash generated from operations		14,326	12,627
Hong Kong profits tax paid		(50)	(18)
		<hr/>	<hr/>
Net cash from operating activities		<hr/> 14,276	<hr/> 12,609
Investing activities			
Purchases of fixed assets		(512)	–
Proceeds from disposal of other investments		–	5,295
Interest received		1,656	709
Acquisition of an associate		–	(44,700)
		<hr/>	<hr/>
Net cash from/(used in) investing activities		<hr/> 1,144	<hr/> (38,696)

	<i>Note</i>	Year ended 31 March	
		2003	2002
		<i>HK\$'000</i>	<i>restated</i> <i>HK\$'000</i>
Financing activities			
Gross proceeds from issue of shares		18,416	126,120
Share issue expenses		(1,038)	(3,136)
New bank loans		24,321	168,583
Repayment of promissory notes		(15,000)	(55,841)
Repayment of loan from a related company		(89,526)	–
Loans from related companies		11,696	85,038
Repayment of convertible bonds		(60,000)	–
Other borrowing costs paid		(18,283)	(36,954)
Issue of convertible bonds		–	60,000
Bank charges and refinancing charges		–	(3,239)
Repayment of other borrowings		–	(12,195)
Repayment of a bank loan		–	(177,012)
		<u> </u>	<u> </u>
Net cash (used in)/from financing activities		<u>(129,414)</u>	<u>151,364</u>
Net (decrease)/increase in cash and cash equivalents		(113,994)	125,277
Cash and cash equivalents at the beginning of the year	<i>16</i>	<u>127,096</u>	<u>1,819</u>
Cash and cash equivalents at the end of the year		<u><u>13,102</u></u>	<u><u>127,096</u></u>
Analysis of balance of cash and cash equivalents			
Cash and bank balances		2,152	2,117
Non-pledged time deposits with original maturity of less than three months when acquired		<u>10,950</u>	<u>124,979</u>
		<u><u>13,102</u></u>	<u><u>127,096</u></u>

The notes on pages 105 to 124 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

- (i) The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.
- (ii) Notwithstanding the net current liabilities of the Group at 31 March 2003, the financial statements have been prepared on a going concern basis since the major shareholder has confirmed that it is its present intention to do its best to obtain financial resources in order to provide such financial assistance as is necessary to maintain the Group as a going concern.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)).

(d) Associates

An associate is a company in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(i)); and
- for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates, such negative goodwill is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (ii) Other investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the revaluation reserve until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the revaluation reserve to the profit and loss account.
- (iii) Transfers from the revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(g) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:
 - investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers; and
 - furniture, fixtures and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)).
- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:
 - when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
 - when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the profit and loss account.
- (iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

(h) Amortisation and depreciation

- (i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.
- (ii) Depreciation is calculated to write-off the cost of other fixed assets over their estimated useful lives on a straight-line basis as follows:

Furniture, fixtures and other fixed assets	3 to 5 years
--	--------------

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than investment properties carried at revalued amounts);
- investments in subsidiaries and associates (except for those accounted for at fair value under note 1(d)); and
- positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(j) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.
- (iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received on exercise of share options.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable.

(ii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(o) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Segment reporting

The Group's operating results are almost entirely attributable to its property investment activities in Hong Kong. Accordingly, no segmental analysis is provided.

2 TURNOVER

The principal activity of the Group is property development and investment.

Turnover represents the gross rental income derived from the investment properties during the year.

3 OTHER REVENUE AND OTHER NET LOSS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Other revenue		
Interest income	1,656	709
Rentals receivable from other assets, other than those relating to investment properties	252	54
Gain on disposal of other investments	–	5,295
Others	621	422
	<u>2,529</u>	<u>6,480</u>
Other net loss		
Net unrealised loss in respect of trading securities	<u>(2,272)</u>	<u>–</u>

4 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(a) Finance costs:		
Interest on bank loans and other borrowings wholly repayable within five years	9,652	25,150
Interest on bank loans repayable beyond five years	3,140	3,354
Premium paid on redemption of convertible bonds	3,000	–
Refinancing charges	–	3,239
	<u>15,792</u>	<u>31,743</u>
(b) Staff costs (including directors' remuneration (note 6)):		
– Wages and salaries	1,257	1,379
– Retirement costs	16	–
	<u>1,273</u>	<u>1,379</u>
(c) Other items:		
Provision for doubtful debts	2,612	1,106
Auditors' remuneration	390	400
Depreciation	16	–
Rentals receivable from investment properties less direct outgoings of HK\$322,000 (2002: HK\$1,772,000)	<u>(22,853)</u>	<u>(21,279)</u>

5 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Provision for Hong Kong Profits Tax for the year	<u>1,000</u>	<u>–</u>

The provision for Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profits for the year.

The potential deferred tax liability attributable to accelerated depreciation allowances has not been provided in the financial statements as the timing differences are not likely to crystallise in the foreseeable future. The potential liability for unprovided deferred taxation for the year amounts to:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Depreciation allowances in excess of related depreciation	<u>2,698</u>	<u>2,268</u>

The potential deferred tax asset which represents the tax effect of timing differences due to tax losses available to set off against future assessable profits has not been recognised in the financial statements as its realisation is not assured beyond reasonable doubt.

(b) Taxation in the balance sheet represents:

	The Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Provision for Hong Kong Profits Tax for the year	1,000	–
Provisional Profits Tax paid	(50)	–
	<u>950</u>	<u>–</u>

6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees:		
– Executive	–	–
– Non-executive	–	–
– Independent non-executive	–	500
	<u>–</u>	<u>500</u>
Salaries and other emoluments – executive	896	879
Retirement costs	16	–
	<u>912</u>	<u>1,379</u>

The remuneration of the Directors is within the following bands:

	Number of directors	
	2003	2002
HK\$Nil to HK\$1,000,000	7	4
HK\$1,000,001 to HK\$1,500,000	–	–
	<u>7</u>	<u>4</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: none).

In addition to the above remuneration, 47,180,000 share options granted to the directors in respect of their services to the Group were cancelled. No value in respect of the share options granted during the year has been charged to the profit and loss account.

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, the five highest paid employees are all Directors, details of whose remuneration are disclosed in note 6. In the prior year, remuneration was paid to four employees only and all of whom were Directors and fell within the band of HK\$Nil to HK\$1,000,000.

8 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$72,175,000 (2002: HK\$79,339,000).

9 LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders for the year of HK\$71,962,000 (2002: HK\$78,965,000), and the weighted average of 3,143,494,000 (2002: 2,159,444,000) ordinary shares in issue during the year, after taking into account of the effect of the Open Offer during the year. The weighted average number of ordinary shares in issue for the year ended 31 March 2002 was restated because there was a bonus element resulting from the Open Offer during the year.

The exercise of the subscription rights conferred by the redeemable convertible preference shares and share options would not have any dilutive effect on the loss per share for the years ended 31 March 2002 and 2003.

