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If you have sold or transferred all your securities in Jackley Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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JACKLEY HOLDINGS LIMITED
美 吉 利 國 際 控 股 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0353)

DISCLOSEABLE TRANSACTION

DNTC ACQUISITION

* For identification purpose only

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 20 September, 2004 in relation to the DNTC Acquisition
“associate”	has the same meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Jackley Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
“connected person”	the meaning ascribed thereto in the Listing Rules
“Consideration Shares”	The 95,000,000 new Shares to be issued by the Company as consideration for the DNTC Acquisition
“Directors”	the executive directors, non executive directors and independent non-executive directors of the Company
“DNTC”	DNTC Investment Limited, a company incorporated in Hong Kong with limited liability and the entire issued share capital of which is beneficially owned by the Vendors
“DNTC Acquisition”	the acquisition of 51% of the equity interest in DNTC pursuant to the Sale and Purchase Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	19 October 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Orient Carpet”	Orient Carpet Trading Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China

DEFINITIONS

“Sale and Purchase Agreement”	the sale and purchase agreement dated 10 September, 2004 entered into between the Company, Orient Carpet and the Vendors in relation to the DNTC Acquisition
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	Mr. Ng Yau Wah and Mr. Choi Hok Ya, who respectively is legal and beneficial owner of 1,000,000 ordinary shares and 1,000,000 ordinary shares of HK\$1.00 each in DNTC
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

LETTER FROM THE BOARD

JACKLEY HOLDINGS LIMITED

美吉利國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0353)

Executive Directors:

Mr. Lam Shu Chung

Mr. Law Fei Shing

Independent Non-Executive Directors:

Mr. Liu Ngai Wing

Mr. Lee Siu Leung

Mr. Ha Chun, Michael

Registered office:

Codan Trust Company (Cayman) Limited

Century Yard, Cricket Square

Hutchins Drive, P.O. Box 2681GT

George Town, Grand Cayman

Cayman Islands, British West Indies

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

8/F., Luk Kwok Centre

No. 72, Gloucester Road,

Wanchai

Hong Kong

26 October, 2004

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

DNTC ACQUISITION

INTRODUCTION

The Company announced on 20 September, 2004 that the Company, Orient Carpet and Vendors entered into the Sale and Purchase Agreement pursuant to which Orient Carpet agreed to purchase, and the Vendors agreed to sell, 1,020,000 shares of DNTC, representing 51% of the issued share capital of DNTC, for a consideration of HK\$9,500,000.

The DNTC Acquisition constitutes a discloseable transaction under Rule 14.06(2) of the Listing Rules for the Company and the purpose of this circular is to provide you with additional information on the DNTC Acquisition.

* For identification purpose only

LETTER FROM THE BOARD

DNTC ACQUISITION

Sale and Purchase Agreement

Date: 10 September, 2004

Parties: The Vendors
Orient Carpet as the purchaser
The Company as the issuer

Orient Carpet is a wholly-owned subsidiary of the Company which is engaged in the trading and installation of carpets. Subject to the fulfilment of the condition of the Sale and Purchase Agreement, Orient Carpet agreed to purchase, and the Vendors agreed to sell 1,020,000 shares of DNTC, representing 51% of the issued share capital of DNTC.

The Directors have made all reasonable enquiries and confirm that to the best of their knowledge, information and belief, the Vendors are third parties independent of the Company and its connected persons.

Each of the Vendors held a 50% equity interest in DNTC prior to the DNTC Acquisition. Following the DNTC Acquisition, Orient Carpet will own 51% equity interest and become the major and controlling shareholder of DNTC. The remaining 49% of the issued share capital of DNTC will continue to be owned by the Vendors in equal proportion. The shares of DNTC are identical in all respects.

The Directors consider the terms of the Sale and Purchase Agreement have been determined based on arm's length negotiations, in particular, taking into account the expected cost savings to be achieved through reduction in overhead expenses which in turn would enhance the profitability of the Group as well as the product range and marketing capability of DNTC, and are fair and reasonable as far as the Shareholders are concerned. They are also of the view that the DNTC Acquisition is in the ordinary and usual course of business of the Company and in the interest of the Company and the Shareholders as a whole.

Consideration

The consideration of HK\$9.5 million was arrived at after arm's length negotiations between the parties. The consideration will be satisfied by the Company issuing 95,000,000 Consideration Shares at HK\$0.10 per Share to the Vendors. The Consideration Shares will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 7 June 2004.

