
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Haywood Investments Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares of the Company.

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HAYWOOD INVESTMENTS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 905)

**(1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(2) PROPOSED SHARE CONSOLIDATION AND CHANGE IN BOARD LOT SIZE; AND
(3) PROPOSED OPEN OFFER OF NEW SHARES ON THE
BASIS OF ONE OFFER SHARE
FOR EVERY NEW SHARE HELD ON RECORD DATE**

Financial adviser to the Company



KINGSTON CORPORATE FINANCE LIMITED

Underwriters



KINGSTON SECURITIES LIMITED



**東方滙財證券有限公司
ORIENT SECURITIES LIMITED**

Independent financial adviser to the Independent Board Committee

AmCap

Ample Capital Limited
豐盛融資有限公司

The Underwriters may terminate the Underwriting Agreement by notice in writing to the Company if, prior to 4:00 p.m. on the second business day after the latest date for acceptance of the Offer Shares, or such later time as may be agreed between the Company, the Substantial Shareholder and the Underwriters, any of the following grounds of termination happens:

- (1) in the reasonable opinion of Kingston (for and on behalf of the Underwriters), the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Kingston (for and on behalf of the Underwriters), materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Kingston (for and on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (2) any adverse change in market conditions (including, without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction of trading in securities) occurs which, in the reasonable opinion of Kingston (for and on behalf of the Underwriters), is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstance of the Company or any member of the Group which, in the reasonable opinion of Kingston (for and on behalf of the Underwriters), will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive business days, excluding any suspension in connection with the clearance of the Announcement, this circular and the proxy form for use at the EGM or the Prospectus Documents or other announcements or circulars in connection with the proposed increase in authorised share capital of the Company, the Share Consolidation and the Open Offer.

If Kingston (for and on behalf of the Underwriters) terminates the Underwriting Agreement, the Open Offer will not proceed.

Shareholders should note that the Shares will be dealt with on an ex-entitlement basis commencing from Friday, 11 March 2005 and that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Tuesday, 12 April 2005), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

A letter of advice from Ample Capital Limited, the independent financial adviser to the independent board committee of the Company, containing its opinion regarding the Open Offer is set out on pages 21 to 30 of this circular.

A notice convening a EGM to be held at Island Pacific Hotel at 152 Connaught Road West, Hong Kong on Thursday, 17 March 2005 at 10:00 a.m. is set out on pages 79 to 81 of this circular. If you are not able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch registrar and transfer office in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

28 February 2005

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DEFINITIONS

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

“Announcement”	the announcement dated 7 February 2005 made by the Company in relation to the proposed (1) increase in authorised share capital; (2) Share Consolidation and change in board lot size; and (3) Open Offer of New Shares on the basis of one Offer Share for every New Share held on Record Date
“Application Form(s)”	the application form(s) for use by the Qualifying Shareholders to apply for the Offer Shares
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Haywood Investments Limited, a company incorporated in the Cayman Islands under the Companies Law, the issued Shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company, including the independent non-executive directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among others, the increase in authorised share capital of the Company, the Share Consolidation and the Open Offer
“Excluded Shareholders”	the Shareholder(s) whose name(s) appear on the register of members of the Company on the Record Date and whose address is/are in (a) place(s) outside Hong Kong where, the Directors, based on legal opinions provided by legal advisers of the Company, consider it necessary or expedient to exclude any such Shareholder(s) on account either of the legal restrictions under the laws of the place of his/her/its respective registered address or the requirements of the relevant regulatory body or stock exchange in that place
“Group”	the Company and its subsidiaries

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Dr. Wong Yun Kuen, Edward, Mr. Hsieh Dominick, Mr. Chang Kin Man and Mr. Wong Wing Hang, Henry, the independent non-executive Directors, formed for the purpose of advising the Shareholders in relation to the Open Offer
“Independent Financial Adviser”	Ample Capital Limited, a deemed licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO
“Latest Practicable Date”	25 February 2005, being the latest practicable date for the purpose of ascertaining certain information for inclusion in this circular
“Kingston”	Kingston Securities Limited, a licensed corporation to carry out type 1 regulated activity (dealing in securities) under the SFO
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lee” or “Substantial Shareholder”	Mr. Lee Wing On, Samuel, the substantial Shareholder
“New Share(s)”	share(s) of HK\$0.025 each in the share capital of the Company upon the increase in authorised share capital of the Company and Share Consolidation becoming effective
“Offer Shares”	80,000,000 New Shares proposed to be offered to the Qualifying Shareholders for subscription pursuant to the Open Offer
“Open Offer”	the proposed issue of the Offer Shares by way of open offer to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and the terms of which are summarised herein
“Orient”	Orient Securities Limited, a licensed corporation to carry out types 1, 4, 6, 7 and 9 regulated activities (dealing in securities, advising on securities and corporate finance, providing automated trading services and asset management) under the SFO

DEFINITIONS

“PRC”	the People’s Republic of China
“Prospectus”	the Open Offer prospectus
“Prospectus Documents”	the Prospectus and the Application Form
“Prospectus Posting Date”	21 March 2005 or such later date as may be agreed between the Company, the Substantial Shareholder and Kingston (for and on behalf of the Underwriters) for the despatch of the Prospectus Documents
“Qualifying Shareholders”	the Shareholder(s) other than Excluded Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	17 March 2005, being the date by reference to which entitlements to the Open Offer will be determined
“Registrar”	Secretaries Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, the Company’s branch share registrar in Hong Kong
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Consolidation”	the proposed consolidation of every five Shares into two New Shares
“Shares”	shares of HK\$0.01 each in the share capital of the Company prior to completion of the Share Consolidation
“Shareholder(s)”	holder(s) of Shares or, after the Share Consolidation becoming effective, holder(s) of New Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.065 per Offer Share pursuant to the Open Offer
“Underwriters”	Kingston and Orient
“Underwriting Agreement”	the underwriting agreement dated 28 January 2005 as amended by a supplemental underwriting agreement dated 4 February 2005 entered into among the Company, the Substantial Shareholder and the Underwriters in relation to the Open Offer

DEFINITIONS

“Underwritten Shares”	63,604,800 Offer Shares underwritten by the Underwriters, of which 31,802,400 Offer Shares were underwritten by Kingston and 31,802,400 Offer Shares were underwritten by Orient, pursuant to the Underwriting Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

EXPECTED TIMETABLE

Last day of dealings in Shares on cum-entitlement basis	Thursday, 10 March 2005
First day of dealings in Shares on ex-entitlement basis	Friday, 11 March 2005
Latest time for lodging transfers of Shares in order to be entitled to the Open Offer	4:00 p.m. on Monday, 14 March 2005
Latest time for lodging forms of proxy for the purpose of the EGM (not less than 48 hours before the time for the EGM	10.00 a.m. on Tuesday, 15 March 2005
Register of members closes (both dates inclusive)	Tuesday, 15 March 2005 to Thursday, 17 March 2005
Time and date of the EGM	10.00 a.m. on Thursday, 17 March 2005
Record Date	Thursday, 17 March 2005
Expected date on which the increase in authorised share capital becomes effective	Friday, 18 March 2005
Expected date on which the Share Consolidation becomes effective	Friday, 18 March 2005
Free exchange of existing Share certificates for new share certificates commences	Friday, 18 March 2005
Existing counter for trading in existing shares in board lots of 2,000 Shares temporarily closes	9:30 a.m. on Friday, 18 March 2005
Temporary counter for trading in New Shares in board lots of 800 New Shares (in the form of existing share certificates) opens	9:30 a.m. on Friday, 18 March 2005
Register of members reopens	Friday, 18 March 2005
Despatch of the Prospectus Documents	Monday, 21 March 2005
Existing counter for trading in New Shares in board lots of 20,000 New Shares (in form of new share certificates) reopens	9:30 a.m. on Wednesday, 6 April 2005
Parallel trading of New Shares (in the form of existing Shares and new share certificates) commences	9:30 a.m. on Wednesday, 6 April 2005

EXPECTED TIMETABLE

First day of availability of odd lot facility	Wednesday, 6 April 2005
Latest time for lodging application for Offer Shares and payment	4:00 p.m. on Friday, 8 April 2005
Latest time for the Open Offer to become unconditional	4:00 p.m. on Tuesday, 12 April 2005
Announcement of results of the Open Offer	Thursday, 14 April 2005
Share certificates for Offer Shares to be posted	Friday, 15 April 2005
Dealings in Offer Shares commences	Monday, 18 April 2005
Last day of availability of odd lot facility	Wednesday, 27 April 2005
Temporary counter for trading in New Shares in board lots of 800 New Shares (in the form of existing share certificates) ends	4:00 p.m. on Wednesday, 27 April 2005
Parallel trading of New Shares (in the form of existing Shares and new share certificates) ends	4:00 p.m. on Wednesday, 27 April 2005
Free exchange of existing Share certificates for New Share certificates ends	Friday, 29 April 2005

Dates or deadlines specified in this circular for events in the timetable are for indicative purpose only and may be extended or varied. Any changes to the anticipated timetable for the increase in authorised share capital, the Share Consolidation and the Open Offer will be published by way of public announcement.

LETTER FROM THE BOARD



HAYWOOD INVESTMENTS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 905)

Executive Directors:

Mr. Wong Fong Kim
Mr. Tai Ah Lam, Michael
Mr. Phang Yul Cher Yeow
Mr. Tham Ming Yong

Registered office:

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands

Independent non-executive Directors:

Dr. Wong Yun Kuen, Edward
Mr. Hsieh Dominick
Mr. Chang Kin Man
Mr. Wong Wing Hang, Henry

Head office and principal

place of business

in Hong Kong:

17th Floor
Shiu Fung Commercial Building
51-53 Johnston Road
Wanchai
Hong Kong

28 February 2005

To Shareholders

Dear Sir or Madam,

**(1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
(2) PROPOSED SHARE CONSOLIDATION AND CHANGE IN BOARD LOT SIZE; AND
(3) PROPOSED OPEN OFFER OF NEW SHARES ON THE
BASIS OF ONE OFFER SHARE
FOR EVERY NEW SHARE HELD ON RECORD DATE**

INTRODUCTION

It was announced on 7 February 2005 that the Board intended to put forward proposals to the Shareholders in relation to the: (1) proposed increase in authorised share capital; (2) proposed Share Consolidation and change in board lot size; and (3) proposed Open Offer.

The Independent Board Committee has been established to advise the Shareholders in relation to the Open Offer. Ample Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect. The purpose of this circular is to provide you with further information regarding, among other things, the (1) proposed increase in authorised share capital; (2) proposed Share Consolidation and change in board lot size; and (3) proposed Open Offer, the financial and other information of the Group, to set out the advice of Ample Capital Limited to the Independent Board Committee in respect

LETTER FROM THE BOARD

of the Open Offer, the recommendation of the Independent Board Committee to the Shareholders and the notice of the EGM, which shall be convened for the purpose of considering and, if thought fit, approving the resolutions in relation to the aforesaid proposals.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$2,000,000 divided into 200,000,000 Shares, all of which had been issued and fully paid or credited as fully paid. In order to accommodate future expansion and growth of the Group, the Directors propose to increase the authorised share capital of the Company from HK\$2,000,000 divided into 200,000,000 Shares to HK\$10,000,000 divided into 1,000,000,000 Shares by the creation of an additional 800,000,000 unissued Shares.

The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

PROPOSED SHARE CONSOLIDATION AND CHANGE IN BOARD LOT SIZE

The Directors propose to effect the Share Consolidation by consolidating every five existing ordinary shares of HK\$0.01 par value each into two new ordinary shares of HK\$0.025 par value each and to change the board lot size for trading in the ordinary shares in the capital of the Company from 2,000 Shares to 20,000 New Shares.