10 FIXED ASSETS

(a) The Group

	Furniture, fixtures and other fixed assets	Investment properties	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation:			
At 1 April 2002	–	350,730	350,730
Additions	362	150	512
Deficit on revaluation	–	(15,080)	(15,080)
	<hr/>	<hr/>	<hr/>
At 31 March 2003	362	335,800	336,162
	<hr/>	<hr/>	<hr/>
Representing:			
Cost	362	–	362
Valuation – 2003	–	335,800	335,800
	<hr/>	<hr/>	<hr/>
	362	335,800	336,162
	<hr/>	<hr/>	<hr/>
Accumulated depreciation:			
At 1 April 2002	–	–	–
Charge for the year	16	–	16
	<hr/>	<hr/>	<hr/>
At 31 March 2003	16	–	16
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 March 2003	346	335,800	336,146
	<hr/>	<hr/>	<hr/>
At 31 March 2002	–	350,730	350,730
	<hr/>	<hr/>	<hr/>

(b) The Company

	Furniture, fixtures and other fixed assets <i>HK\$'000</i>
Cost:	
Additions and at 31 March 2003	362 -----
Accumulated depreciation:	
Charge for the year and at 31 March 2003	16 -----
Net book value:	
At 31 March 2003	346 =====
At 31 March 2002	- =====

(c) An analysis of the net book value of properties is as follows

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Long-term leases	335,000	350,000
Medium-term leases	800	730
	<u>335,800</u>	<u>350,730</u>

(d) Investment properties of the Group situated in Hong Kong were revalued by Chesterton Petty Limited, independent professional qualified valuers, who have among their Members of Hong Kong Institute of Surveyors on an open market value basis at 31 March 2003.

(e) Certain of the above investment properties with an aggregate carrying value of HK\$335,000,000 (2002: HK\$350,000,000) have been pledged to a bank for bank loans (note 17).

(f) The Group leases out investment properties under operating lease arrangements, with leases negotiated for an initial period of one to four years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. None of the leases includes contingent rentals.

At 31 March 2003, the Group had total future minimum lease payments under noncancellable operating leases receivable as follows:

	The Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	18,953	17,678
In the second to fifth years, inclusive	8,388	9,446
	<u>27,341</u>	<u>27,124</u>

11 INTEREST IN SUBSIDIARIES

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	197,075	197,075
Amounts due from subsidiaries	301,750	249,500
	<hr/>	<hr/>
<i>Less:</i> impairment loss	498,825 (163,592)	446,575 (95,274)
	<hr/>	<hr/>
Portion classified as current assets	335,233 (10,992)	351,301 (8,394)
	<hr/>	<hr/>
	<u>324,241</u>	<u>342,907</u>

The amounts due from subsidiaries are unsecured, interest-free and not repayable within twelve months following the balance sheet date, except for:

- (i) an amount of HK\$162,258,000 (2002: HK\$170,228,000) due from a subsidiary at 31 March 2003, which bears interest at prime rate plus 1% (2002: 1%) per annum; and
- (ii) an amount of HK\$10,992,000 (2002: HK\$8,394,000) due from a subsidiary, which is repayable within one year and is therefore classified as a current asset in the Company's balance sheet.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the consolidated financial statements.

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the company	a subsidiary	Principal activities
Genuine Glory Investments Limited	Hong Kong	HK\$2	100	–	Property investment
Master Profit Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Perfect Manor Limited	Hong Kong	HK\$2	–	100	Property investment
Max Cyber Development Inc.	British Virgin Islands/ Hong Kong	US\$1	100	–	Investment holding
Metro Fair Investment Limited	Hong Kong	HK\$2	–	100	Property investment
Can Do Enterprises Limited	Hong Kong	HK\$2	100	–	Investment holding

12 INTEREST IN AN ASSOCIATE

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share of net assets	-	-	-	-
Goodwill on acquisition	-	78,400	-	-
	-	78,400	-	-
Less: impairment loss	-	(78,400)	-	-
	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

On 12 August 2002, Max Cyber Development Inc., a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent third party for the disposal of its 49% equity interests in Masterful Resources Limited (“Masterful”) at a total consideration of HK\$56,800,000 (the “Masterful Disposal”). The consideration for the Masterful Disposal was satisfied by the issue of 284,000,000 new ordinary shares of eCyberChina Holdings Limited (“eCyberChina”) at par of HK\$0.20 each. On the transaction date, the market value of the aforementioned eCyberChina shares amounted to HK\$5,112,000 and was recognised as a gain on disposal of interest in associates. The eCyberChina shares have been classified as trading securities (note 14). The Masterful Disposal was completed on 5 September 2002.

13 OTHER INVESTMENTS

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity securities	60,000	-	-	-
Less: impairment loss	(60,000)	-	-	-
	-	-	-	-
Others	3,000	-	3,000	-
	3,000	-	3,000	-
	<u>3,000</u>	<u>-</u>	<u>3,000</u>	<u>-</u>

The Group’s unlisted equity securities represent a 30% equity interest in Power Insight Investments Limited (“Power Insight”), a company engaged in the supply and trading of liquid petroleum gas in bulk and in cylinders, the provision of piped gas and the sale of LPG household appliances in the PRC. In the opinion of the directors, the Group is not in a position to exercise significant influence over the financial and operating policies of Power Insight and accordingly, these equity securities have not been equity accounted for.

Others represents three club debentures held, which were revalued by the Directors during the year taking into account the prevailing saleable value of the debentures.

14 TRADING SECURITIES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at market value (note 12)	2,840	-
	<u>2,840</u>	<u>-</u>

15 ACCOUNTS RECEIVABLE

The Group maintains a defined credit policy and normally allows an average credit period of 30 days to its tenants. An ageing analysis of accounts receivable, net of provisions for doubtful debts, is as follows:

	The Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances aged:		
– Within 1 month	1,675	1,390
– 1 to 3 months	1,179	1,456
– Over 3 months	1,207	460
	<u>4,061</u>	<u>3,306</u>

16 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	2,152	2,117	596	127
Time deposits	10,950	124,979	10,007	121,344
Cash and cash equivalents	<u>13,102</u>	<u>127,096</u>	<u>10,603</u>	<u>121,471</u>

17 INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	The Group and the Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans, secured	192,904	168,583
Promissory notes, unsecured	–	15,000
Total bank loans and other borrowings	192,904	183,583
Portion classified as current liabilities	(10,992)	(8,394)
Long-term portion	<u>181,912</u>	<u>175,189</u>

Bank loans

	The Group and the Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans are repayable:		
– Within 1 year	10,992	8,394
– In the second year	11,383	8,710
– In the third to fifth years, inclusive	30,261	26,132
– Beyond 5 years	140,268	125,347
	<u>192,904</u>	<u>168,583</u>

The bank loans are secured by certain investment properties of the Group with an aggregate carrying value of HK\$335,000,000 (2002: HK\$350,000,000) (note 10(e)) and an assignment of the rental income derived therefrom.

Promissory notes

	The Group and the Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Promissory notes are repayable:		
– Within 1 year	–	–
– In the second year	–	15,000
	<u>–</u>	<u>15,000</u>
	<u>–</u>	<u>15,000</u>

The promissory notes existing at 31 March 2002 were repaid on 18 September 2002

18 AMOUNTS DUE TO RELATED COMPANIES

Included in the amounts due to related companies is an unsecured loan of HK\$11,696,000 obtained from a related company, which is under common directorship. The loan bears interest at a rate of 3% per annum and is repayable on or before 7 February 2004.

19 CONVERTIBLE BONDS

On 4 January 2002, the Company issued convertible bonds for an aggregate principal amount of HK\$60,000,000 at par to certain independent investors (the “Bonds”). The original maturity date of the Bonds was 4 January 2005 (the “Maturity Date”). The Bonds bore interest at a rate of 5% per annum payable semi-annually in arrears on 30 June and 31 December.

The holders of the Bonds had the option to convert the principal outstanding amount of the Bonds in whole or in part into ordinary shares of the Company at any time before the Maturity Date at the conversion price of HK\$0.25 per share (subject to adjustment).

At any time after the expiry of 12 months from the issue date, the Company had the right to redeem the whole (but not part) of the outstanding Bonds at the redemption amount which is 105% of the principal amount of the Bonds to be redeemed together with accrued interest thereon.

On 5 March 2003, the Company redeemed all the Bonds at the redemption amount of HK\$63,000,000 with accrued interest.