The consideration pursuant to the Sale and Purchase Agreement will be satisfied by the issue of the Consideration Shares and does not involve the issue of securities of any subsidiary of the Company. The DNTC Acquisition will not result in a change in control of the Company and Orient Carpet will remain as a wholly-owned subsidiary of the Company upon completion of the DNTC Acquisition.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200 million and the issued and fully paid up capital of the Company was HK\$124.5 million. The Shares and

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the Consideration Shares are identical in all respects and no new class of securities will be issued as a result of the DNTC Acquisition.

Set out below is the shareholding structure of the Company before and after the DNTC Acquisition:

	Before the DNTC Acquisition		After the DNTC Acquisition	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Prime Orient International Limited (<i>Note 1</i>)	511,725,000	41.10	511,725,000	38.19
Brilliant Path Limited (<i>Note 2</i>)	110,000,000	8.84	110,000,000	8.21
Mr. Ng Yau Wah	–	–	47,500,000	3.54
Mr. Choi Hok Ya	–	–	47,500,000	3.54
Public	623,275,000	50.06	623,275,000	46.52
	<u>1,245,000,000</u>	<u>100.00</u>	<u>1,340,000,000</u>	<u>100.00</u>

Notes:

- (1) Prime Orient International Limited, the controlling Shareholder, is wholly and beneficially owned by Mr. Lam Shu Chung, a Director.
- (2) Brilliant Path Limited is beneficially owned by Mr. Lam Yat Sing.

Condition

Completion of the Sale and Purchase Agreement is conditional upon the Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Consideration Shares.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Completion

Completion of the Sale and Purchase Agreement will take place on the third business day after the condition precedent of the Sale and Purchase Agreement has been fulfilled. If the condition precedent is not fulfilled within 60 days from the date of the Sale and Purchase Agreement (or such other date as the parties to the Sale and Purchase Agreement may agree), the Sale and Purchase Agreement will lapse and neither party shall have any claim against the other in connection with the Sale and Purchase Agreement.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture and distribution of carpet. For the year ended 31 December, 2003, the Group recorded a turnover of approximately HK\$127.3 million, or approximately a 30% decrease from approximately HK\$182.1 million in the previous year. Net loss attributable to Shareholders for the year ended 31 December, 2003 amounted to approximately HK\$31.9 million compared

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to a net profit of approximately HK\$4.9 million for the year ended 31 December, 2002 and was mainly attributable to the provision for and writing-off of bad and doubtful debts as well as revaluation of fixed assets during the period.

INFORMATION ON DNTC

DNTC was incorporated in Hong Kong in 1986 and is headquartered in Hong Kong. DNTC is the authorised dealer in Hong Kong and the PRC to a number of major carpet manufacturers. In addition to trading and distribution of carpets, DNTC also provides consultation services including design, selection and carpet installation to institutional customers such as international hotel groups, service apartment management companies, governments as well as to private homes in Hong Kong and the PRC.

DNTC recorded audited turnover, before-tax and after-tax net loss of approximately HK\$21.0 million, HK\$0.1 million and HK\$0.1 million respectively for the financial year ended 31 March, 2003. For the financial year ended 31 March, 2004, its audited turnover, before -tax and after-tax net profit were approximately HK\$15.4 million , HK\$0.5 million and HK\$0.4 million respectively. The audited net asset value of DNTC as at 31 March, 2004 was approximately HK\$1.0 million.

Being in the same industry, the management of the Group is familiar with the businesses of DNTC. As part of the due diligence for the DNTC Acquisition, the Directors have reviewed the audited accounts of DNTC, conducted site visits as well as discussions with the management and marketing personnel of DNTC on its business operations and customer profiles. The results of the due diligence were satisfactory.

BASIS OF THE CONSIDERATION AND REASONS FOR THE DNTC ACQUISITION

Based on the closing price of the Shares of HK\$0.035 on 10 September, 2004, being the last trading day prior to the release of the Announcement and the average closing price of approximately HK\$0.036 for the last five trading days prior to the release of the Announcement, the Consideration Shares would be valued at approximately HK\$3.3 million and HK\$3.4 million respectively. These represent discounts of about 65% and 64% discounts to consideration of HK\$9.5 million. The discounts are due to the fact that the Company is not able to issue Shares at below its par value of HK\$0.10 per Share.