The proposed increase in authorised share capital and the proposed Share Consolidation are not inter-conditional upon each other. The following table shows the total authorised capital of the Company after the Share Consolidation, but before the completion of the Open Offer, in the event that the increase in authorised share capital is/is not approved by the Shareholders at the EGM:

	Assuming the increase in authorised capital is not approved by the Shareholders at the EGM (Nominal value at HK\$0.025 per New Share) HK\$		Assuming the increase in authorised share capital is approved by the Shareholders at the EGM (Nominal value at HK\$0.025 per New Share) HK\$	
	Number of New Shares		Number of New Shares	
Total authorised	80,000,000	2,000,000	400,000,000	10,000,000
Total issued	80,000,000	2,000,000	80,000,000	2,000,000
Total unissued	–	–	320,000,000	8,000,000

Any fractional New Shares arising as a result of the Share Consolidation will be aggregated and sold for the benefit of the Company. The issued New Shares will rank *pari passu* in all respects with each other and there will be no change in the relative rights of the Shareholders. The Share Consolidation is subject to (i) approval by the Shareholders at the EGM; and (ii) the granting of the listing of, and permission to deal in, the New Shares.

The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the New Shares.

LETTER FROM THE BOARD

Reasons for the Share Consolidation and change in board lot size

The Directors believe that the Share Consolidation is in the best interests of the Company and the Shareholders as a whole as the Share Consolidation together with the increase in board lot size could reduce the number of board lots in the market and, as a result, the transaction costs incurred by the Shareholders and potential investors of the Company based on the number of board lots of the New Shares would be lower.

The Share Consolidation will not, of itself, alter the underlying assets, business operations, management or financial position of the Company and its subsidiaries except for the payment of related expenses.

Change in board lot size and trading arrangement

Currently, the Shares are traded in board lots of 2,000 Shares each. The Board proposes that the board lot size for trading on the Stock Exchange be changed from 2,000 Shares to 20,000 New Shares upon the Share Consolidation becoming effective.

Odd lots facility

In order to facilitate the trading of odd lots of the New Shares arising from the Share Consolidation and change in board lot size, the Company has appointed Kingston Securities Limited (the "Agent") to stand in the market to provide the service for the sale and purchase of odd lots of the New Shares during the period from 6 April 2005 to 27 April 2005, both dates inclusive. Holders of the New Shares in odd lots who wish to take advantage of this facility either to dispose of or top up their odd lots to a board lot of 20,000 New Shares may, directly or through their brokers, contact the Agent during such period. The address of the Agent is Suite 2801, 28/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong and the contact person is Ms. Rosita Kiu at telephone number 2298 6215. **Shareholders should note that successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed.**

Free exchange of new share certificates and trading arrangement

Upon the Share Consolidation becoming effective, Shareholders may submit the existing share certificates in beige in exchange for the new share certificates in grey for the New Shares free of charge to the office of the Company's branch share registrar in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, during its business hours from Friday, 18 March 2005 to Friday, 29 April 2005 (both dates inclusive). Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as from time to time be allowed by the Stock Exchange) for each share certificate, calculated on the basis of the number of share certificate(s) submitted for exchange or the number of share certificate(s) issued, whichever is more. Nevertheless, existing certificates for the Shares will continue to be good evidence of legal title but will cease to be valid for trading, settlement and registration purposes.

LETTER FROM THE BOARD

Upon the Share Consolidation becoming effective, the arrangement proposed for dealings in the New Shares are expected to be as follows.

From 18 March 2005, the existing counter for trading in the Shares in board lots of 2,000 Shares will be temporarily closed. A temporary counter will be established for trading in the existing Shares in board lots of 800 New Shares. Certificates for the Shares may only be traded at this temporary counter.

With effect from 6 April 2005, the existing counter for trading in Shares will be reopened for trading in the New Shares in board lots of 20,000 New Shares.

From 6 April 2005 to 27 April 2005, both days inclusive, there will be parallel trading at the above two counters.

The temporary counter for trading in the existing Shares in board lots of 800 New Shares will be removed after the close of trading on 27 April 2005. Thereafter, trading will be in the New Shares only and the existing share certificates for the Shares will cease to be marketable and will not be acceptable for dealing and settlement purposes. However, such share certificates will remain effective as documents of title.

PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY NEW SHARE HELD ON RECORD DATE

Issue statistics

Basis of the Open Offer	:	One Offer Share for every New Share held on the Record Date
Number of Shares in issue as at the Latest Practicable Date	:	200,000,000 Shares
Number of New Shares in issue immediately upon the completion of the Share Consolidation	:	80,000,000 New Shares
Number of Offer Shares	:	80,000,000 Offer Shares
Number of New Shares in issue immediately upon the completion of the Open Offer	:	160,000,000 New Shares
Number of Offer Shares undertaken to be taken up by Mr. Lee	:	16,395,200 Offer Shares

LETTER FROM THE BOARD

Number of Offer Shares underwritten by the Underwriters : Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite the Underwritten Shares, being 63,604,800 Offer Shares, subject to and upon the terms and conditions of the Underwriting Agreement. Each of the Underwriters is not a connected person (as defined in the Listing Rules) of the Company and is an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

The Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares on the Latest Practicable Date.

Pursuant to the Underwriting Agreement, the Company has undertaken that it shall not from the date of the Underwriting Agreement until after the latest time for the Underwriting Agreement becoming unconditional (which is expected on Tuesday, 12 April 2005), issue any Shares or issue or grant any share options or other securities convertible into, exchangeable for or which carry rights to acquire Shares (other than the Offer Shares).

Qualifying Shareholders

The Company will send (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Prospectus, for information only, to the Excluded Shareholders. To qualify for the Open Offer, Shareholders must, at the close of business on the Record Date be registered on the register of members of the Company and not being an Excluded Shareholder.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfer of Shares (with the relevant Share certificates) for registration with the Registrar by 4:00 p.m. on Monday, 14 March 2005.

The branch share registrar of the Company in Hong Kong is:

Secretaries Limited
Ground Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai, Hong Kong

The invitation to apply for the Offer Shares will not be transferable and there will be no trading in nil-paid entitlements on the Stock Exchange and the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their respective entitlements. The Directors consider that as the additional administrative work is saved by not offering the Shareholders to trade in nil-paid entitlements on the Stock Exchange or to subscribe for any Offer Shares in excess of the Qualifying Shareholders' respective entitlements, after evaluating on the cost and benefit, the aforesaid arrangements shall be in the best interest of the Company and the Shareholders as a whole.

Any Offer Shares not taken up by the Qualifying Shareholders will be taken up by the Underwriters pursuant to the Underwriting Agreement at the Subscription Price.

LETTER FROM THE BOARD

Fraction of Offer Shares

Given the Open Offer is on the basis of one Offer Share for every New Share held by the Qualifying Shareholders on the Record Date, there will be no fractions of Offer Shares created as result of the Open Offer.

Closure of register of members

The register of members of the Company will be closed from Tuesday, 15 March 2005 to Thursday, 17 March 2005 (both dates inclusive) to determine the eligibility of Shareholders to the Open Offer. No transfer of Shares will be registered during this period.

Subscription Price

HK\$0.065 per Offer Share, payable in full on application. The Subscription Price represents:

- (i) a discount of approximately 52.9% to the closing price of HK\$0.138 per New Share (assuming the Share Consolidation has become effective) as quoted on the Stock Exchange on 28 January 2005, being the last trading day before the suspension of trading in the Shares pending the publication of the Announcement;
- (ii) a discount of approximately 35.6% to the theoretical ex-entitlement price of approximately HK\$0.101 per New Share (assuming the Share Consolidation has become effective) based on the aforesaid closing price per New Share;
- (iii) a discount of approximately 54.5% to the average closing price of HK\$0.143 per New Share (assuming the Share Consolidation has become effective) as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including 28 January 2005; and
- (iv) a discount of approximately 44.7% to the closing price of HK\$0.1175 per New Share (assuming the Share Consolidation has become effective) as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriters, with reference to the prevailing market prices of the Shares as well as the subscription prices offered in certain recent open offers with discounts of over 50% to the relevant closing prices of the relevant shares. The Board considers that the terms of the Open Offer are fair and reasonable and the discount of the Subscription Price as compared to the recent market prices would encourage Shareholders to participate in the Open Offer and accordingly the future growth of the Group. The Open Offer is conditional on the completion of the proposed increase in authorised share capital of the Company and the Share Consolidation and the Subscription Price was determined based on the assumption of the completion of the Share Consolidation.

LETTER FROM THE BOARD

Status of the Offer Shares

The Offer Shares, when allotted and issued, will rank pari passu in all respects with the New Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid in respect thereof on or after the date of allotment and issue of such Offer Shares.

Certificates for the Offer Shares

Subject to fulfillment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted on or before Friday, 15 April 2005 to those Qualifying Shareholders who have validly applied and paid for the Offer Shares by ordinary post and at their own risks.

Rights of Excluded Shareholders

The Prospectus Documents are not expected to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 13.36(2) of the Listing Rules and make enquiries regarding the feasibility of extending the Open Offer to Excluded Shareholders and the details of the Excluded Shareholders will be disclosed in the Prospectus. If, based on legal opinions provided by the legal advisers to the Company, the Directors consider that, in compliance with Rule 13.36(2) of the Listing Rules, it is necessary or expedient not to extend the Open Offer to the Excluded Shareholders on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place, the Open Offer will not be made available to the Excluded Shareholders.

The Company will send the Prospectus to the Excluded Shareholders for their information only. The Company will not send the Application Forms to the Excluded Shareholders. The Excluded Shareholders will be entitled to vote at the EGM to consider and, if thought fit, passing the resolutions approving, among others, the Open Offer.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares and Offer Shares. Dealings in the New Shares and the Offer Shares and New Shares will be subject to the payment of stamp duty in Hong Kong.

Subject to the granting of the listing of, and permission to deal in, the New Shares and the Offer Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the New Shares and the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the New Shares and the Offer Shares on the Stock Exchange or, such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Underwriters has agreed to underwrite the Underwritten Shares, being 63,604,800 Offer Shares.

LETTER FROM THE BOARD

The Underwriters are not connected persons (as defined in the Listing Rules) of the Company and are independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates. The Company will pay to the Underwriters an underwriting commission in the aggregate amount of about HK\$82,600 which is calculated at 2.0% of the aggregate Subscription Price of the number of Offer Shares to be underwritten by the Underwriters.

Termination of the Underwriting Agreement

The Underwriters may terminate the Underwriting Agreement by notice in writing to the Company if, prior to 4:00 p.m. on the second business day after the latest date for acceptance of the Offer Shares, or such later time as may be agreed between the Company, the Substantial Shareholder and the Underwriters, any of the following grounds of termination happens:

- (1) in the reasonable opinion of Kingston (for and on behalf of the Underwriters), the success of the Open Offer would be materially and adversely affected by:**
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of Kingston (for and on behalf of the Underwriters), materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or**
 - (b) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of Kingston (for and on behalf of the Underwriters) materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or**
- (2) any adverse change in market conditions (including, without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction of trading in securities) occurs which, in the reasonable opinion of Kingston (for and on behalf of the Underwriters), is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or**
- (3) there is any change in the circumstance of the Company or any member of the Group which, in the reasonable opinion of Kingston (for and on behalf of the Underwriters), will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or**

LETTER FROM THE BOARD

- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than five consecutive business days, excluding any suspension in connection with the clearance of the Announcement, the associated circular and the proxy form for use at the EGM or the Prospectus Documents or other announcements or circulars in connection with the proposed increase in authorised share capital of the Company, the Share Consolidation and the Open Offer.