20 EQUITY COMPENSATION BENEFITS

The Company had a share option scheme (the “Old Scheme”) for the purpose of providing incentives and rewards to eligible participants, including the Company’s executive Directors and other eligible employees of the Group. The Old Scheme became effective on 13 December 1999 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

After the adoption of the amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) with effect on 1 September 2001, certain terms of the Old Scheme required amendments in order to comply with the new requirements under Chapter 17 of the Listing Rules. During the year, no options were granted under the Old Scheme after the new requirements of Chapter 17 of the Listing Rules became effective. At the annual general meeting of the Company held on 16 September 2002, resolutions were passed to terminate the Old Scheme and a new share options scheme was adopted (the “New Scheme”).

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants, including the Directors (including independent non-executive Directors), other eligible employees of the Group, suppliers of goods or services to the Group, customers of the Group and any minority shareholder of the Company’s subsidiaries. The New Scheme became effective on 18 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares of the Company in respect of which share options may be granted under the New Scheme, shall not, when aggregate with any shares subject to any other scheme, exceed 10% of the issued share capital of the Company from time to time, excluding the number of shares issued and allotted pursuant to the New Scheme. The maximum number of each participant under the New Scheme is equal to the maximum limit permitted under the Listing Rules.

The offer of a grant of share options may be accepted no later than 21 days from the date of offer with HK\$1.00 as consideration being payable by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences on the date upon which the option is granted and accepted and ends on the expiry date of the option as may be determined by the Directors, which shall not be later than the tenth anniversary of the New Scheme's effective date.

The subscription price of a share option is determined by the Directors, but may not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

The share options granted by the Company to the grantee under the Old Scheme will not be affected by the New Scheme and the following share options were outstanding under the Old Scheme during the year:

Name of Director	At 1 April 2002	Number of share options		At 31 March 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options	Company's share price at grant date of options***
		Granted during the year*	Cancelled during the year**					
Yeung Sau Chung	23,590,000	-	(23,590,000)	-	22 June 2001	22 June 2001 to 12 December 2009	0.25	0.176
Liu Shun Chuen	23,590,000	-	(23,590,000)	-	22 June 2001	22 June 2001 to 12 December 2009	0.25	0.176

* The share options were granted to the Directors on 22 June 2001.

** The number of share options outstanding was cancelled on 28 January 2003.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account.

The Directors do not consider that it is appropriate to disclose a theoretical value of the share options granted during the year because the Directors are of the opinion that the values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself. The Directors consider that such disclosure does not give additional value in view of the abovementioned limitations surrounding these models.

21 SHARE CAPITAL

Shares

	Ordinary shares of HK\$0.25 each		'A' Preference shares of HK\$0.25 each		'B' Preference shares of HK\$0.25 each		Total HK\$'000
	Number of shares (thousand)	Amount HK\$'000	Number of shares (thousand)	Amount HK\$'000	Number of shares (thousand)	Amount HK\$'000	
Authorised:							
At 31 March 2003	10,000,000	2,500,000	400,000	100,000	284,000	71,000	2,671,000
At 31 March 2002	3,920,000	980,000	400,000	100,000	284,000	71,000	1,151,000

Pursuant to a resolution of an extraordinary general meeting held on 22 June 2002, the authorised share capital of the Company was further increased from 4,604,000,000 shares to 10,684,000,000 shares by the creation of additional 6,080,000,000 new ordinary shares of HK\$0.25 each.

	Note	Ordinary shares of HK\$0.25 each		'A' Preference shares of HK\$0.25 each		'B' Preference shares of HK\$0.25 each		Total HK\$'000
		Number of shares (thousand)	Amount HK\$'000	Number of shares (thousand)	Amount HK\$'000	Number of shares (thousand)	Amount HK\$'000	
Issued and fully paid:								
At 1 April 2001		594,000	148,500	–	–	–	–	148,500
Issue of preference shares		–	–	400,000	100,000	284,000	71,000	171,000
Issue of new shares		294,800	73,700	–	–	–	–	73,700
Rights issue		344,480	86,120	–	–	–	–	86,120
At 31 March 2002		1,233,280	308,320	400,000	100,000	284,000	71,000	479,320
At 1 April 2002		1,233,280	308,320	400,000	100,000	284,000	71,000	479,320
Issue of new shares	(a)	240,000	60,000	–	–	–	–	60,000
Open offer and bonus shares issued	(b)	1,841,600	460,400	–	–	–	–	460,400
At 31 March 2003		3,314,880	828,720	400,000	100,000	284,000	71,000	999,720

Notes:

- (a) On 23 August 2002, 240,000,000 new ordinary shares were issued at HK\$0.25 each as consideration for the acquisition of a 30% equity interest in Power Insight, which is engaged in the business of supply and trading of liquid petroleum gas and the sale of LPG household appliances
- (b) On 7 January 2003, a rights issue of 73,664,000 new shares of HK\$0.25 each was made to the Shareholders at the issue price of HK\$0.25 each and on the basis of one rights issue share for every twenty existing shares held. On the same date, a bonus issue of 1,767,936,000 new shares of HK\$0.25 each was made to the subscribers of the aforementioned rights issue at the issue price of HK\$0.25 each and on the basis of twenty four bonus shares for one aforementioned rights issue share subscribed. An aggregate consideration before expenses of HK\$460,400,000 has been credited to the Company's share capital.

Redeemable convertible preference shares

The Preference Shares carry no right to dividend distributions to the holders. The Preference Shares carry a right to be converted into fully paid ordinary shares at initial conversion prices of HK\$0.90, HK\$1.50 and HK\$2.50 during Conversion Periods I, II and III, respectively, as set out below.

	‘A’ Preference Shares	‘B’ Preference Shares
Conversion period I	not more than HK\$33,333,327 equivalent nominal value shall become convertible within a period of 12 months from the date of issue	not more than HK\$23,666,661 equivalent nominal value shall become convertible within a period of 12 months from the date of issue
Conversion period II	not more than a further HK\$33,333,333 shall become convertible within a period commencing from the beginning of the 13th month up to the end of the 24th month after the date of issue	not more than a further HK\$23,666,664 shall become convertible within a period commencing from the beginning of the 13th month up to the end of the 24th month after the date of issue
Conversion period III	the balance of HK\$33,333,340 equivalent nominal value shall become convertible within a period commencing from the beginning of the 25th month up to the end of the 36th month after the date of issue	the balance of HK\$23,666,675 equivalent nominal value shall become convertible within a period commencing from the beginning of the 25th month up to the end of the 36th month after the date of issue

Pursuant to the terms and conditions of the Preference Shares, the Preference Shares may be redeemed by the holders of the Preference Shares at any time subsequent to 50 years after the date of issue at the redemption value of HK\$1.00 per Preference Share.

No Preference Shares were converted or redeemed during the year. Upon full conversion of the Preference Shares into ordinary shares of the Company at the pre-determined conversion price set out above, an aggregate of approximately 124,133,324 ordinary shares of the Company would be issued, which represents approximately 3.74% of the Company’s existing issued share capital of 3,314,880,000 ordinary shares and approximately 3.61% of the Company’s enlarged share capital of 3,439,013,324.