Based on the closing price of the Shares of HK\$0.034 on the Latest Practicable Date as 19 October 2004 and the average closing price of approximately HK\$0.034 for the last five trading days prior to the Latest Practicable Date as 19 October 2004, the Consideration Shares would be valued at approximately HK\$3.23 million. These represent discount of about 66% to consideration of HK\$9.5 million.

The market value of the Consideration Shares of approximately HK\$3.3 million, which is based on the closing price of the Shares on 10 September, 2004, represents the consideration for 51% of the issued share capital of DNTC as discussed above and values the entire share capital of DNTC at approximately HK\$6.5 million. This is about 6.5 times of the net asset value of DNTC as at 31 March, 2004.

The Group is currently engaged in the manufacture and sale of broadloom or wall-to-wall carpets and has the distribution rights in Hong Kong and the PRC in respect of carpet tiles of Shaw Industries, an international carpet company. The Group's customers are mainly from the commercial sector.

LETTER FROM THE BOARD

The Directors believe that the value of DNTC lies in its comprehensive range of products and services as well as its experienced marketing team. It specialises in the supply, design, installation, trading and contracting of carpet products. DNTC distributes a range of international branded carpet products such as hand-tufted carpets, woven axminster and wilton carpets of Brintons Carpet, nylon-tufted carpets of Fabrica, carpet underpads of Interfloor and woven axminster and carpet tiles of Shanhua, in Hong Kong and the PRC. In addition to the commercial sector, DNTC also sells its products to the hospitality sector such as hotels, club house and service apartments. The senior management of DNTC has more than 20 years of experience in the carpet industry and DNTC has an experienced marketing team with more than 20 personnel, which are based in Hong Kong, Beijing and Shanghai.

Having considered the current operating environment which is highly competitive in terms of price, quality and services and the merits of DNTC as described above, the Directors consider that DNTC's established sales network and marketing team will assist in boosting the sales of broadloom carpets manufactured by the Group and carpet tiles which it distributes and strengthen the Group's market position in Hong Kong and the PRC. DNTC's presence in the PRC may also facilitate the Group's marketing efforts and facilitate its business expansion in this market. The Directors also believe that the acquisition of DNTC will broaden the Group's current range of products and services offered.

When considering the DNTC Acquisition, the Directors have taken into account that the valuation of DNTC of HK\$6.5 million under the Sale and Purchase represents a substantial premium to the net asset value of DNTC. However, they expect that significant cost savings can be achieved through reduction in overhead cost duplication following the DNTC Acquisition. They also believe that the value of DNTC to the Group lies in its reputation, diverse service and product ranges as well as marketing capability, which are intangible in nature. Therefore, the Directors are of the view that the DNTC Acquisition is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION TO THE GROUP

The Directors consider that the DNTC Acquisition will not have a material impact on the assets and liabilities of the Group and overall net assets of the Group has not been changed. Upon Completion, the Company will indirectly hold an effective interest of 51% in DNTC and financial results of DNTC will be consolidated into the accounts of the Group.

IMPLICATIONS UNDER THE LISTING RULES

The DNTC Acquisition constitutes a discloseable transaction under Rule 14.06(2) of the Listing Rules for the Company. Each of the percentage ratios (other than the profits ratio) (as defined in the Listing Rules) is less than 25% and the consideration of the Sale and Purchase Agreement is less than HK\$10 million. Based on the foregoing, under Rule 14A.32(2) of the Listing Rules, the DNTC Acquisition is subject to reporting and announcement requirements and is exempt from the Independent Shareholders' approval requirement.

GENERAL

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

LETTER FROM THE BOARD

As of the date of this circular, the executive Directors are Mr. Lam Shu Chung and Mr. Law Fei Shing and the independent non-executive Directors are Mr. Liu Ngai Wing,, Mr. Lee Siu Leung and Mr. Ha Chun, Michael.

Yours faithfully,
For and on behalf of
Jackley Holdings Limited
Lam Shu Chung
Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors and the chief executive of the Company and their respective associates had the following interests and short positions in the equity and debt securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest	Number of Shares held	Approximate percentage of total shareholding (%)
Lam Shu Chung (<i>note</i>)	Corporate	511,725,000	41.10

Note: The Shares were held by Prime Orient International Limited which is wholly and beneficially owned by Mr. Lam Shu Chung

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and 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 associated corporation (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 Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

Save as disclosed herein, none of the Directors has or had any direct or indirect interest in any assets acquired or disposed of by or leased to or by or proposed to be acquired or disposed of by or leased to or by any member of the Group since 31 December, 2003, being the date to which the latest published audited financial statements of the Company were made up.