If Kingston (for and on behalf of the Underwriters) terminates the Underwriting Agreement, the Open Offer will not proceed.

Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional upon, among other things, :

- (i) the passing by Shareholders at the EGM of resolutions to approve the increase in authorised share capital of the Company, the Share Consolidation and the Open Offer;
- (ii) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents in compliance with the Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders on or before the Prospectus Posting Date; and
- (iv) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in, the Offer Shares by no later than the Prospectus Posting Date.

If the conditions to the Underwriting Agreement are not fulfilled on the dates as specified in the Underwriting Agreement (or such later date or dates as Kingston (for and on behalf of the Underwriters) may agree with the Company and the Substantial Shareholder in accordance with its terms), the Underwriting Agreement shall terminate and the obligations and liabilities of the parties thereto shall cease and determine save for any antecedent breaches of the terms thereof. The Open Offer is subject to the Underwriting Agreement having become unconditional and not being terminated in accordance with its terms.

WARNING OF RISKS OF DEALINGS IN SHARES

If Kingston (for and on behalf of the Underwriters) terminates the Underwriting Agreement, or if the conditions of the Underwriting Agreement have not been fulfilled in accordance with the terms thereof, the Open Offer will not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

LETTER FROM THE BOARD

Shareholders should note that the Shares will be dealt with on an ex-entitlement basis commencing from Friday, 11 March 2005 and that dealings in such Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Tuesday, 12 April 2005) will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

Shareholding structure of the Company

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer assuming the Share Consolidation has become effective:

	Immediately before completion of the Open Offer		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders takes up his/her/its entitlement under the Open Offer except for Mr. Lee)	
	New Shares	Percentage (approximately)	New Shares	Percentage (approximately)	New Shares	Percentage (approximately)
Mr. Lee	16,395,200	20.49%	32,790,400	20.49%	32,790,400	20.49%
Kingston	0	0.00%	0	0.00%	31,802,400	19.88%
Orient	0	0.00%	0	0.00%	31,802,400	19.88%
<i>Public</i>						
Other public Shareholders	63,604,800	79.51%	127,209,600	79.51%	63,604,800	39.75%
Total	<u>80,000,000</u>	<u>100.00%</u>	<u>160,000,000</u>	<u>100.00%</u>	<u>160,000,000</u>	<u>100.00%</u>

Reasons for the Open Offer and use of proceeds

The Group is an investment company listed under Chapter 21 of the Listing Rules and is principally engaged in investment in listed and unlisted companies in Hong Kong and in the PRC.

The estimated net proceeds from the Open Offer will be approximately HK\$4.5 million and will be used for future investment purposes which will be invested in accordance with the Company's investment policy of investing in listed and unlisted companies in Hong Kong and the PRC to achieve medium term capital appreciation. At present, no particular investment target have been identified by the Company. Should any investment be made, the Company will comply with the Listing Rules.

LETTER FROM THE BOARD

The Board considers that the Open Offer provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position under the current favourable market sentiment. In addition, since the Open Offer will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company, the Board considers that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Open Offer.

The estimated expenses of the Open Offer are about HK\$0.7 million, which comprise professional fees payable to the financial advisers and lawyers and certain printing and advertisement fee, and will be borne by the Company.

Fund raising activities of the Company during the 12 months immediately before the date of the Announcement and the Latest Practicable Date

There has not been any rights issue or open offer of Shares in the last 24 months immediately before the date of the Announcement and the Latest Practicable Date. The following table summaries the capital raising activities of the Group for the 12 months immediately before the date of the Announcement and the Latest Practicable Date:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
19 July 2004	Subscription of 27,200,000 new Shares at the subscription price of HK\$0.10 per Share	HK\$2.5 million	Investment in accordance with the Company's investment policy of investing in listed and unlisted companies in Hong Kong and the PRC	Approximately HK\$0.5 million for the investment in accordance with the Company's investment policy and approximately HK\$2.0 million was designated for the future investment. The aforesaid investment of HK\$0.5 million did not constitute a notifiable transaction of the Company.
11 March 2004	Placing of 28,800,000 Shares at the placing price of HK\$0.124 per Share	HK\$3.38 million	General working capital	As intended use

LETTER FROM THE BOARD

GENERAL

The EGM will be held to consider and, if thought fit, passing of the resolutions to approve the proposed increase in authorised share capital of Company, the proposed Share Consolidation and the proposed Open Offer.

Since the proposed Open Offer would increase the issued share capital of the Company by more than 50%, the Open Offer must be made conditional on approval (with voting to be taken by way of poll) by the Shareholders at the EGM in accordance with the Listing Rules.

Under the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Open Offer at the EGM.

Since there are no controlling Shareholders and none of directors or chief executive of the Company or their respective associates has any shareholding interests of the Company, no Shareholder is expected to be required to abstain from voting in favour of the resolution relating to the Open Offer. In case there are any controlling Shareholders, then they and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates having any shareholding interests of the Company at the EGM, will be required to abstain from voting in favour of the resolution relating to the Open Offer at the EGM.

THE EGM

Set out in this circular is a notice convening the EGM which will be held at Island Pacific Hotel at 152 Connaught Road West, Hong Kong on Thursday, 17 March 2005 at 10:00 a.m. at which resolutions will be proposed to approve the (1) proposed increase in authorised share capital; (2) proposed Share Consolidation; and (3) proposed Open Offer.

A form of proxy for use at the EGM is enclosed with this circular. If you do not intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Registrar, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so desire.

RECOMMENDATIONS

Ample Capital Limited has been appointed to advise the Independent Board Committee with regard to the terms and conditions of the Open Offer. Ample Capital Limited considers that the Open Offer is in the interest of the Group and the Shareholders so far as the Shareholders as a whole are concerned and the terms of the Open Offer and the issue of the Offer Shares are fair and reasonable. The text of the letter of advice from Ample Capital Limited to the Independent Board Committee containing its recommendation and the principal factors it has taken into account in arriving at its recommendation are set out on pages 21 to 30 of this circular.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of Ample Capital Limited, considers that the terms of the Open Offer are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the Open Offer. The text of the letter from the Independent Board Committee is set out on page 20 of this circular.

The Directors consider that the (1) proposed increase in authorised share capital; (2) proposed Share Consolidation; and (3) proposed Open Offer, are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

Subject to the necessary resolutions approving (1) the increase in authorised share capital; (2) the Share Consolidation; and (3) the Open Offer being passed at the EGM, it is expected that the Prospectus Documents will be despatched to the Qualifying Shareholders on or about Monday, 21 March 2005.

FURTHER INFORMATION

Your attention is drawn to the texts of the letters from the Independent Board Committee and from Independent Financial Adviser respectively containing their recommendations and opinions regarding the Open Offer and the information set out in the appendices to this circular.

Yours faithfully
For and on behalf of the Board
Phang Yul Cher Yeow
Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



HAYWOOD INVESTMENTS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 905)

28 February 2005

To the Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER
SHARE FOR EVERY NEW SHARE HELD ON RECORD DATE**

As the Independent Board Committee, we have been appointed to advise you in connection with the Open Offer, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 28 February 2005 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Open Offer and the advice of Independent Financial Adviser in relation thereto as set out on pages 21 to 30 of the Circular, we are of the opinion that the Open Offer is in the interest of the Group and the Shareholders so far as the Shareholders as a whole are concerned and the terms of the Open Offer and the issue of the Offer Shares are fair and reasonable. We therefore recommend that you vote in favour of resolution in relation to the Open Offer to be proposed at the EGM to approve the Open Offer.

Yours faithfully,

Dr. Wong Yun Kuen, Edward Mr. Hsieh Dominick Mr. Chang Kin Man Mr. Wong Wing Hang, Henry
Independent Board Committee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice to the Independent Board Committee from Ample Capital Limited setting out their opinion regarding the Open Offer for the purpose of inclusion in this circular.



Ample Capital Limited
Unit B, 9th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Central
Hong Kong

28 February 2005

*To the Independent Board Committee and
the Shareholders of
Haywood Investments Limited*

Dear Sirs,

PROPOSED OPEN OFFER OF NEW SHARES ON THE BASIS OF ONE OFFER SHARE FOR EVERY NEW SHARE HELD ON RECORD DATE

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Shareholders in respect of the Open Offer, particulars of which have been set out in a circular to the Shareholders dated 28 February 2005 (the “Circular”) and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Ample Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Shareholders to give our recommendation as to whether the terms of the Open Offer are fair and reasonable so far as the Shareholders are concerned. Details of the reasons for the Open Offer are set out in the section headed “Letter from the Board” in the Circular (the “Board Letter”).

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Group and have assumed that all information and representations made by the Group and the Directors were true, accurate and complete at the time they were made and continue to be so as at the date 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 also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the affairs of the Group nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Open Offer, we have taken into consideration the following factors:

1. Background information

As stated in the Board Letter, the Group is an investment company listed pursuant to Chapter 21 of the Listing Rules and is principally engaged in investment in listed and unlisted companies in Hong Kong and in the PRC. Upon a review of the Company's annual report for the year ended 31 December 2003 (the "Annual Report"), we note that the Group suffered loss attributable to Shareholders of approximately HK\$11,808,000 during the period as compared to loss attributable to Shareholders of approximately HK\$27,223,000 recorded during the year ended 31 December 2002. The Company's interim report for the six months ended 30 June 2004 (the "Interim Report") reveals that the Group recorded unaudited net loss of approximately HK\$1,423,000 during the period. As at 30 June 2004, the Group had consolidated unaudited net assets of approximately HK\$14,318,000, an approximately 15.99% increase over the consolidated net assets of approximately HK\$12,344,000 as at 31 December 2003.

On 19 July 2004, the Company announced the subscription of 27,200,000 Shares at a subscription price of HK\$0.10 per Share. Under the subscription, the Company raised net proceeds of approximately HK\$2.5 million which is to be applied for future investment purposes which will be invested in accordance with the Company's investment policy of investing in listed and unlisted companies in Hong Kong and the PRC so as to achieve medium term capital appreciation.

2. Reasons for the Open Offer

As stated in the Board Letter, the net proceeds from the Open Offer will be approximately HK\$4.5 million and will be used for future investment purposes which will be invested in accordance with the Company's investment policy as mentioned above. At present, no particular investment targets have been identified by the Company.

It is further stated in the Board Letter that the Open Offer provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position under the current favourable market sentiment. In addition, since the Open Offer will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company, the Board considers that it is in the interests of the Company and its Shareholders as a whole to raise capital through the Open Offer.

3. Terms of the Open Offer

3.1 Basis of the Open Offer

As stated in the Board letter, the Company proposes to issue 80,000,000 Offer Shares (following the completion of the Share Consolidation) by way of the Open Offer on the basis of one Offer Share for every New Share held on the Record Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3.2 Subscription Price

The Subscription Price is HK\$0.065 per Offer Share and is payable in full on application. The Subscription Price represents:

- a discount of approximately 52.9% to the closing price of HK\$0.138 per New Share (assuming the Share Consolidation has become effective) as quoted on the Stock Exchange on 28 January 2005, being the last trading day before the suspension of trading in the Shares;
- a discount of approximately 35.6% to the theoretical ex-entitlement price of approximately HK\$0.101 per New Share (assuming the Share Consolidation has become effective) based on the aforesaid closing price per New Share;
- a discount of approximately 54.5% to the average closing price of HK\$1.43 per New Share (assuming the Share Consolidation has become effective) as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including 28 January 2005 being the last trading day before the suspension of trading in the Shares; and
- a discount of approximately 44.7% to the closing price of HK\$0.1175 per New Share (assuming the Share Consolidation has become effective) as quoted on the Stock Exchange on the Latest Practicable Date.