22 RESERVES

The Group

	Share premium <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	544,381	-	(84)	6,000	19,124	(825,525)	(256,104)
Share issue expenses	(3,136)	-	-	-	-	-	(3,136)
Release upon disposal of an associate	-	-	84	-	(14,124)	-	(14,040)
Loss for the year	-	-	-	-	-	(78,965)	(78,965)
At 31 March 2002	<u>541,245</u>	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>5,000</u>	<u>(904,490)</u>	<u>(352,245)</u>
At 1 April 2002	541,245	-	-	6,000	5,000	(904,490)	(352,245)
Bonus share issue	(441,984)	-	-	-	-	-	(441,984)
Share issue expenses	(1,038)	-	-	-	-	-	(1,038)
Surplus on revaluation of other investments	-	3,000	-	-	-	-	3,000
Loss for the year	-	-	-	-	-	(71,962)	(71,962)
At 31 March 2003	<u>98,223</u>	<u>3,000</u>	<u>-</u>	<u>6,000</u>	<u>5,000</u>	<u>(976,452)</u>	<u>(864,229)</u>

Negative goodwill in respect of acquisitions made prior to 1 April 2001 was credited directly to the capital reserve. The remaining negative goodwill included in the capital reserve will not be released to the profit and loss account unless the respective subsidiaries are disposed of by the Group (note 1(e)).

The Company

	Share premium <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	544,381	-	6,000	(819,863)	(269,482)
Share issue expenses	(3,136)	-	-	-	(3,136)
Loss for the year	-	-	-	(79,339)	(79,339)
At 31 March 2002	<u>541,245</u>	<u>-</u>	<u>6,000</u>	<u>(899,202)</u>	<u>(351,957)</u>
At 1 April 2002	541,245	-	6,000	(899,202)	(351,957)
Bonus share issue	(441,984)	-	-	-	(441,984)
Share issue expenses	(1,038)	-	-	-	(1,038)
Surplus on revaluation of other investments	-	3,000	-	-	3,000
Loss for the year	-	-	-	(72,175)	(72,175)
At 31 March 2003	<u>98,223</u>	<u>3,000</u>	<u>6,000</u>	<u>(971,377)</u>	<u>(864,154)</u>

23 COMMITMENTS

Capital commitments outstanding at 31 March 2003 not provided for in the financial statements were as follows:

	The Group and the Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:		
Acquisition of a subsidiary	<u>400,000</u>	<u>400,000</u>

In 2000, the Group entered into a conditional sale and purchase agreement with an independent third party for the acquisition of the entire issued share capital and the shareholders' loan of Growing China Limited ("Growing China"), a company incorporated in the British Virgin Islands, at a consideration of HK\$400,000,000. The principal assets of Growing China are residential blocks and a commercial complex located at Chengdu in the Sichuan Province, the PRC. Part of the consideration of HK\$340,000,000 is expected to be satisfied by the issue and allotment of approximately 301,000,000 new ordinary shares of the Company and the remaining balance of HK\$60,000,000 in cash. The agreement has yet to become unconditional and parties to the agreement agreed on 19 December 2000 to extend the long stop date of the agreement to such date as the parties may agree in writing. In the opinion of the Directors, unless the parties mutually agree to complete the acquisition, no payment under the agreement will be made within the next twelve months from the date of this report.

24 RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF Scheme are held separately from those of the Group and administered by an independent trustee. Under the MPF Scheme, the Group and its employees are each required to make a contribution to the Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000 (the "Cap"). The amounts in excess of the Cap are contributed to the MPF Scheme by both employers and employees as voluntary contributions. Mandatory contributions to the MPF Scheme are vested to the employees.

25 POST BALANCE SHEET EVENTS

(a) Capital reorganization

On 11 April 2003, special resolutions were passed at an extraordinary general meeting of the Company to implement a capital reorganization which, in summary, involved the following:

- (i) a reduction of the issued ordinary share capital of the Company of HK\$828,720,000 divided into 3,314,880,000 ordinary shares of HK\$0.25 each to HK\$33,148,800 divided into 3,314,880,000 ordinary shares of HK\$0.01 each and the issued preference share capital of HK\$171,000,000 divided into 684,000,000 preference shares of HK\$0.25 each to HK\$6,840,000 divided into 684,000,000 preference shares of HK\$0.01 each ("Capital Reduction").

The credit of HK\$959,731,200 resulting from the Capital Reduction of the Company will be set off, to the extent permitted by and subject to such conditions as may be imposed by the High Court of the Hong Kong Special Administrative Region ("Court"), against the accumulated losses of the Company;

- (ii) a sub-division of the authorised but unissued ordinary shares of HK\$0.25 each into 25 ordinary shares of HK\$0.01 each ("Share Sub-division");

- (iii) an increase of the authorised ordinary share capital of the Company to HK\$2,500,000,000, by the creation of not less than 79,557,120,000 new ordinary shares of HK\$0.01 each (“Capital Increase”); and
- (iv) the consolidation of 10 ordinary shares of HK\$0.01 each and 10 preference shares of HK\$0.01 each after such Capital Reduction into one new consolidated share of HK\$0.10 (“Consolidated Shares”) and one new consolidated preference share of HK\$0.10 (“Consolidated Preference Shares”) respectively (the “Share Consolidation”) (collectively as “Capital Reorganisation”).

Further details of the Capital Reorganisation are also set out in the circular of the Company dated 19 March 2003.

On 25 June 2003, by an order of the Court (“Court Order”), the Capital Reduction was confirmed. And upon filing of the Court Order and minutes of the Company with the Companies Registrar, the Capital Reorganisation became effective on 26 June 2003.

The Company has given certain undertakings to the Court. Details of such undertakings are summarised in the Report of the Directors.

(b) Refinancing

On 11 April 2003, a subsidiary of the Company has entered into a new banking facility of HK\$200,000,000 granted by the bank. The new bank loan was drawn on 12 June 2003 to refinance its existing bank borrowings.

26 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in presentation in the current financial year as a result of adopting revised Statements of Standard Accounting Practice (“SSAPs”). The Statement of Recognised Gains and Losses was replaced by the Statement of Changes in Equity as required by the SSAP1 (revised) “Presentation of Financial Statements”.

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirement of SSAP15 (revised 2001) “Cash Flow Statements”. As a result, cash flow items from taxation, returns on investments and servicing of finance have been reclassified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities have been included on the face of the consolidated cash flow statement.

Comparative figures have been reclassified to conform with current year’s presentation.

G. UNAUDITED INTERIM FINANCIAL INFORMATION

The following is extracted from the Company's unaudited interim report for the six months ended 30 September 2003.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	Six months ended	
		30 September	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(unaudited)</i>	<i>(unaudited/ restated)</i>
Turnover	3	12,944	11,553
Direct outgoings		(79)	(137)
		<hr/>	<hr/>
Gross profit		12,865	11,416
Other revenue		366	1,364
Other net loss	4	(1,988)	–
Surplus on revaluation of investment properties		15,000	–
Gain on disposal of interest in associates		–	56,859
Unrealised holding loss on short term investment		–	(51,688)
Administrative expenses		(8,002)	(2,513)
		<hr/>	<hr/>
Profit from operations	5	18,241	15,438
Finance costs		(2,795)	(7,071)
Share of loss of an associate		–	(59)
		<hr/>	<hr/>
Profit before taxation		15,446	8,308
Taxation	6	(340)	(700)
		<hr/>	<hr/>
Net profit attributable to shareholders		<u>15,106</u>	<u>7,608</u>
Earnings per share – Basic	7	<u>\$0.05</u>	<u>\$0.02</u>

The notes on pages 129 to 137 form part of the interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited/ restated)</i>
Total equity at 1 April		
As previously reported	135,491	127,075
Prior period adjustments arising from changes in accounting policy for:		
– deferred taxation (<i>Note 1</i>)	(2,468)	(2,268)
As restated	133,023	124,807
Net profit for the period	15,106	7,608
Issue of shares, net of share issue expenses	–	59,960
Total equity at 30 September	<u>148,129</u>	<u>192,375</u>

The notes on pages 129 to 137 form part of the interim financial statements.