None of the Directors or any of their respective associates had any business or interest that directly or indirectly competes or may compete with the business of the Group or had or might have any other conflict of interest.

None of the Directors has any existing or proposed service contract (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)) with any member of the Group.

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.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interests in long positions and short positions kept by the Company pursuant to Divisions 2 and 3 of Part XV and section 336 of the SFO and so far as the Directors were aware, the following persons had a long position or short position in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long Positions in the Shares

Name of Shareholder	Nature of interest	Number of Shares held	%
Choi Hing Lin, Lori (<i>note 1</i>)	Corporate	511,725,000	41.10
Prime Orient International Limited (<i>note 1</i>)	Beneficial	511,725,000	41.10
Lam Yat Sing (<i>note 2</i>)	Beneficial and corporate	133,200,000	10.69
Brilliant Path Limited (<i>note 2</i>)	Beneficial	110,000,000	8.84
Prosperous Statesman Limited	Beneficial	68,200,000	5.48

Notes:

1. Ms. Choi Hing Lin, Lori is the wife of Mr. Lam Shu Chung who wholly and beneficially owns Prime Orient International Limited. Ms. Choi is deemed to be interested in the Shares which Mr. Lam Shu Chung is interested under the provisions of Divisions 2 and 3 of Part XV of the SFO.
2. The interest in these Shares includes that held by Brilliant Path Limited which is wholly-owned by Mr. Lam Yat Sing.

Save as disclosed in this circular, the Directors were not aware of any person as at the Latest Practicable Date who had a long position or short position in the Shares, underlying shares or debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, 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 any member of the Group.

4. LITIGATION AND CLAIMS**(1) Claims for arrears of payroll by the Company's former employees**

On 19 May 2004, a total of five former employees of the Company brought claims numbered LBTC 3383/2004 and LBTC 3387/2004 against the Company at the Labour Tribunal (the "Tribunal") claiming arrears of payroll in the aggregate amount of HK\$349,952.40. Agreements in full and final settlement of both these claims have been reached and made Orders of the Tribunal in the following manner:

- (a) one of the claimants voluntarily withdrew her claim after reaching an out of court settlement with the Company;
- (b) settlements with the remaining four claimants:
 - (i) under LBTC3383/2004 on 11 June 2004 in the amount of HK\$179,320.00;
 - (ii) under LBTC3387/2004 on 11 June 2004 in the amount of HK\$72,944.30; and
 - (iii) also under LBTC3387/2004 on 6 July 2004 in the amount of HK\$40,639.03.

As at the Latest Practicable Date, partial payments had been made in respect of (i) and (ii) above and the outstanding balances were HK\$112,075.00 and HK\$45,590.21 respectively. The scheduled payment under (iii) above will commence on 25 December 2004. The Company shall make the scheduled payments in accordance with the terms of the said Orders and upon the full compliance of which, these claims will be dismissed.

(2) Claims for arrears of payroll against Charvix Jackley Co., Ltd. ("Charvix"), a wholly owned subsidiary of the Company

- (a) On 23 April 2004, four former employees of Charvix brought claim numbered LBTC 2972/2004 against Charvix at the Tribunal claiming arrears of payroll in the aggregate amount of HK\$323,715.71. Agreements in full and final settlement of this claim has been reached and made an Order of the Tribunal in the following manner:
 - (i) on 25 May 2004 in the amount of HK\$210,000.00;
 - (ii) on 11 June 2004 in the amount of HK\$7,092.30; and
 - (iii) on 22 July 2004 in the amount of HK\$39,452.53.

As at the Latest Practicable Date, partial payments had been made and the outstanding balances under these claims were HK\$146,750.00. Upon the full compliance of the scheduled payments in accordance with the terms of the said Orders, these claims will be dismissed.

- (b) On 19 May 2004, another four former employees of Charvix brought claim numbered LBTC 3386/2004 against Charvix at the Tribunal claiming arrears of payroll in the aggregate amount of HK\$442,621.39. Agreement in full and final settlement of this claim has been reached and made an Order of the Tribunal in the following manner:
 - (i) one of these claimants voluntarily withdrew her claim after reaching an out of court settlement with Charvix;
 - (ii) on 11 June 2004 in the amount of HK\$162,647.99; and
 - (iii) on 6 July 2004 in the amount of HK\$195,715.49.