The Board Letter states that the Subscription Price has been determined based on arm's length negotiations between the Company and the Underwriters, with reference to the prevailing market prices of the Shares as well as the subscription prices offered in certain recent open offers with discounts of over 50% to the relevant closing prices of the relevant shares. We set out below the average closing price per New Share, the highest trading price per New Share and the lowest trading price per New Share as quoted on the Stock Exchange for each of the months during the 12 months ended 28 January 2005 (the last trading day before the suspension of trading in the Shares).

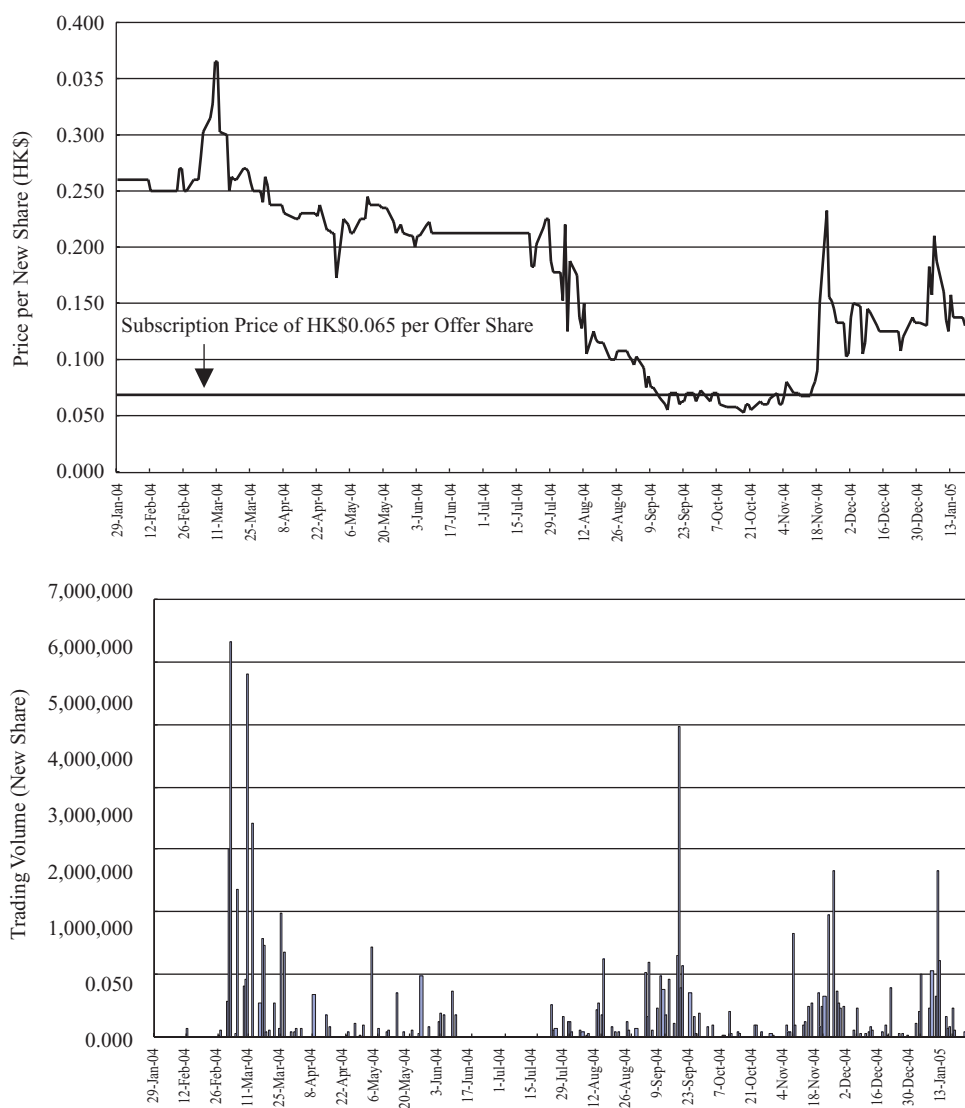
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Period	Average daily closing price per New Share in the period/premium/(discount) of the Subscription Price to average daily closing price per New Share in the period HK\$/%	Highest trading price per New Share in the period HK\$	Lowest trading price per New Share in the period HK\$
2004			
January (starting from 29 January 2004)	0.260/(75.00)	–	–
February	0.256/(74.61)	0.270	0.125
March	0.280/(76.78)	0.388	0.230
April	0.226/(71.21)	0.258	0.168
May	0.225/(71.16)	0.245	0.175
June	0.212/(69.39)	0.225	0.195
July	0.208/(68.71)	0.225	0.165
August	0.130/(50.17)	0.220	0.053
September	0.073/(11.51)	0.113	0.050
October	0.061/6.93	0.070	0.050
November	0.100/(34.93)	0.245	0.053
December	0.128/(49.20)	0.153	0.105
2005			
January (up to 28 January 2005)	0.151/(56.81)	0.220	0.108

Source: Reuters

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The charts below illustrate the historical closing price per New Share and the daily trading volume of the New Shares during the 12 months ended 28 January 2005 (the last trading day before the suspension of trading in the Shares).



Source: Reuters

As shown above, the closing price of the New Shares has experienced a downward trend from March 2004 to October 2004 and was on an upward trend from October 2004 up to January 2005. The closing price per New Share recorded a high of HK\$0.365 on 10 and 11 March 2004 and reached its low of HK\$0.053 on 18 October 2004 during the year ended 28 January 2005 (the last trading day before the suspension of trading in the Shares).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the purpose of comparison, we have identified 14 open offers or rights issues conducted by listed companies in Hong Kong announced from October 2004 to January 2005. These comparables are all of the companies identified by us in our research in open offers or rights issues during the said period by searching through published information on the Stock Exchange's website and may not contain all of the open offers or rights issues conducted by Hong Kong listed issuers during that time. The principal terms of these open offers and rights issues are set out in the table below for your reference.

Listed company	Date of announcement	Basis of allotment	Approximate premium/ (discount) of subscription price to closing price on last trading day prior to date of announcement %	Approximate premium/ (discount) of subscription price to theoretical ex-entitlement/ ex-rights price based on closing price on last trading day prior to date of announcement %
The Company	7 February 2005	1 Offer Share for 1 New Share	(52.9)	(35.6)
Maxx Bioscience Holdings Limited (stock code: 512)	6 January 2005	2 offer shares for 1 existing share	(41.5)	(19.1)
Dickson Group Holdings Limited (stock code: 313)	17 December 2004	1 rights share for 2 existing shares	(42.62)	(32.69)
Jackin International Holdings Limited (stock code: 630)	3 December 2004	1 offer share for 2 existing shares	(50)	(40)
Golden Harvest Entertainment (Holdings) Limited (stock code: 1132)	30 November 2004	1 rights share for 4 existing shares	(5.66)	(4.58)
New World Cyberbase Limited (stock code: 276)	22 November 2004	1 rights share for 2 existing shares	(36.5)	(27.7)
Emperor (China Concept) Investments Limited (stock code: 296)	18 November 2004	5 rights shares for 1 existing share	(12.82)	(2.44)
Grandmass Enterprise Solution Limited (stock code: 8108)	18 November 2004	1 offer share for 5 existing shares	(85)	(73.91)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Listed company	Date of announcement	Basis of allotment	Approximate premium/ (discount) of subscription price to closing price on last trading day prior to date of announcement %	Approximate premium/ (discount) of subscription price to theoretical ex-entitlement/ ex-rights price based on closing price on last trading day prior to date of announcement %
Jackley Holdings Limited (stock code: 353)	17 November 2004	1 offer share for 2 existing shares	(58.33)	(31.03)
Thiz Technology Group Limited (stock code: 8119)	4 November 2004	1 rights share for 2 existing shares	(18.75)	(13.33)
Unity Investments Holdings Limited (stock code: 913)	2 November 2004	1 rights share for 3 existing shares	72.8	46.2
Radford Capital Investment Limited (stock code: 901)	28 October 2004	1 offer share for 2 existing shares	(4.8)	(3.2)
Heritage International Holdings Limited (stock code: 412)	27 October 2004	1 rights share for 2 existing shares	(20)	(14.29)
China City Natural Gas Holdings Limited (stock code: 603)	25 October 2004	2 rights shares for 10 existing shares	(44.44)	(33.33)
Tse Sui Luen Jewellery (International) Limited (stock code: 417)	6 October 2004	1 offer share for 5 existing shares	(80)	(77)
		Mean:	(30.54)	(23.31)

Source: <http://www.hkex.com.hk/>

As illustrated above, the approximate discounts of the subscription price to the closing price and the theoretical ex-entitlement or ex-rights price of the comparables we have identified vary widely. The approximate premium or discount of the subscription price to closing price range from a discount of 85% to a premium of 72.8% and the approximate premium or discount of the theoretical ex-entitlement or ex-rights price range from a discount of 77% to a premium of 46.2%. The mean discount of the subscription price to closing price is approximately 30.54% while the mean discount of the theoretical ex-entitlement or ex-rights price is 23.31%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Considering that the respective discounts of the Subscription Price to the closing price per New Share on the last trading day prior to the announcement date and the theoretical ex-entitlement price per New Share fall within the ranges of the comparables, we are of the view that the discounts of the Subscription Price are in line with market practice. Moreover, since all Qualifying Shareholders can participate in the Open Offer, the discounts of the Subscription Price would not pose any financial disadvantage to a particular group of Qualifying Shareholders. Accordingly, we are of the view that the Subscription Price is fair and reasonable to the Shareholders.

3.3 Underwriting commission

We set out below the underwriting commissions of the 14 comparables identified in section 3.2 of this letter.

Listed company	Underwriting commission
	%
The Company	2.0
Maxx Bioscience Holdings Limited	1.25
Dickson Group Holdings Limited	2
Jackin International Holdings Limited	2.5
Golden Harvest Entertainment (Holdings) Limited	2.5
New World Cyberbase Limited (Note 1)	2.5
Emperor (China Concept) Investments Limited (Note 2)	1
Grandmass Enterprise Solution Limited	2
Jackley Holdings Limited	1.5
Thiz Technology Group Limited	2.5
Unity Investments Holdings Limited	2.5
Radford Capital Investment Limited	2.5
Heritage International Holdings Limited	2.25
China City Natural Gas Holdings Limited	1
Tse Sui Luen Jewellery (International) Limited	2.0
	Mean: 2.0

Note 1: The rights issue is underwritten by a substantial shareholder of the relevant company.

Note 2: The rights issue is partially underwritten by a connected person of the relevant company.

Source: <http://www.hkex.com.hk/>

As demonstrated above, the underwriting commissions of the comparables range from 1% to 2.5% with the mean underwriting commission being 2.0%. In view that the underwriting commission charged by the Underwriter is 2.0%, we consider that the underwriting commission is in line with market practice and is fair and reasonable to the Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Dilution effect on Shareholders who do not subscribe for the Offer Shares

We set out below a table showing the shareholding structure of the Company immediately before and after the completion of the Open Offer assuming the Share Consolidation has become effective.