CONSOLIDATED BALANCE SHEET

		As at	
		30 September 2003	31 March 2003
	<i>Note</i>	<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i> <i>(audited/ restated)</i>
NON-CURRENT ASSETS			
Fixed assets	8	351,136	336,146
Other investments		3,000	3,000
		<u>354,136</u>	<u>339,146</u>
CURRENT ASSETS			
Trading securities	9	–	2,840
Accounts receivable	10	3,911	4,061
Prepayment, deposits and other receivables		902	1,466
Cash and cash equivalents		17,968	13,102
		<u>22,781</u>	<u>21,469</u>
CURRENT LIABILITIES			
Interest-bearing bank loan (secured)	11	12,466	10,992
Amounts due to related companies	12	12,190	13,616
Other payables and accruals		15,846	17,654
Taxation		1,022	950
		<u>41,524</u>	<u>43,212</u>
NET CURRENT LIABILITIES		<u>(18,743)</u>	<u>(21,743)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>335,393</u>	<u>317,403</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loan (secured)	11	(184,456)	(181,912)
Deferred taxation		(2,808)	(2,468)
		<u>(187,264)</u>	<u>(184,380)</u>
		<u>148,129</u>	<u>133,023</u>
CAPITAL AND RESERVES			
Share capital	13	39,989	999,720
Reserves	14	108,140	(866,697)
		<u>148,129</u>	<u>133,023</u>

The notes on pages 129 to 137 form part of the interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,691	5,562
NET CASH INFLOW FROM INVESTING ACTIVITIES	952	–
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	1,223	(8,850)
	<u> </u>	<u> </u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,866	(3,288)
Cash and cash equivalents at beginning of the period	13,102	127,096
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>17,968</u>	<u>123,808</u>
	<u> </u>	<u> </u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	17,968	123,808
	<u> </u>	<u> </u>

The notes on pages 129 to 137 form part of the interim financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

- (a) The interim financial statements (the “Interim Report”) are unaudited, but have been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (the “HKSA”).

The Interim Report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”), including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 March 2003 included in the Interim Report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2003 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 July 2003.

The same accounting policies adopted in the Group’s annual financial statements for the year ended 31 March 2003 have been applied to the Interim Report except for the adoption of the revised SSAP 12 “Income taxes”, which is effective for accounting periods commencing on or after 1 January 2003.

The notes on the Interim Report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2003 annual financial statements.

- (b) In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenses, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 April 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group has adopted a new policy for deferred taxation as follows:

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the taxes respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable temporary differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible temporary differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

The new accounting policy has been adopted retrospectively, with the opening balance of accumulated losses and the comparative information adjusted for the amounts relating to prior periods. As a result of the adoption of this accounting policy, the profit for the six months ended 30 September 2003 has been decreased by HK\$340,000 (six months ended 30 September 2002: HK\$100,000) and the net assets as at the period end have been decreased by HK\$2,808,000 (at 31 March 2003: HK\$2,468,000).

2. PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of its subsidiaries have not changed during the period and consisted of property investments and other investments in Hong Kong and the PRC.

3. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the gross rental income and management fees derived from the investment properties during the period.

The Group's operating results are almost entirely attributable to its property investment activities in Hong Kong. Accordingly, no segmental analysis is provided.

4. OTHER NET LOSS

	Six months ended 30 September	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Net realised loss on trading securities	(1,988)	–

5. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):-

	Six months ended 30 September	
	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Staff costs (including directors' remuneration)		
Wages and salaries	3,390	198
Retirement costs	87	7
	3,477	205
Depreciation	50	–
Provision for doubtful debts	89	–
Interest income	(140)	(956)

6. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits for the period.

Deferred taxation has been provided in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited/ restated)</i>
Current taxation		
Provision for Hong Kong Profits Tax for the period	–	600
Deferred taxation		
Origination and reversal of temporary differences	108	100
Effect of increase in tax rate on deferred tax	232	–
Total taxation	<u>340</u>	<u>700</u>

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the period ended 30 September 2003 of HK\$15,106,000 (2002: HK\$7,608,000 (as restated)) and the weighted average of 331,488,000 (2002: 323,975,000 (as restated)) ordinary shares in issue during the period.

The exercise of the subscription rights conferred by the redeemable convertible preference shares would not have any dilutive effect on the earnings per share for the periods ended 30 September 2003 and 2002. There are no other potentially dilutive securities.

8. FIXED ASSETS

- (a) Investment properties of the Group situated in Hong Kong were revalued by Chesterton Petty Limited, independent professional qualified valuers, who have amongst themselves members of the Hong Kong Institute of Surveyors, on an open market value basis at 30 September 2003. The increase in fixed assets during the current period substantially represents HK\$15,000,000 increase in investment properties following the current valuation.
- (b) Certain of the above investment properties with an aggregate carrying value of HK\$350,000,000 (31 March 2003: HK\$335,000,000) have been pledged to a bank for bank loans (note 11).
- (c) The Group leases out investment properties under operating lease arrangements, with leases negotiated for an initial period of one to four years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. None of the leases includes contingent rentals.

At 30 September 2003, the Group had total future minimum lease payments under noncancellable operating leases receivable as follows:

	As at	
	30 September 2003	31 March 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Within one year	19,915	18,953
In the second to fifth years inclusive	11,320	8,388
	<u>31,235</u>	<u>27,341</u>

9. TRADING SECURITIES

The trading securities represent the carrying value of 284 million ordinary shares in eCyber China Holdings Limited which were disposed of during the current period.

10. ACCOUNTS RECEIVABLE

The Group maintains a defined credit policy and normally allows an average credit period of 30 days to its tenants. An ageing analysis of accounts receivable, net of provisions for doubtful debts, is as follows:

	As at	
	30 September 2003	31 March 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Outstanding balances aged:		
– Within 1 month	1,772	1,675
– 1 to 3 months	1,077	1,179
– Over 3 months	1,062	1,207
	<u>3,911</u>	<u>4,061</u>

11. INTEREST-BEARING BANK LOAN

	As at	
	30 September 2003 <i>HK\$'000</i> <i>(unaudited)</i>	31 March 2003 <i>HK\$'000</i> <i>(audited)</i>
Bank loan, secured	196,922	192,904
Portion classified as current liabilities	(12,466)	(10,992)
	<u>196,922</u>	<u>192,904</u>
Long term portion	<u>184,456</u>	<u>181,912</u>
Bank loan		
The bank loan is repayable:		
Within one year	12,466	10,992
In the second year	13,089	11,383
In the third to fifth year, inclusive	40,722	30,261
Beyond five years	130,645	140,268
	<u>196,922</u>	<u>192,904</u>

The bank loans are secured by certain investment properties of the Group with an aggregate carrying value of HK\$350,000,000 and an assignment of the rental income derived therefrom.

12. AMOUNTS DUE TO RELATED COMPANIES

Included in the amounts due to related companies is an unsecured loan of HK\$11,696,000 obtained from a related company, which is under common directorship. The loan bears interest at a fixed rate of 3% per annum and is repayable on or before 27 February 2004.