As at the Latest Practicable Date, partial payments had been made under the Order dated 11 June 2004 and the balance outstanding was HK\$101,767.52. The scheduled payments under the Order dated 6 July 2004 will commence on 25 December 2004. The Company shall make the scheduled payments in accordance with the terms the said Orders upon the full compliance of which, these claims will be dismissed.

(3) Proceedings against Sino Development Holdings Limited (“Sino Development”), a wholly owned subsidiary of the Company, in respect of a property situated at Shun Tak Centre (the “Shun Tak Property”)

On 30 January 2004, Fordpointer Shipping Company Limited (“Fordpointer”) brought proceedings in the High Court against Sino Development under HCMP 292 of 2004 in respect of a sale and purchase agreement made between Sino Development as vendor and Fordpointer as purchaser regarding the Shun Tak Property. Further details of the said contract are set out under paragraph 5 in section E headed “Material contracts” of this Appendix. The said sale and purchase was not completed and the mortgagee thereafter took over and sold the Shun Tak Property under a mortgagee sale. Fordpointer is, inter alia, claiming for return of the deposit paid to Sino Development but held by a solicitor firm. A property agent has also, on 11 March 2004, brought an action in the District Court under DCCJ 1352 of 2004 against Sino Development claiming HK\$244,750 as compensation, being unpaid agent’s fee.

As at the Latest Practicable Date, the actions in respect of the Shun Tak Property are still pending.

(4) Proceedings against Sino Development in respect of a property situated at the Victoria Towers (the “Victoria Towers Property”)

DBS Bank (Hongkong) Limited has, on 8 April 2004, brought an action in the High Court under HCMP 918 of 2004 against Sino Development in respect of a mortgage over the Victoria Towers Property. Sino Development has sold the Victoria Towers Property and repaid the mortgage in part and is negotiating with DBS Bank (Hongkong) Limited as regards the balance of their claim by instalments. Further details of the said sale are set out under paragraph 8 in section E headed “Material contracts” of this Appendix.

As at the Latest Practicable Date, the negotiation with DBS Bank (Hongkong) Limited is still in progress and the Company shall keep Shareholders informed of the outcome of the negotiations.

(5) DCCJ 3291 of 2004

On 24 June 2004, A. Plus Financial Press Limited brought the above proceedings against the Company, claiming HK\$208,290 for services rendered. On 7 September 2004, following negotiations with the Company, the proceedings was stayed by consent order of the District Court., thereby the Company was ordered to pay HK\$208,290.00 by four equal monthly instalments of HK\$52,072.50 each, commencing from the date of the said consent order.

As at the Latest Practicable Date, partial payments had been made and the balance outstanding under the said consent order is HK\$104,145.00. Upon the full compliance of which, these claims will be dismissed.

(6) DCCJ1164 of 2004

On 20 August 2004, Synchronic Communications Limited brought the above proceedings against the Company, claiming HK\$150,000.00 for services rendered. As at the Latest Practicable Date, the Company has reached an settlement agreement with Synchronic Communications Limited to repay the claim by six equal monthly instalment of HK\$25,000.00 each, commencing from the month of October 2004.

(7) PRC litigations

A wholly-owned subsidiary of the Company, namely 惠陽協凱晟地毯有限公司 (transliterated as Hui Yang Xie Kai Cheng Carpet Co. Ltd.) (“Xie Kai Cheng”) has been made defendant to two sets of proceedings in the PRC. The first set of proceedings was brought by 深圳華興建設有限公司 against Xie Kai Cheng at the People’s Court of the Hui Yang District, Hui Zhou City, Guangdong Province in respect of installation costs due and payable. The amount claimed under this set of proceedings is HK\$1,420,560 (¥D1,520,000). The second set of proceedings was brought by 廣州美吉利地毯有限公司 (a company not related or connected with the Company) against Xie Kai Cheng at the Intermediate People’s Court of the Hui Zhou City, Guangdong Province in respect of dispute over a sale and distribution agreement. The amount claimed under this set of proceedings is HK\$413,092 (¥D442,009). Further, freezing orders have been obtained by the plaintiff in this second set of proceedings and are in place against the bank accounts of Xie Kai Cheng. Xie Kai Cheng denies both claims, as at the Latest Practicable Date the first set of proceeding was adjourned for hearing on a day to be fixed in due course and is undergoing negotiation under the second set of proceeding for an out of court settlement.

The Company shall keep Shareholders informed of the outcome of the above pending proceedings and/or the out-of-court negotiations.