	Immediately before completion of the Open Offer		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up their respective entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders takes up his/her/its entitlement under the Open Offer except for Mr. Lee)	
	<i>New Shares</i>	%	<i>New Shares</i>	%	<i>New Shares</i>	%
Mr. Lee	16,395,200	20.49	32,790,400	20.49	32,790,400	20.49
Kingston	0	0.00	0	0.00	31,802,400	19.88
Orient	0	0.00	0	0.00	31,802,400	19.88
<i>Public</i>						
Other public Shareholders	63,604,800	79.51	127,209,600	79.51	63,604,800	39.75
Total	<u>80,000,000</u>	<u>100.00</u>	<u>160,000,000</u>	<u>100.00</u>	<u>160,000,000</u>	<u>100.00</u>

Source: <http://www.hkex.com.hk/>

As explained in the Board Letter, Mr. Lee has undertaken to take up all of his entitlement under the Open Offer of 16,395,200 Offer Shares. In the table above, it is demonstrated that following the issue of the Offer Shares, the shareholding of the other public Shareholders in the Company will be diluted from approximately 79.51% to 39.75% if none of them subscribe for any of the Offer Shares. This represents a dilution of 50% on their existing shareholding in the Company.

As stated in the Interim Report, the Group had investment in securities and bank and cash balances of approximately HK\$12,767,000 and HK\$2,633,000 respectively as at 30 June 2004. They represent approximately 80.42% and 16.58% of the Group's total assets as at 30 June 2004. We believe that it is beneficial for the Group to raise funding for future investments according to the Company's investment policy. The Interim Report further states that the Group's investment portfolio as at 30 June 2004 remained largely unchanged from that disclosed in the Group's Annual Report. The Group's investments in securities of approximately HK\$12,767,000 as at 30 June 2004 has grown approximately 31.43% from HK\$9,714,000 as at 31 December 2003. In view of the strong performance of the Group's investment portfolio in the first half of 2004 and a change of the Company's investment manager in March 2004, we concur with the Board's view that the Open Offer provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position under the current favourable market sentiment. Taking into consideration that all Qualifying Shareholders are entitled to participate in the Open Offer to avoid dilution of their respective shareholding in the Company, we believe the substantial dilution to Shareholders' interests in the Company in the event that they do not subscribe for any of the Offer Shares is acceptable to the Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Financial effects of the Open Offer

6.1 Net asset value

The consolidated unaudited net assets of the Company amounted to approximately HK\$14,318,000 as at 30 June 2004. As stated in the Board Letter, the estimated net proceeds from the Open Offer will be approximately HK\$4.5 million. We expect that the Company's net asset value will be enhanced as a result of the Open Offer. However, Shareholders should note that with the issue of the Offer Shares, the total issued share capital of the Company is set to be increased following the completion of the Open Offer. As a result, the Company's net asset value per Share will be diluted due to the Open Offer. This dilution should not affect Shareholders who take up their entire entitlement of the Offer Shares as the dilution will be offset by the increased number of New Shares held. However, Shareholders who do not take up their entire entitlement of the Offer Shares will be adversely affected.

6.2 Gearing

Based on the Interim Report, the Group had consolidated unaudited total assets and unaudited total debts of approximately HK\$15,876,000 and HK\$360,000 respectively, translating into a gearing ratio (total debts / total assets x 100%) of approximately 2.27% as at 30 June 2004. With the injection of the net proceeds to be raised under the Open Offer, it is expected that the Group's gearing ratio will be decreased as the Group's total assets will be increased following the completion of the Open Offer.

6.3 Liquidity

The Group had unaudited current assets and unaudited current liabilities of approximately HK\$2,900,000 and HK\$1,558,000 respectively as at 30 June 2004, translating into a current ratio (current assets / current liabilities) of approximately 1.86. It is expected the Open Offer will have the immediate effect of increasing the Group's current asset and thus enhancing its current ratio.

CONCLUSION

Having considered the above principal factors, we are of the opinion that the Open Offer is in the interest of the Group and the Shareholders so far as the Shareholders as a whole are concerned and the terms of the Open Offer and the issue of the Offer Shares are fair and reasonable. Accordingly, we would recommend (1) the Independent Board Committee to advise the Shareholders and (2) the Shareholders, to vote in favour of the ordinary resolution to approve the Open Offer at the EGM.

Yours faithfully,
For and on behalf of
Ample Capital Limited
Andrew Cheng
Director

A. SUMMARY OF FINANCIAL RESULTS AND ASSETS AND LIABILITIES FOR THE LAST THREE YEARS ENDED 31 DECEMBER 2003

The following financial information has been extracted from the audited financial statements of the Group for each of the three years ended 31 December 2003:

	Year ended 31 December		
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Results			
Turnover	<u>4</u>	<u>876</u>	<u>369</u>
Profit/(loss) from operations	(11,799)	(27,075)	(40,621)
Finance costs	<u>(61)</u>	<u>(148)</u>	<u>–</u>
Profit/(loss) before taxation	(11,860)	(27,223)	(40,621)
Taxation	<u>52</u>	<u>–</u>	<u>–</u>
Profit/(loss) for the year	<u><u>(11,808)</u></u>	<u><u>(27,223)</u></u>	<u><u>(40,621)</u></u>
As at 31 December			
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets and liabilities			
Property, plant and equipment	–	69	243
Investments in securities	9,714	23,323	39,537
Current assets	3,282	2,240	4,973
Current liabilities	<u>(652)</u>	<u>(2,801)</u>	<u>(1,151)</u>
Shareholders' funds	<u><u>12,344</u></u>	<u><u>22,831</u></u>	<u><u>43,602</u></u>

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2003

The following is a summary of the audited consolidated accounts of the Company for the year ended 31 December 2003 as extracted from pages 32 to 59 of the 2003 annual report of the Company.

Consolidated Income Statement

For the year ended 31 December 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	4	4	876
Other revenue		280	84
Administrative expenses		(2,269)	(6,559)
Impairment loss recognised in respect of investments in securities		(8,800)	(20,995)
Loss on disposal of listed investments	5	<u>(1,014)</u>	<u>(481)</u>
Loss from operations	6	(11,799)	(27,075)
Interest expense on secured loan wholly repayable within five years		<u>(61)</u>	<u>(148)</u>
Loss before taxation		(11,860)	(27,223)
Taxation	8	<u>52</u>	<u>–</u>
Loss attributable to shareholders		<u><u>(11,808)</u></u>	<u><u>(27,223)</u></u>
Loss per share – basic	10	<u><u>(8.56 cents)</u></u>	<u><u>(23.60 cents)</u></u>

Consolidated Balance Sheet*As at 31 December 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>11</i>	–	69
Investments in securities	<i>13</i>	9,714	23,323
		<u>9,714</u>	<u>23,392</u>
Current assets			
Trade and other receivables	<i>14</i>	176	1,948
Amount due from a related company	<i>15</i>	–	178
Cash at banks		3,106	114
		<u>3,282</u>	<u>2,240</u>
Current liabilities			
Other payables		322	1,541
Secured loan – due within one year	<i>16</i>	–	1,000
Amounts due to directors	<i>17</i>	330	94
Amount due to a related company		–	114
Provision for taxation		–	52
		<u>652</u>	<u>2,801</u>
Net current assets/(liabilities)		<u>2,630</u>	<u>(561)</u>
Net assets		<u><u>12,344</u></u>	<u><u>22,831</u></u>
CAPITAL AND RESERVES			
Share capital	<i>18</i>	1,440	1,200
Reserves	<i>19</i>	10,904	21,631
Shareholders' funds		<u><u>12,344</u></u>	<u><u>22,831</u></u>
Net asset value per share	<i>20</i>	<u><u>HK\$0.09</u></u>	<u><u>HK\$0.19</u></u>

Balance Sheet*As at 31 December 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>11</i>	–	69
Interests in subsidiaries	<i>12</i>	9,658	17,553
Investments in securities	<i>13</i>	53	11,860
		<u>9,711</u>	<u>29,482</u>
Current assets			
Trade and other receivables	<i>14</i>	176	1,948
Amount due from a related company	<i>15</i>	–	178
Cash at banks		3,101	108
		<u>3,277</u>	<u>2,234</u>
Current liabilities			
Other payables		310	1,447
Secured loan – due within one year	<i>16</i>	–	1,000
Amounts due to directors	<i>17</i>	330	94
Amount due to a related company		–	114
		<u>640</u>	<u>2,655</u>
Net current assets/(liabilities)		<u>2,637</u>	<u>(421)</u>
Net assets		<u><u>12,348</u></u>	<u><u>29,061</u></u>
CAPITAL AND RESERVES			
Share capital	<i>18</i>	1,440	1,200
Reserves	<i>19</i>	10,908	27,861
		<u>12,348</u>	<u>29,061</u>
Shareholders' funds		<u><u>12,348</u></u>	<u><u>29,061</u></u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2003*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	1,000	94,117	(270)	(51,245)	43,602
Unrealised loss arising on revaluation of investments not recognised in the consolidated income statement	–	–	(426)	–	(426)
Deficit released on disposal of other securities (<i>note 5</i>)	–	–	270	–	270
Shares issued at premium	200	6,800	–	–	7,000
Share issue expenses	–	(392)	–	–	(392)
Loss for the year	–	–	–	(27,223)	(27,223)
At 31 December 2002 and 1 January 2003	1,200	100,525	(426)	(78,468)	22,831
Unrealised gain arising on revaluation of investments not recognised in the consolidated income statement	–	–	53	–	53
Deficit released on disposal of other securities (<i>note 5</i>)	–	–	426	–	426
Shares issued at premium (<i>note 18</i>)	240	720	–	–	960
Share issue expenses	–	(118)	–	–	(118)
Loss for the year	–	–	–	(11,808)	(11,808)
At 31 December 2003	<u>1,440</u>	<u>101,127</u>	<u>53</u>	<u>(90,276)</u>	<u>12,344</u>

Consolidated Cash Flow Statement*For the year ended 31 December 2003*

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities		
Loss before taxation	(11,860)	(27,223)
Adjustments for:		
Depreciation	–	107
Interest expense	61	148
Loss on disposal of listed investments	1,014	481
Loss on disposal of property, plant and equipment	–	267
Impairment loss recognised in respect of other securities	8,800	20,995
Property, plant and equipment written off	69	–
Provision for amount due from a related company	178	–
	<hr/>	<hr/>
Operating loss before working capital changes	(1,738)	(5,225)
Decrease/(Increase) in trade and other receivables	1,772	(1,613)
Increase in amount due from a related company	–	(178)
(Decrease)/Increase in other payables	(1,219)	502
Increase/(Decrease) in amounts due to directors	236	(6)
(Decrease)/Increase in amount due to a related company	(114)	114
	<hr/>	<hr/>
Net cash used in operating activities	(1,063)	(6,406)
Investing activities		
Purchases of investments in securities	–	(13,978)
Net proceeds from disposal of investments in securities	4,274	8,560
Purchases of property, plant and equipment	–	(208)
Proceeds from disposal of property, plant and equipment	–	8
	<hr/>	<hr/>
Net cash from/(used in) investing activities	4,274	(5,618)
Financing activities		
Interest paid	(61)	(108)
Net proceeds from placement of ordinary shares	842	6,608
New loan raised	–	1,000
Repayment of secured loan	(1,000)	–
	<hr/>	<hr/>
Net cash (used in)/from financing activities	(219)	7,500
Net increase/(decrease) in cash at banks	<hr/>	<hr/>
	2,992	(4,524)
Cash at banks at 1 January	<hr/>	<hr/>
	114	4,638
Cash at banks at 31 December	<hr/>	<hr/>
	<u>3,106</u>	<u>114</u>

Notes to the Financial Statements*For the year ended 31 December 2003***1. GENERAL INFORMATION**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 April 1998 under the Companies Law (Revised) of the Cayman Islands. Its shares were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 17 July 1998.

The principal activity of the Company is to act as an investment holding company. The principal activities of the Company’s subsidiaries are set out in note 12 to the financial statements. The Group principally invests in listed and unlisted companies in Hong Kong and in other parts of the People’s Republic of China (the “PRC”).