13. SHARE CAPITAL

	As at			
	30 September 2003		31 March 2003	
	Number of shares (<i>'000</i>)	HK\$ <i>'000</i>	Number of shares (<i>'000</i>)	HK\$ <i>'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each (<i>Note</i>)	<u>25,000,000</u>	<u>2,500,000</u>		
Ordinary shares of HK\$0.25 each			<u>10,000,000</u>	<u>2,500,000</u>
'A' Redeemable convertible preferences shares of HK\$0.10 each (<i>Note</i>)	<u>40,000</u>	<u>4,000</u>		
'A' Redeemable convertible preferences shares of HK\$0.25 each			<u>400,000</u>	<u>100,000</u>
'B' Redeemable convertible preferences shares of HK\$0.10 each (<i>Note</i>)	<u>28,400</u>	<u>2,840</u>		
'B' Redeemable convertible preferences shares of HK\$0.25 each			<u>284,000</u>	<u>71,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares				
At the beginning of the period/year	3,314,880	828,720	1,233,280	308,320
Issue of new shares	–	–	240,000	60,000
Open offer and bonus shares issued	–	–	1,841,600	460,400
Capital reorganisation (<i>Note</i>)	<u>(2,983,392)</u>	<u>(795,571)</u>	–	–
At the end of the period/year	<u>331,488</u>	<u>33,149</u>	<u>3,314,880</u>	<u>828,720</u>
'A' Redeemable convertible preferences shares of HK\$0.10 each (<i>Note</i>)	<u>40,000</u>	<u>4,000</u>		
'A' Redeemable convertible preferences shares of HK\$0.25 each			<u>400,000</u>	<u>100,000</u>
'B' Redeemable convertible preferences shares of HK\$0.10 each (<i>Note</i>)	<u>28,400</u>	<u>2,840</u>		
'B' Redeemable convertible preferences shares of HK\$0.25 each			<u>284,000</u>	<u>71,000</u>
		<u>39,989</u>		<u>999,720</u>

Note:

On 11 April 2003, special resolutions were passed at an extraordinary general meeting of the Company to implement a capital reorganisation which was approved by the Court on 26 June 2003, involved a reduction of the issued ordinary share capital of the Company of HK\$828,720,000 divided into 3,314,880,000 shares of HK\$0.25 each to HK\$33,148,800 divided into 3,314,880,000 shares of HK\$0.01 each and the issued preference share capital of HK\$171,000,000 divided into 684,000,000 preference shares of HK\$0.25 each to HK\$6,840,000 divided into 684,000,000 preference shares of HK\$0.01 each (the "Capital Reduction").

The following took effect immediately after the Capital Reduction:

- (a) subdividing each authorised but unissued ordinary share of HK\$0.25 into 25 ordinary shares of HK\$0.01 each;
- (b) increasing the authorised ordinary share capital to HK\$2,500,000,000 by the creation of not less than 79,557,120,000 new ordinary shares of HK\$0.01 each; and
- (c) consolidating the 250,000,000,000 ordinary shares of HK\$0.01 each and the 684,000,000 preference shares of HK\$0.01 each into 25,000,000,000 ordinary shares of HK\$0.10 each and 68,400,000 preference shares of HK\$0.10 each respectively.

14. RESERVES

	Share premium HK\$'000	Revaluation reserve HK\$'000	General reserve HK\$'000	Capital reserve HK\$'000	Special capital reserve HK\$'000	Accumulated losses HK\$'000 (restated)	Total HK\$'000 (restated)
At 1 April 2002	541,245	–	6,000	5,000	–	(904,490)	(352,245)
Profit for the period	–	–	–	–	–	7,608	7,608
Issue of shares	(40)	–	–	–	–	–	(40)
At 30 September 2002	<u>541,205</u>	<u>–</u>	<u>6,000</u>	<u>5,000</u>	<u>–</u>	<u>(896,882)</u>	<u>(344,677)</u>
At 31 March 2003 (audited)							
– as previously reported	98,223	3,000	6,000	5,000	–	(976,452)	(864,229)
– prior period adjustments							
– deferred taxation	–	–	–	–	–	(2,468)	(2,468)
As restated	98,223	3,000	6,000	5,000	–	(978,920)	(866,697)
Capital reorganisation (Note 13)	–	–	–	–	64,788	894,943	959,731
Profit for the period	–	–	–	–	–	15,106	15,106
At 30 September 2003	<u>98,223</u>	<u>3,000</u>	<u>6,000</u>	<u>5,000</u>	<u>64,788</u>	<u>(68,871)</u>	<u>108,140</u>

15. CAPITAL COMMITMENT

	30 September 2003 <i>HK\$'000</i> <i>(unaudited)</i>	As at 31 March 2003 <i>HK\$'000</i> <i>(audited)</i>
Contracted, but not provided for		
Acquisition of a subsidiary	<u>400,000</u>	<u>400,000</u>

In 2000, the Group entered into a conditional sale and purchase agreement with an independent third party for the acquisition of the entire issued share capital and the shareholders' loan of Growing China Limited ("Growing China"), a company incorporated in the British Virgin Islands, at a consideration of HK\$400,000,000. The principal assets of Growing China are residential blocks and a commercial complex located at Chengdu in the Sichuan Province, the PRC. Part of the consideration of HK\$340,000,000 is expected to be satisfied by the issue and allotment of approximately 301,000,000 new ordinary shares of the Company and the remaining balance of HK\$60,000,000 in cash. The agreement has yet to become unconditional and parties to the agreement agreed on 19 December 2000 to extend the long stop date of the agreement to such date as the parties may agree in writing. In the opinion of the Directors, unless the parties mutually agree to complete the acquisition, no payment under the agreement will be made within the next 12 months from the date of this report.

16. RELATED PARTY TRANSACTION

During the six months ended 30 September 2003, interest expense payable to a related company in respect of an unsecured loan amounted to HK\$176,000.

17. POST BALANCE SHEET EVENTS

- (a) On 28 November 2003, an ordinary resolution was passed at an extraordinary general meeting to approve an open offer to the Company's qualifying shareholders of 1,325,952,000 shares on the basis of four offer shares for every existing share at a subscription price of HK\$0.10 per share held at that date. The net proceeds of the open offer, after deducting expenses, are expected to be approximately HK\$131.7 million and are intended to be used as funding for any potential future investments (including PRC property investments) and general working capital of the Group.
- (b) On 1 December 2003, Sino Dynasty Investments Limited, a wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement to acquire a 25% equity interest in 南京國際商城建設有限公司 (Nanjing City Plaza Construction Co., Ltd.) ("Nanjing City Plaza") for a consideration of HK\$91,000,000 to be satisfied as to HK\$90,000,000 in cash and as to HK\$1,000,000 by the issuance of 5,000,000 ordinary shares to be issued by the Company. Nanjing City Plaza is a sino-foreign joint venture company incorporated in the PRC. The principal asset of Nanjing City Plaza is a 51% equity interest in 南京國際集團股份有限公司 (Nanjing International Group Co., Ltd.), a joint stock limited liability company incorporated in the PRC, which is principally engaged in property development in Nanjing, the PRC. The Nanjing Acquisition is subject to the approval of the Shareholders at the extraordinary general meeting to be held in January 2004.
- (c) On 11 December 2003, Dragon Express Investments Limited, a wholly owned subsidiary of the Company, entered into a subscription agreement to subscribe for 12 units of the Gobi Fund, Inc. ("Gobi Fund") at a consideration of US\$6,000,000 (equivalent to approximately HK\$46,800,000). Gobi Fund is a venture capital fund sponsored and managed by Gobi Partners, Inc., and mainly focuses on early stage investments in the PRC's digital media sector, such as telecommunications, internet and broadcasting. Gobi Fund is also cosponsored by Tsinghua Venture Capital Co., Ltd., the venture capital arm of Tsinghua University, the PRC.

18. COMPARATIVE FIGURES

Certain comparative figures have been adjusted due to the adoption of SSAP 12 (revised) during the period as described in note 1 (b).

19. INTERIM DIVIDEND

The directors have resolved that no interim dividend will be declared in respect of the six months ended 30 September 2003 (2002: Nil).

20. CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the extraordinary general meeting held on 11 April 2003, the name of the Company was changed from “Can Do Holdings Limited (長發建業有限公司)” to “Goldbond Group Holdings Limited (金榜集團控股有限公司)” with effect from 9 May 2003.

21. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board on 17 December 2003.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised</i>	<i>HK\$</i>
<u>25,000,000,000 Shares</u>	<u>2,500,000,000</u>
<i>Issued and fully paid:</i>	
<u>1,662,440,000 Shares</u>	<u>166,244,000</u>

Note: As at the Latest Practicable Date, there are 40,000,000 'A' Preference Shares and 28,400,000 'B' Preference Shares in issue. As at the Latest Practicable Date, only HK\$1,333,336 equivalent nominal value of 'A' Preference Shares and HK\$946,670 equivalent nominal value of 'B' Preference Shares are eligible for conversion at a conversion price of HK\$1.00 per Share. Such conversion rights will expire in September 2004. Thereafter, no Preference Share will be convertible.

The Shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchanges.

Save for the aforementioned Preference Shares, as at the Latest Practicable Date, there were no outstanding securities, options or warrants which were convertible into new Shares.

3. DISCLOSURE OF INTERESTS

(i) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of each Director and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the Company and the Stock Exchange, were as follows:

Directors	Nature of interest	Number of Shares	Approximate Percentage
Mr. Wong	Corporate	497,232,000 (<i>Note 1</i>)	29.91%
Mr. Ko Po Ming	Corporate	65,881,800 (<i>Note 2</i>)	3.96%
Ms. Loh Jiah Yee, Katherine	Corporate	404,770,143(<i>Note 3</i>)	24.35%
Mr. Kee Wah Sze	Corporate	472,589,643 (<i>Note 4</i>)	28.43%

Notes:

1. These Shares are held as to 497,232,000 Shares by Allied Luck Trading Limited , in which Mr. Wong is deemed to be interested by virtue of his shareholding interests in Allied Luck Trading Limited .
2. These Shares are held by Sparkle Power, in which Mr. Ko Po Ming is deemed to be interested by virtue of his shareholding interests in Sparkle Power.
3. These Shares are held as to 65,881,800 Shares by Sparkle Power and as to 338,888,343 Shares by Ace Solomon Investments Limited , in which Ms. Loh Jiah Yee, Katherine is deemed to be interested by virtue of her shareholding interests in Sparkle Power and Ace Solomon Investments Limited respectively.
4. These Shares are held as to 133,701,300 Shares by Canasia Profits Corporation and as to 338,888,343 Shares by Ace Solomon Investments Limited , in which Mr. Kee Wah Sze is deemed to be interested by virtue of his shareholding interests in Canasia Profits Corporation and Ace Solomon Investments Limited respectively.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(ii) Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to the Directors, the following parties, had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Number of Shares	Approximate Percentage
Allied Luck Trading Limited	497,232,000	29.91%
Ace Solomon Investments Limited	338,888,343	20.39%
Canasia Profits Corporation	133,701,300	8.04%

As far as the Directors are aware, save as disclosed herein, no other person was directly or indirectly beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company as at the Latest Practicable Date.

The Company had, between 1 March 2003 and 31 August 2003, leased a property for use as its office. The Company has since moved to and, pursuant to a tenancy agreement dated 30 July 2003, leased its current premise. Both of the above properties are owned by a company that is beneficially owned by Mrs. Wong, the spouse of Mr. Wong, and a close relative of Mr. Wong.

Save as disclosed above, none of the Directors has any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to the Company or any of its subsidiaries.

None of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group taken as a whole.

4. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (other than contracts expiring or determinable by any member of the Group within one year without payment of compensation, other than statutory compensation).

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within two years preceding the date of this circular and which are or may be material:

- (a) an agreement dated 5 August 2002 entered into between, *inter alia*, People Partner Limited and Gate Smart International Limited (collectively the “Vendors”) and Max Cyber Development Inc. in respect of the acquisition of a 30% interest in Power Insight Investments Limited by Max Cyber Development Inc. from the Vendors for a total consideration of HK\$60,000,000;
- (b) an agreement dated 12 August 2002 entered into between Max Cyber Development Inc., eCyberChina Holdings Limited and Prospect Technology Limited pursuant to which, *inter alia*, Max Cyber Development Inc. agreed to sell, eCyberChina Holdings Limited agreed to procure the purchase of and Prospect Technology Limited agreed to purchase 24,500 shares of US\$1.00 each in Masterful Resources Limited, representing 49% of the issued share capital of Masterful Resources Limited for a consideration of HK\$56,800,000;
- (c) the underwriting agreement dated 9 November 2002 entered into between the Company and Kingsway SW Securities Limited in relation to the underwriting and certain other arrangements in respect of the proposed issue of offer shares (with bonus shares) to the qualifying shareholders at a price of HK\$0.25 per offer share;
- (d) the underwriting agreement dated 17 October 2003 entered into between the Company, Allied Luck Trading Limited and Ace Solomon Investments Limited in relation to the Open Offer;
- (e) the S&P Agreement;

- (f) the subscription agreement dated 11 December 2003 entered into between Dragon Express Investments Limited, Gobi Fund, Inc. and Gobi Partners, Inc., in respect of the subscription of 12 units of Gobi Fund, Inc., for a consideration of US\$6,000,000 by Dragon Express Investments Limited;
- (g) the conditional sale and purchase agreement dated 1 December 2003 entered into between Sino Dynasty Investments Limited, Wah Link Real Estate Investments Limited, Bateson Investment Limited (formerly known as Y&W Holdings Limited) and Mr. Wang Boyang in respect of the Nanjing Acquisition, as supplemented by supplemental agreements dated 1 December 2003, 3 December 2003, 19 January 2004 and 24 February 2004.
- (h) the Subscription Agreement;
- (i) the CN Subscription Agreement; and
- (j) the Option Agreement.

6. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

7. QUALIFICATION

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Menlo	licensed corporation to carry on business in type 6 regulated activities (advising on corporate finance) under the SFO
KPMG	Certified Public Accountants

As at the Latest Practicable Date, neither Menlo nor KPMG was beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and have any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. CONSENT

Menlo and KPMG have given and have not withdrawn their respective written consents to the issue of this circular with inclusion of their letters, reports and/or valuation certificates and/or summary of their opinions (as the case may be) and references to their names in the form and context in which they respectively appear herein.

9. GENERAL

- a) The secretary of the Company is Mr. Li Sang Edward, LL.B.
- b) The Company's head office and principal place of business is at Unit 3902A, 39th Floor, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.
- c) The Hong Kong share registrar and transfer office is Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- d) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Iu, Lai and Li at 20th Floor, Gloucester Tower, The Landmark, Central, Hong Kong during normal office hours on any weekday, except public holidays, from the date of this circular up to and including 2 June 2004;

- a) the memorandum and articles of association of the Company;
- b) the accountants' report of Nanjing City Plaza regarding issued by KPMG, the text of which is set out in appendix I to this circular;
- c) the annual report of the Group for each of the three years ended 31 March 2001, 2002 and 2003 and the interim report of the Group for the six months ended 30 September 2003;

- d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 32 of this circular;
- e) the letter of advice from Menlo to the Independent Board Committee, the text of which is set out on pages 33 to 59 of this circular;
- f) the written consents referred to in the section headed “Consent” in paragraph 8 of this appendix;
- g) the contracts referred to in the section headed “Material contracts” in paragraph 5 of this appendix; and
- h) a copy of each circular of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts of the Company, being 31 March 2003.

NOTICE OF EGM



GOLDBOND GROUP HOLDINGS LIMITED

金榜集團控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 172)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of Goldbond Group Holdings Limited (the “**Company**”) will be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on 2 June 2004 for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions which will be proposed as Ordinary Resolutions of the Company.