Save as aforesaid, neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is at

present known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

5. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Group after the date falling two years prior to the Announcement and up to the Latest Practicable Date and are or may be material:

- (1) settlement agreement dated 17 December 2002 and entered into between Jackley Finance Limited, a wholly owned subsidiary of the Company, and two Independent Third Parties in full and final settlement of a loan owed to Jackley Finance Limited. Under the settlement agreement, the Group acquired the entire issued share capital of Biolink Asia Limited, a company incorporated in the British Virgin Islands, which holds the intellectual property rights in a health food product, the acquisition of which were disclosed in the Company's 2002 annual report;
- (2) subscription agreement dated 15 April 2003 entered into by Chricton Holdings Sdn. Bdh. As subscriber and the Company as issuer (as supplemented by a supplemental agreement dated 17 April 2003, extension letters dated 25 April 2003, 3 May 2003 and 17 May 2003 respectively, a second supplemental agreement dated 31 May 2003 and an extension letter dated 30 June 2003) in relation to the subscription of 249,000,000 new Shares at the price of HK\$0.30 Share each, the total consideration of which is HK\$74,700,000. The agreement was cancelled on 11 July 2003;
- (3) joint venture agreement dated 31 July 2003 between the Company and Chricton Holdings Sdn. Bdh. in relation to the forming a strategic alliance for the purpose of making investments in business and projects identified by the Company in Asia and the China but which had become null and void on 31 August 2003 for non-fulfillment of condition precedent;
- (4) sale and purchase agreement dated 15 September 2003 and entered into by Jackley America as purchaser and Hao Sheng He as vendor for the acquisition of the remaining 49% equity interest in Xie Kai Cheng for a consideration of HK\$62,000,000;
- (5) sale and purchase agreement dated 28 November 2003 and entered into by Sino Development Holdings Limited, a wholly owned subsidiary of the Company, and an Independent Third Party in relation to the disposal of commercial leasehold land and buildings situated at Shun Tak Centre, Sheung Wan, Hong Kong at a consideration of HK\$13,475,000 but which was not completed and thereafter sold by the mortgagee under a mortgagee sale;
- (6) sale and purchase agreement dated 12 December 2003 and entered into between Xie Kai Cheng as purchaser and an Independent Third Party as vendor in respect of certain land and structure in the PRC at a consideration of HK\$26,000,000;
- (7) subscription agreement dated 5 March 2004 entered into by Cheertop Limited as subscriber and the Company as issuer in relation to the allotment and issue of 200 million new Shares at the subscription price of HK\$0.10 each Share, but which was subsequently terminated by Cheertop Limited on 11 May 2004;

- (8) sale and purchase agreement dated 5 May 2004 and entered into by Sino Development Holdings Limited, a wholly owned subsidiary of the Company, and an Independent Third Party, in relation to the disposal of residential leasehold land and buildings situated at The Victoria Towers, Tsim Sha Tsui, Kowloon, Hong Kong at a consideration of HK\$7,500,000;
- (9) settlement agreements by way of consent orders of the High Court both dated 4 May 2004 entered into by the Company and Charvix respectively and Interface Heuga Singapore Pte. Ltd. in relation to winding up petitions presented by Interface Heuga Singapore Pte. Ltd. against each of them on 24 December 2003. Under the consent orders, the petitions were dismissed upon payment by the Company of the HK\$7,366,589.75 to Interface Heuga Singapore Pte. Ltd. in full and final satisfaction of the said summary judgment and two other supporting creditors of the petitions ordered to withdraw upon the Company paying a total of HK\$3,200,000 to them; and
- (10) various settlement agreements with employees of the Group as detailed in the section headed “Litigation and Claims” in this Appendix.

Save as disclosed above, there are no other contracts (not being contracts in the ordinary course of business) being entered into by the members of the Group after the date falling two years prior to the Announcement and up to the Latest Practicable Date, which are or may be material.

7. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2003, the date to which the latest audited financial statements of the Company were made up.

8. MISCELLANEOUS

- (1) The registered office of the Company is at Codan Trust Company (Cayman) Limited, Centuary Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies. Its head office and principal place of business in Hong Kong is 8/F., Luk Kwok Centre, No.72 Gloucester Road, Wanchai, Hong Kong.
- (2) The secretary and qualified accountant of the Company is Mr. Law Fei Shing, CPA, AHKSA, AICPA.
- (3) The Company’s Hong Kong branch share registrar and transfer office is Tengis Limited at the Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (4) The English text of this document shall prevail over its Chinese text.