2. PRINCIPAL ACCOUNTING POLICIES**(a) Basis of preparation**

The financial statements on pages 32 to 59 are prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which include all applicable Statements of Standard Accounting Practice (“SSAPs”) and Interpretations, issued by the Hong Kong Society of Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain investments in securities.

Adoption of a revised SSAP:

In the current year, the Group has adopted, for the first time, SSAP 12 (Revised) Income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In prior years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. However, the adoption of SSAP 12 (Revised) has not resulted in any significant change to the current and prior years’ net assets and results and accordingly, no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of enterprises so as to obtain benefits from their activities.

Subsidiaries are carried at cost less any impairment loss.

(d) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value, as follows:

- (i) Securities quoted, listed, traded or dealt in on any market are stated at the last transacted price on that market as at the official close of such market at the balance sheet date or the trading date immediately prior to the balance sheet date if it is not a trading date on that market.
- (ii) Each unquoted security is stated at fair value as determined by the investment manager.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected or otherwise disposed of, or until there is objective evidence that the security has been impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.

Transfers from the investment revaluation reserve to the income statement 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.

(e) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

(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 the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) *Reversals of impairment*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(g) Recognition of Revenue

Interest income is accrued on a time basis by reference to the principal outstanding and the interest rates applicable.

Dividend income is recognised when the Group's right as a shareholder to receive payment is established.

Proceeds from the disposal of investments are recognised when a sale and purchase contract is entered into and title has been passed.

(h) Retirement benefits costs

The retirement benefits costs charged in the income statement represent the contributions payable to the Company's defined contribution scheme for the year.

(i) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

(j) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. SEGMENT INFORMATION

All of the Group's turnover and contribution to operating results are attributable to its investment activities.

The Group invests in listed and unlisted companies in Hong Kong and in other parts of the PRC. These geographical markets are the basis on which the Group reports its primary segment information.

Segment information about these geographical markets is presented below:

	Hong Kong		PRC		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>4</u>	<u>598</u>	<u>-</u>	<u>278</u>	<u>4</u>	<u>876</u>
Results						
Segment results	(3,271)	(12,058)	(6,800)	(10,839)	(10,071)	(22,897)
Unallocated corporate expenses					(1,728)	(4,178)
Loss from operations					(11,799)	(27,075)
Interest expense					(61)	(148)
Loss before taxation					(11,860)	(27,223)
Taxation					52	-
Loss attributable to shareholders					<u>(11,808)</u>	<u>(27,223)</u>
Assets						
Segment assets	3,190	8,473	9,661	17,005	12,851	25,478
Unallocated corporate assets					145	154
Total assets					<u>12,996</u>	<u>25,632</u>
Liabilities						
Segment liabilities	(145)	(1,776)	-	-	(145)	(1,776)
Unallocated corporate liabilities					(507)	(1,025)
Total liabilities					<u>(652)</u>	<u>(2,801)</u>
Other information						
Capital expenditure	-	208	-	-	-	208
Depreciation	-	(107)	-	-	-	(107)
Impairment loss recognised in income statement	<u>(2,000)</u>	<u>(10,495)</u>	<u>(6,800)</u>	<u>(10,500)</u>	<u>(8,800)</u>	<u>(20,995)</u>

4. TURNOVER

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest income	4	698
Dividend income from listed investments	—	178
	<u>4</u>	<u>876</u>

5. LOSS ON DISPOSAL OF LISTED INVESTMENTS

The loss on disposal of listed investments arose from the disposal of investments in equity securities listed in Hong Kong. For the year ended 31 December 2003, included in the loss on disposal is a deficit of HK\$426,000 (2002: HK\$270,000) in respect of amounts released from the investment revaluation reserve at the time of the disposal as set out in the consolidated statement of changes in equity.

6. LOSS FROM OPERATIONS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss from operations is arrived at after charging/(crediting):		
Auditors' remuneration:		
– current year	180	217
– overprovision in prior year	(36)	—
Bad debts written off	52	—
Depreciation	—	107
Investment management fee (<i>Note 21(a)</i>)	335	691
Loss on disposal of property, plant and equipment	—	267
Property, plant and equipment written off	69	—
Provision for amount due from a related company (<i>Note 21(c)</i>)	178	—
Provision for bad and doubtful debts	—	420
Rental expenses	106	360
Retirement benefits scheme contributions	14	33
Staff costs (including directors' remuneration but excluding retirements benefits scheme contributions)	<u>566</u>	<u>1,308</u>

7. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Remuneration of the directors for the year is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees		
Executive directors	60	965
Non-executive directors	79	147
	<u>139</u>	<u>1,112</u>
Other emoluments		
Salaries, allowances and benefits in kind	427	–
Retirement benefits scheme contributions	14	23
	<u>441</u>	<u>23</u>
	<u><u>580</u></u>	<u><u>1,135</u></u>

The aggregate emoluments of each of the directors during both years were within the band ranging from Nil to HK\$1,000,000.

(b) Remuneration of the employees for the year is as follows:

During the year, all five highest paid individuals are the directors, details of whose emoluments are set out in note 7(a) to the financial statements. During the year ended 31 December 2002, the five highest paid individuals included four directors, details of whose emoluments are set out in note 7(a) to the financial statements. The emoluments of the remaining individual were as follows:

	2002 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	107
Retirement benefits scheme contributions	5
	<u>112</u>

The aggregate emoluments of this remaining individual in prior year were within the band ranging from Nil to HK\$1,000,000.

8. TAXATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
The tax credit comprises:		
Hong Kong Profits Tax – overprovision in prior year	<u>52</u>	<u>–</u>

No Hong Kong Profits Tax has been provided in the financial statements as the Group incurred losses for both years.

Reconciliation between accounting loss and tax credit at applicable tax rates:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss before taxation	<u>(11,860)</u>	<u>(27,223)</u>
Tax at applicable rate of 17.5% (2002: 16%)	(2,076)	(4,356)
Tax effect of non-deductible expenses	1,316	2,492
Tax losses not recognised as deferred tax asset	760	1,864
Over provision in prior year	<u>52</u>	<u>–</u>
Actual tax credit	<u>52</u>	<u>–</u>

In March 2003, the Hong Kong government announced an increase in the profits tax rate from 16% to 17.5%. This increase has been taken into account in the preparation of the Group's 2003 financial statements.

At 31 December 2003, a deferred tax asset of approximately HK\$4,353,000 (2002: HK\$3,593,000) in respect of tax losses available to offset future profits was not recognised in the financial statements as it is not certain that the Group will generate future taxable profits to enable it to utilise such tax losses.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated loss attributable to shareholders of HK\$11,808,000 (2002: HK\$27,223,000), HK\$18,036,000 (2002: HK\$20,848,000) has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of HK\$11,808,000 (2002: HK\$27,223,000) and on the weighted average number of 137,884,932 (2002: 115,342,466) shares in issue during the year.

11. PROPERTY, PLANT AND EQUIPMENT

Group and Company

	Furniture, fixtures and equipment <i>HK\$'000</i>
Cost	
At 1 January 2003	179
Written off during the year	(179)
	<u> </u>
At 31 December 2003	–
	<u> </u>
Accumulated depreciation	
At 1 January 2003	110
Written off during the year	(110)
	<u> </u>
At 31 December 2003	–
	<u> </u>
Net book value	
At 31 December 2003	–
	<u> </u>
At 31 December 2002	69
	<u> </u>

12. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	49,003	48,857
Less: Impairment loss recognised	(39,345)	(31,304)
	<u> </u>	<u> </u>
	<u>9,658</u>	<u>17,553</u>

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the amount will be repayable within one year from the balance sheet date and the balances are therefore shown as non-current.

Details of the Company's subsidiaries at 31 December 2003 are as follows:

Name	Place of incorporation/ operations	Nominal value of issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company directly/indirectly*		Principal activity
			2003	2002	
Double Dragon Profits Limited	Hong Kong	HK\$2	100%	100%	Inactive
Gold Canal International Limited ("Gold Canal")	British Virgin Islands	US\$10	100%*	100%*	Investment holding
Good Place Investments Limited	Hong Kong	HK\$2	100%	100%	Inactive
New Portfolio Limited	British Virgin Islands/ Hong Kong	US\$1	100%	100%	Investment holding
Speedy Zone Limited	British Virgin Islands	US\$1	100%	100%	Inactive

13. INVESTMENTS IN SECURITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities listed in				
Hong Kong, at cost	–	5,288	–	5,288
Unrealised gain/(loss)	53	(426)	53	(428)
Market value at 31 December <i>(Note 13(a))</i>	<u>53</u>	<u>4,862</u>	<u>53</u>	<u>4,860</u>
Unlisted equity security, at fair value <i>(Note 13(b))</i>	9,661	11,461	–	–
Unlisted convertible loan notes, at fair value <i>(Note 13(c))</i>	<u>–</u>	<u>7,000</u>	<u>–</u>	<u>7,000</u>
	<u><u>9,714</u></u>	<u><u>23,323</u></u>	<u><u>53</u></u>	<u><u>11,860</u></u>

Details of the Group's investments at 31 December 2003 are as follows:

(a) Equity securities listed on the Stock Exchange in Hong Kong:

Name of investee company	Place of incorporation	Number of shares/warrants held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised (loss)/gain arising on revaluation HK\$'000	Net assets attributable to the Group HK\$'000	
At 31 December 2003								
<i>Shares:</i>								
DIGITALHONGKONG.COM	Cayman Islands	648	0.0004%	-	-	-	-	<i>Note</i>
Riche Multi-Media Holdings Limited **	Bermuda	220,000	0.046%	-	53	53	156	<i>Note</i>
				-	53	53		
At 31 December 2002								
<i>Shares:</i>								
DIGITALHONGKONG.COM	Cayman Islands	648	0.0004%	-	-	-	-	<i>Note</i>
Kin Don Holdings Limited **	Cayman Islands	28,400,000	0.477%	1,151	539	(612)	165	<i>Note</i>
Kowloon Development Company Limited **	Hong Kong	241,000	0.05%	1,067	850	(217)	1,624	<i>Note</i>
Riche Multi-Media Holdings Limited **	Bermuda	960,000	0.202%	2,982	2,976	(6)	520	<i>Note</i>
				5,200	4,365	(835)		
Name of investee company	Place of incorporation	Number of shares/warrants held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised (loss)/gain arising on revaluation HK\$'000		
<i>Warrants:</i>								
Champion Technology Holdings Limited		200,000		-	2	2		
renren Holdings Limited **		44,000,000		88	440	352		
Riche Multi-Media Holdings Limited **		220,000		-	55	55		
				88	497	409		
				5,288	4,862	(426)		

** Equity securities directly held by the Company.

Note: The calculation of net assets attributable to the Group is based on the latest published interim reports or annual reports of the respective investee companies as available at the reporting date.

(b) Unlisted equity security:

Name of investee company	Place of incorporation	2003	2002
		HK\$'000	HK\$'000
天津標準國際建材工業有限公司 Tianjin Standard International Building Materials Industry Co., Ltd. ("Tianjin Standard") (Note 13(d)(i))	The PRC	<u>9,661</u>	<u>11,461</u>

(c) Unlisted convertible loan notes:

Issuer	Principal amount		Impairment loss recognised		Fair value		Interest rate	Maturity date
	2003	2002	2003	2002	2003	2002		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
(a) Assets Planning Limited ("Assets Planning")* Unsecured (Note 13(d)(ii))	9,500	9,500	(9,500)	(7,500)	-	2,000	5% per annum	On default
(b) Dynamic Venture On default Enterprises Limited ("Dynamic Venture") Secured (Note 13(d)(iii))	13,500	13,500	(13,500)	(13,500)	-	-	8% per annum	-
(c) Kellerton Industries Limited ("Kellerton")* Unsecured (Note 13(d)(iv))	9,500	9,500	(9,500)	(4,500)	-	5,000	2.5%-5% per annum	On default
(d) JRB Limited ("JRB")* Unsecured (Note 13(d)(v))	-	9,000	-	(9,000)	-	-	16% per annum	-
(e) IPO43.com Limited ("IPO43.com")* Unsecured (Note 13(d)(vi))	2,995	2,995	(2,995)	(2,995)	-	-	5% per annum	On default
	<u>35,495</u>	<u>44,495</u>	<u>(35,495)</u>	<u>(37,495)</u>	<u>-</u>	<u>7,000</u>		

* Unlisted convertible loan notes directly held by the Company.