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the entering into of the conditional subscription agreement dated 19 March, 2004 as amended and supplemented by a supplemental agreement dated 30 March, 2004 (the “**Subscription Agreement**”), copies of which have been produced to the meeting marked “A” and initialled by the Chairman of the meeting for the purpose of identification, made between Perfect Honour Limited (“**Perfect Honour**”), Mr. Xie Xiao Qing, Ms. Cheng Xi and Rongzhong Group Limited (“**Rongzhong BVI**”) whereby Perfect Honour has agreed to subscribe for 3,725 new shares of Rongzhong BVI at a consideration of RMB62 million (equivalent to approximately HK\$58.49 million) upon the terms and subject to the conditions therein contained, be and is hereby approved, confirmed and ratified and the transactions contemplated under the Subscription Agreement be and are hereby approved; and
- (b) any one director of the Company be and is hereby authorised to do such acts or execute such other documents by hand or, in case of execution of documents under seal, to do so jointly with either the secretary or a second director of the Company or a person appointed by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry out or to give effect to the transactions contemplated under the Subscription Agreement.”

NOTICE OF EGM

2. **“THAT:**

- (a) the entering into of the conditional option agreement dated 19 March, 2004 (the **“Option Agreement”**), a copy of which has been produced to the meeting marked “B” and initialled by the Chairman of the meeting for the purpose of identification, made between Perfect Honour Limited (**“Perfect Honour”**) and Wah Link Investments Limited (**“Wah Link”**) whereby Wah Link has agreed to grant to Perfect Honour the option to require Wah Link to purchase all the interests of Perfect Honour in Rongzhong Group Limited upon the terms and subject to the conditions therein contained, be and is hereby approved, confirmed and ratified and the transactions contemplated under the Option Agreement be and are hereby approved; and
- (b) any one director of the Company be and is hereby authorised to do such acts or execute such other documents by hand or, in case of execution of documents under seal, to do so jointly with either the secretary or a second director of the Company or a person appointed by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry out or to give effect to the transactions contemplated under the Option Agreement.”

3. **“THAT:**

- (a) the entering into of the conditional subscription agreement dated 19 March, 2004 (the **“CN Subscription Agreement”**), a copy of which has been produced to the meeting marked “C” and initialled by the Chairman of the meeting for the purpose of identification, made between Wah Link Investments Limited (**“Wah Link”**) and the Company whereby Wah Link has agreed to subscribe (or procure the subscription by its nominee) for and the Company has agreed to issue the convertible note in an aggregate principal amount of HK\$70 million at its face value upon the terms and subject to the conditions therein contained, be and is hereby approved, confirmed and ratified and the transactions contemplated under the CN Subscription Agreement be and are hereby approved; and
- (b) any one director of the Company be and is hereby authorised to do such acts or execute such other documents by hand or, in case of execution of documents under seal, to do so jointly with either the secretary or a second director of the Company or a person appointed by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry out or to give effect to the transactions contemplated under the CN Subscription Agreement.”

NOTICE OF EGM

4. **“THAT:**

- (a) the entering into of the shareholders’ agreement (the **“Shareholders’ Agreement”**) to be made between Perfect Honour Limited, Mr. Xie Xiao Qing, Ms. Cheng Xi and Rongzhong Group Limited (**“Rongzhong BVI”**) in relation to the control and management of Rongzhong BVI and its subsidiaries be and is hereby approved; and
- (b) any one director of the Company be and is hereby authorised to do such acts or execute the Shareholders’ Agreement and such other documents by hand or, in case of execution of documents under seal, to do so jointly with either the secretary or a second director of the Company or a person appointed by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry out or to give effect to the transactions contemplated under the Shareholders’ Agreement.”

5. **“THAT:**

- (a) the entering into of the management agreements (the **“Management Agreements”**) to be made between, among others, a wholly foreign owned enterprise wholly owned by Rongzhong Group Limited (**“Rongzhong BVI”**) or a sino-foreign joint venture enterprise owned as to at least 90% by Rongzhong BVI to be established under the laws of the People’s Republic of China (the **“Management Company”**) and each of the seven companies established or to be established under the laws of the People’s Republic of China engaging in the loan guarantee business controlled or to be controlled by Mr. Xie Xiao Qing (the **“Seven Rongzhong Companies”**) on the condition that the aggregate annual value thereof shall not exceed HK\$5 million and HK\$30 million for the two years ending 31 March 2006 respectively, whereby the Management Company will provide certain management and supporting services to the Seven Rongzhong Companies be and are hereby approved; and
- (b) any one director of the Company be and is hereby authorised to do such acts or execute the Management Agreements and such other documents by hand or, in case of execution of documents under seal, to do so jointly with either the secretary or a second director of the Company or a person appointed by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry out or to give effect to the respective transactions contemplated under the Management Agreements.”

By Order of the Board
Goldbond Group Holdings Limited
Li Sang Edward
Company Secretary

NOTICE OF EGM

Hong Kong, 14 May 2004

Registered office:

Unit 3902A, 39th Floor, Tower 1
Lippo Centre, 89 Queensway
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the share registrar and transfer office of the Company at Computershare Hong Kong Investor Services Limited at Room 1901-05, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

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GOLDBOND GROUP HOLDINGS LIMITED

金榜集團控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 172)

FORM OF PROXY

I/We⁽¹⁾ _____
of _____
being the registered holder(s) of⁽²⁾ _____ ordinary shares of HK\$0.10 each in the capital of the above-named company, HEREBY APPOINT⁽³⁾ the Chairman of the meeting or, _____ of _____ as my/our proxy to act for me/us at the extraordinary general meeting of the Company (or at any adjournment thereof) (the "EGM") to be held at Caine Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on 2 June 2004 for the purpose of considering and, if thought fit, passing the ordinary resolutions as set out in the notice convening the said meeting and at such meeting, (or at any adjournment thereof) to vote for me/us in my/our name(s) in respect of the said resolutions as hereunder indicated, and if no such indication is given, as my/our proxy thinks fit.

	FOR ⁽⁴⁾	AGAINST ⁽⁴⁾
The ordinary resolution (1) as set out in the notice of the EGM		
The ordinary resolution (2) as set out in the notice of the EGM		
The ordinary resolution (3) as set out in the notice of the EGM		
The ordinary resolution (4) as set out in the notice of the EGM		
The ordinary resolution (5) as set out in the notice of the EGM		

Dated this _____ day of _____ 2004 Signature⁽⁵⁾ _____

Notes:

1. Full name(s) and address(es) are to be inserted in **BLOCK CAPITALS**.
2. Please insert the number in which this proxy relates, registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
3. If any proxy other than the Chairman of the meeting is preferred, strike out the words "the Chairman of the meeting" and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, TICK IN THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, TICK IN THE BOX MARKED "AGAINST"**. Failure to tick either boxes will entitle your proxy to cast your vote at his/her discretion. Your proxy will also be entitled to vote at his/her discretion on any resolution properly put to the meeting other than that referred to in the notice convening the Meeting.
5. You are requested to lodge this form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy thereof, at the share registrar and transfer office of the Company at Computershare Hong Kong Investor Services Limited, at Room 1901-05, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event 48 hours before the time appointed for holding the meeting.
6. The form of proxy must be signed by you or your attorney duly authorized in writing or, in the case of a corporation, must be either under its common seal or under the hand of an officer or attorney duly authorized.
7. In the case of joint holders of any share, any one of such persons may vote at the said meeting, either personally or by proxy, in respect of such share as if he/she was solely entitled therein, but if more than one of such joint holders is present at the said meeting, personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
8. A proxy need not be a member of the Company but must attend the meeting in person to represent you.