(d) Notes:

- (i) Pursuant to various agreements entered into in December 2000, the Group acquired all the issued share capital of Gold Canal for a nominal value, changed the terms of the convertible loan note such that it has become interest-free and has neither fixed repayment terms nor the right to conversion. Gold Canal's sole asset is a 21% equity interest in Tianjin Standard, which is principally engaged in the manufacture and trading of building materials and the provision of related consultancy services. In the opinion of the directors, since the acquisition of Gold Canal by the Group, the Group has not been in a position to exercise any significant influence over the financial and operating policies of Tianjin Standard. Accordingly, Tianjin Standard is accounted for as an unlisted equity security. The Group has made a further provision of HK\$1,800,000 during the year to reduce the carrying value of its investment in Tianjin Standard to the Group's attributable share of the investee's net assets as at the balance sheet date, based on the audited financial statements of Tianjin Standard for the year ended 31 December 2003.
- (ii) Pursuant to the subscription agreement entered into on 13 December 2001, the Group acquired a convertible loan note in the principal amount of HK\$9,500,000 carrying the right to convert the loan note into shares in Assets Planning. The loan note was unsecured, bore interest at 5% per annum and had a maturity date on 31 December 2003. The Group had the right on any business day before the maturity date to convert the whole or part of the outstanding principal amount of the loan note into shares in Assets Planning using a predetermined formulae. On the maturity date, all outstanding principal amount together with any unpaid interest should be automatically converted into shares. In the event that upon full conversion of the loan note, the aggregate interest of the Group in the issued share capital of Assets Planning should be less than 2%, Assets Planning should issue and allot additional shares to the Group to make up for any shortfall. Assets Planning had defaulted on the payment of interest since 31 December 2002 and had not made any repayment of the outstanding principal as at 31 December 2003. No conversion of loan note into shares was made at the maturity date. The directors were unable to obtain the latest financial statements or any other pertinent financial information relating to Assets Planning from the investee's management. In light of the above, the directors have accordingly made a further impairment write down of HK\$2,000,000 during the year to reduce the carrying value of this investment to Nil as at 31 December 2003. Subsequent to the year end on 16 April 2004, the Group disposed of this investment to a third party for a nominal sum of HK\$1.
- (iii) Pursuant to the subscription agreement entered into on 14 January 1999 (the "Subscription Agreement"), the Group acquired a convertible loan note in the principal amount of HK\$13,500,000 carrying the right to subscribe for the conversion shares in Dynamic Venture. The convertible loan note was secured on the entire share capital of Dynamic Venture, bore interest at 15% per annum and had a maturity date on 31 December 2000. The Group had the right on 31 March 30 September and 31 December of each year, after the fulfillment of the conditions set out in the Subscription Agreement but before the maturity date to convert the whole or part of the outstanding principal amount of the loan note into shares in Dynamic Venture using a predetermined formulae. On the maturity date, all outstanding principal amount together with any unpaid interest should be

repaid. On 21 March 2001, the Group entered into a deed of variation to change the interest rate from 15% per annum to 8% per annum. The maturity date was extended from 31 December 2000 to 31 December 2001, but from which date onwards, Dynamic Venture defaulted on the repayment of the convertible loan note. The Group had made a full impairment provision against this investment in the previous year. Subsequent to the year end on 16 April 2004, the Group disposed of its interest in this investment to a third party for a nominal sum of HK\$1.

- (iv) Pursuant to the subscription agreement entered into on 13 December 2001, the Group acquired a convertible loan note in the principal amount of HK\$9,500,000 carrying the right to convert the loan note into shares in Kellerton. On 15 April 2003, the Group entered into an agreement with Kellerton to change the interest rate from 5% per annum to 2.5% per annum. The loan note was unsecured, bore interest at 2.5% per annum and had a maturity date on 31 December 2003. The Group had the right on any business day before the maturity date to convert the whole or part of the outstanding principal amount of the loan note into shares in Kellerton using a predetermined formulae and with reference to the valuation of Kellerton's investments. On the maturity date, all outstanding principal amount together with any unpaid interest should automatically be converted. Kellerton defaulted on the payment of interest for the year ended 31 December 2003 and had not made any repayment of the outstanding principal as at 31 December 2003. No conversion of loan note into shares was made at the maturity date. The directors were unable to obtain the latest financial statement or any other pertinent financial information relating to Kellerton from the investee's management. In light of the above, the directors have accordingly made a further impairment write down of HK\$5,000,000 during the year to reduce the carrying value of this investment to Nil as at 31 December 2003. Subsequent to the year end on 16 April 2004, the Group disposed of this investment to a third party for a nominal sum of HK\$1.
- (v) Pursuant to the subscription agreement entered into on 30 November 1998, the Group acquired a convertible loan note in the principal amount of HK\$9,000,000 carrying the right to convert the loan note into shares in JRB. The convertible loan note was secured, bore interest at 16% per annum and had a maturity date on 31 May 1999. On the maturity date, all outstanding principal amount together with any unpaid interest should be repaid. However JRB defaulted on the repayment of its convertible loan note in the sum of approximately HK\$9,363,000 including accrued interest to the scheduled date of repayment. The Company had filed a legal action against JRB for the recovery of the debt. A full impairment provision was made against the carrying value of this investment in the previous year. On 29 December 2003, the Group assigned all the rights and title to claim against JRB Limited of the sum of HK\$19,657,000 (which comprises the above sum of HK\$9,363,000 and the overdue interest of HK\$10,294,000) to a third party at a consideration of HK\$30,000. On 22 March 2004, a consent order was signed and all legal claims were dismissed.
- (vi) Pursuant to the subscription agreement entered into 13 December 2001, the Group acquired a convertible loan note in the principal amount of HK\$2,995,000 carrying the right to convert the loan note into shares in IPO43.com. The loan note was unsecured, bore interest at 5% per annum and had a maturity date on 31 December 2003. The Group had the right on any business day before the maturity date to convert the whole or part of the outstanding principal amount of the loan note into shares in IPO43.com using a predetermined formulae. On the maturity

date, all outstanding principal amount together with any unpaid interest should automatically be converted. In the event that upon full conversion of the loan note, the aggregate interest of the Group in the issued share capital of IPO43.com was less than 3%, IPO43.com should issue and allot additional shares to the Group to make up for any shortfall. IPO43.com had defaulted on the payment of interest since 31 December 2002 and had not made any repayment of the outstanding principal as at 31 December 2003. No conversion of loan note was made into shares at the maturity date. The Group had made a full impairment provision against this investment in the previous year. Subsequent to the year end on 16 April 2004, the Group disposed of this investment to a third party for a nominal sum of HK\$1.

14. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables of the Group and the Company at 31 December 2003 are trade receivables of Nil (2002: HK\$25,000) which was aged within 0 – 60 days. The Group has no credit policy on trade receivables which represent interest income and dividend income receivable from investments.

15. AMOUNT DUE FROM A RELATED COMPANY

	At 31 December 2003 <i>HK\$'000</i>	At 1 January 2003 <i>HK\$'000</i>	Maximum balance outstanding during the year <i>HK\$'000</i>
SAR Capital Limited	–	178	178

Mr. Tai Ah Lam, Michael, a director of the Company, is a director of and has beneficial interests in the above company.

16. SECURED LOAN – DUE WITHIN ONE YEAR

The loan was secured by certain of the Group's equity securities listed in Hong Kong with market value of approximately HK\$1,389,000 as at 31 December 2002 and was interest bearing at 24% per annum. The loan was fully repaid during the year.

17. AMOUNTS DUE TO DIRECTORS

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

18. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2003	2002	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.01 each	<u>200,000,000</u>	<u>200,000,000</u>	<u>2,000</u>	<u>2,000</u>
Issued and fully paid:				
At 1 January	120,000,000	100,000,000	1,200	1,000
Shares issued on 15 March 2002	–	20,000,000	–	200
Shares issued on 3 April 2003	<u>24,000,000</u>	<u>–</u>	<u>240</u>	<u>–</u>
At 31 December	<u>144,000,000</u>	<u>120,000,000</u>	<u>1,440</u>	<u>1,200</u>

On 27 February 2003, the Company entered into a placing agreement for the placing of 24,000,000 new shares (“Placing Shares”) at a price of HK\$0.04 per Placing Share (the “Placement”). The Placing Shares represented 20% of the then existing issued share capital of the Company. Upon completion of the Placement on 3 April 2003, the Placing shares represented approximately 16.67% of the issued share capital of the Company as enlarged by the issue of the Placing Shares. The net proceeds of the Placement of approximately HK\$842,000 have been used as additional working capital of the Company and have not been utilised for investment. The Placing Shares ranked pari passu with the existing shares in all respects.

19. RESERVES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share premium	101,127	100,525
Investment revaluation reserve	53	(426)
Accumulated losses	<u>(90,276)</u>	<u>(78,468)</u>
	<u>10,904</u>	<u>21,631</u>

Movements in the Group's reserves during the year are set out in the consolidated statement of changes in equity on page 35 to the financial statements.

Company	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	94,117	–	(51,388)	42,729
Unrealised loss arising on revaluation of investments	–	(428)	–	(428)
Shares issued at premium	6,800	–	–	6,800
Share issue expenses	(392)	–	–	(392)
Loss for the year	–	–	(20,848)	(20,848)
At 31 December 2002 and 1 January 2003	100,525	(428)	(72,236)	27,861
Unrealised gain arising on revaluation of investments	–	53	–	53
Deficit released on disposal of other securities (<i>note 5</i>)	–	428	–	428
Shares issued at premium	720	–	–	720
Share issue expenses	(118)	–	–	(118)
Loss for the year	–	–	(18,036)	(18,036)
At 31 December 2003	<u>101,127</u>	<u>53</u>	<u>(90,272)</u>	<u>10,908</u>

The investment revaluation reserve represents the net unrealised gain on revaluation of non-trading investments at the balance sheet date.

In accordance with the Company's Articles of Association, as at the balance sheet date, the Company's reserves available for distribution to shareholders is its share premium less accumulated losses.

Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

20. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of the Group as at 31 December 2003 of HK\$12,344,000 (2002: HK\$22,831,000) and 144,000,000 (2002: 120,000,000) ordinary shares in issue as at that date.

21. RELATED PARTY TRANSACTIONS

During the year, the Company had the following related party transactions:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Haywood Investment Management Limited:		
Management fee expenses (<i>Note a</i>)	335	691
SAR Capital Limited:		
Rental income (<i>Note b</i>)	–	81
Provision against amount due from related company (<i>Note c</i>)	178	–
	<u>178</u>	<u>–</u>

Notes:

- (a) The management fee was charged in accordance with the management agreement dated 6 July 1988 (the "Agreement"). Management fees and incentive fees are calculated at 1.5% per annum of the net asset value of the Company at each preceding month end as defined in the Agreement and 10% of the surplus in the net asset value (with appropriate adjustment) over the preceding financial year, respectively, in accordance with the Agreement.

No incentive fee was paid in the current or previous year as the Group's net asset value decreased in both years.

Haywood Investment Management Limited is a company in which Mr. Wong Fong Kim, a director of the Company had a 9% beneficial interests as at 31 December 2003.

- (b) The rental income was earned on the lease of furniture, fixtures and equipment to SAR Capital Limited. Mr. Tai Ah Lam, Michael, a director of the Company, is also a director of and has beneficial interests in this company.
- (c) During the year, the Company made full provision of HK\$178,000 due from SAR Capital Limited, a related company in which a director of the Company, Mr. Tai Ah Lam, Michael has a beneficial interest.

22. OPERATING LEASE COMMITMENTS

At 31 December 2003, the total future minimum lease payments under a non-cancellable operating lease in respect of rented premises are payable as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	<u>–</u>	<u>339</u>

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

24. POST BALANCE SHEET EVENT

On 10 March 2004, the Company entered into a placing agreement for the placing of 28,800,000 new shares (“Placing Shares”) through a placing agent, Koffman Securities Limited, to more than six independent investors who were not connected persons of the Company (as defined under the Listing Rules), at a price of HK\$0.124 per Placing Share (the “Placement”). The Placing Shares represented 20% of the then existing issued share capital of the Company and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of 28,800,000 placing shares. The Placing Shares, when fully paid, ranked pari passu in all respects with the existing issued share capital of the Company. The Placement was completed on 29 March 2004. The net proceeds from the Placement of approximately HK\$3,370,000 will be used as additional working capital of the Company.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 32 to 59 were approved by the board of directors on 28 April 2004.

C. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Set out below is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2004 extracted from pages 1 to 9 of 2004 interim report of the Company.

Condensed Consolidated Income Statement

For the six months ended 30th June,

	<i>Notes</i>	Six months ended 30th June,	
		2004	2003
		(unaudited)	(unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	14	119
Other revenue		42	–
Loss on disposal of listed investments		–	(909)
Administrative expenses		(1,477)	(972)
		<u> </u>	<u> </u>
Loss from operations	5	(1,421)	(1,762)
Interest on secured loan wholly repayable within five years		–	(56)
Interest on unsecured loan		(2)	–
		<u> </u>	<u> </u>
Loss before taxation		<u>(1,423)</u>	<u>(1,818)</u>
Taxation	6	–	–
		<u> </u>	<u> </u>
Loss for the period		<u>(1,423)</u>	<u>(1,818)</u>
Loss per share – Basic	7	<u>HK\$(0.90) cents</u>	<u>HK\$(1.38) cents</u>

Condensed Consolidated Balance Sheet*At 30th June, 2004*

	<i>Notes</i>	30th June, 2004 (unaudited) <i>HK\$'000</i>	31st December, 2003 (audited) <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	209	–
Investments in securities	9	12,767	9,714
		<u>12,976</u>	<u>9,714</u>
Current assets			
Other receivables and prepayments		267	176
Bank and cash balances		2,633	3,106
		<u>2,900</u>	<u>3,282</u>
Current liabilities			
Other payables and accrued expenses		1,198	322
Unsecured loan	10	360	–
Amounts due to directors	11	–	330
		<u>1,558</u>	<u>652</u>
Net current assets		<u>1,342</u>	<u>2,630</u>
Net assets		<u><u>14,318</u></u>	<u><u>12,344</u></u>
CAPITAL AND RESERVES			
Share capital	12	1,728	1,440
Reserves		12,590	10,904
Shareholders' funds		<u><u>14,318</u></u>	<u><u>12,344</u></u>
NET ASSET VALUE PER SHARE	13	<u><u>HK\$0.08</u></u>	<u><u>HK\$0.09</u></u>

Condensed Consolidated Statement of Changes in Equity*For the six months ended 30th June,*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
At 1st January, 2003	1,200	100,525	(426)	(78,468)	22,831
Unrealised loss arising on revaluation of investments not recognised in the income statement	–	–	(97)	–	(97)
Loss released on disposal of non-trading investments	–	–	466	–	466
Shares issued at premium	240	720	–	–	960
Share issue expenses	–	(118)	–	–	(118)
Loss for the period	–	–	–	(1,818)	(1,818)
	<u>1,440</u>	<u>101,127</u>	<u>(57)</u>	<u>(80,286)</u>	<u>22,224</u>
At 30th June, 2003	<u>1,440</u>	<u>101,127</u>	<u>(57)</u>	<u>(80,286)</u>	<u>22,224</u>
At 1st January, 2004	1,440	101,127	53	(90,276)	12,344
Shares issued at premium (note 12)	288	3,283	–	–	3,571
Share issued expenses (note 12)	–	(163)	–	–	(163)
Unrealised loss arising on revaluation of investments not recognised in the income statement	–	–	(11)	–	(11)
Loss for the period	–	–	–	(1,423)	(1,423)
	<u>1,728</u>	<u>104,247</u>	<u>42</u>	<u>(91,699)</u>	<u>14,318</u>
At 30th June, 2004	<u>1,728</u>	<u>104,247</u>	<u>42</u>	<u>(91,699)</u>	<u>14,318</u>

Condensed Consolidated Cash Flow Statement*For the six months ended 30th June,*

	Six months ended 30th June,	
	2004	2003
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (used in) from operating activities	(1,158)	291
Net cash from (used in) financing activities	3,749	(254)
Net cash (used in) from investing activities	(3,064)	1,738
	<hr/>	<hr/>
Net increase/(decrease) in bank and cash balances	(473)	1,775
Bank and cash balances at beginning of the period	3,106	114
	<hr/>	<hr/>
Bank and cash balances at end of the period	<u>2,633</u>	<u>1,889</u>

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30th June, 2004***1. BASIS OF PREPARATION**

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated financial statements are unaudited but have been reviewed by the Audit Committee of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments in securities. The accounting policies and methods of computation used in the preparation of the condensed consolidated financial statements as at and for the six months ended 30th June, 2004 are consistent with those applied in the preparation of the Group’s annual report as at and for the year ended 31st December, 2003. The unaudited condensed consolidated financial statement should be read in conjunction with the Group’s annual report as at and for the year ended 31st December, 2003.

3. TURNOVER

	Six months ended 30th June,	
	2004	2003
	<i>HK\$’000</i>	<i>HK\$’000</i>
An analysis of the Group’s turnover is as follows:		
Interest income	14	119

4. SEGMENTS INFORMATION

All of the Group's turnover and contribution to operating results are attributable to its investment activities.

The Group invests in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China (the "PRC"). These geographical markets are the basis on which the Group reports its primary segment information.

Segment information about these geographical markets is presented below:

	Hong Kong		PRC		Total	
	Six months ended 30th June, 2004		Six months ended 30th June, 2003		Six months ended 30th June, 2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>14</u>	<u>2</u>	<u>–</u>	<u>117</u>	<u>14</u>	<u>119</u>
Segment results	<u>(1,454)</u>	<u>(991)</u>	<u>(3)</u>	<u>93</u>	(1,457)	(898)
Unallocated revenue					42	–
Unallocated corporate expenses					<u>(8)</u>	<u>(920)</u>
Loss for the period					<u>(1,423)</u>	<u>(1,818)</u>

5. LOSS FROM OPERATIONS

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000

Loss from operations has been arrived at after charging:

Depreciation	7	21
Investment management fees (<i>note 14</i>)	146	169
Retirement benefits scheme contributions	–	1
Staff costs (including directors' remuneration)	<u>447</u>	<u>152</u>

6. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred losses for both periods.

7. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the period of HK\$1,423,000 (six months ended 30th June, 2003: loss of HK\$1,818,000) and on the weighted average number of 158,874,725 (six months ended 30th June, 2003: 131,668,508) shares in issue during the period.

8. PROPERTY, PLANT AND EQUIPMENT

	Equipment and fixtures <i>HK\$'000</i>
Cost	
At 1st January 2004	–
Addition during the period	216
	<hr/>
At 30th June 2004	216
	<hr/>
Accumulated depreciation	
At 1st January 2004	–
Depreciation for the period	7
	<hr/>
At 30th June 2004	7
	<hr/>
Net book value	
At 30th June 2004	209
	<hr/> <hr/>
At 31st December 2003	–
	<hr/> <hr/>

9. INVESTMENTS IN SECURITIES

	30th June, 2004 <i>HK\$'000</i>	31st December, 2003 <i>HK\$'000</i>
Equity securities listed in Hong Kong, at cost	–	–
Unrealised loss	42	53
	<hr/>	<hr/>
Market value	42	53
Unlisted equity security, at fair value	12,725	9,661
	<hr/>	<hr/>
	12,767	9,714
	<hr/> <hr/>	<hr/> <hr/>

10. UNSECURED LOAN

The unsecured loan with no fixed term of repayment was interest bearing at 5% per annum.

11. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

12. SHARE CAPITAL

	Number of ordinary shares	Share capital <i>HK\$'000</i>
Authorised		
Ordinary shares of HK\$0.01 each	<u>200,000,000</u>	<u>2,000</u>
Issued and fully paid		
Balance at 1st January, 2004	144,000,000	1,440
New shares issued on 29th March, 2004	<u>28,800,000</u>	<u>288</u>
Balance at 30th June, 2004	<u>172,800,000</u>	<u>1,728</u>

On 10th March, 2004, the Company entered into a placing agreement for the placing of 28,800,000 new shares (“Placing Shares”) through a placing agent, to more than six independent investors at a price of HK\$0.124 per Placing Share (the “Placement”). The Placing Shares represented 20% of the then existing issued share capital of the Company and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of the Placing Shares. The Placement was completed on 29th March, 2004. The net proceeds of the Placement of approximately HK\$3,408,000 have been used as additional working capital of the Company. The Placing Shares ranked pari passu in all respect with the existing issued share capital of the Company.

13. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of the Group as at 30th June, 2004 of HK\$14,318,000 (31st December, 2003: HK\$12,344,000) and 172,800,000 (31st December, 2003: 144,000,000) shares in issue as at that date.

14. RELATED PARTY TRANSACTION

For the six months ended 30th June, 2004, the Group paid investment management fees of approximately HK\$169,000 (six months ended 30th June, 2003: approximately HK\$342,000) to the former investment manager, Haywood Investment Management Limited (“HIML”), a company in which a director of the Company, Mr. Wong Fong Kim, had an approximately nil% of beneficial interest as at 30th June, 2004 (31st December, 2003: 9%).

Investment management fees are calculated at 1.5% per annum of the net asset value of the Company at each preceding month end in accordance with an investment management agreement.

15. CHANGE OF INVESTMENT MANAGER

In March 2004, the Company entered into agreements to terminate HIML and appoint Altus Capital Limited (“ACL”) as the investment manager to provide the investment management services to the Company. The agreements were conditional upon the Stock Exchange approving an announcement relating thereto being made in accordance with the Listing Rules, which approval had been obtained on 13th July, 2004. ACL should be deemed as a connected person of the Company pursuant to the Listing Rules upon the agreement became effective on 13th July, 2004.

Investment management fees to ACL are charged on a similar basis as the previous investment management agreement with HIML and are calculated at 1.5% per annum of the net asset value of the Company at each preceding month end.

16. CONTINGENCIES

The Group had no material contingent liabilities at the balance sheet date.

17. POST BALANCE SHEET EVENT

On 10th June, 2004, the Company entered into a subscription agreement to allot and issue 27,200,000 new shares (“Subscription Shares”) under the General Mandate to a subscriber in cash at a subscription price of HK\$0.10 per Subscription Share. The Subscription Shares represented approximately 15.7% of the then existing issued share capital of the Company and approximately 13.6% of the issued share capital of the Company as enlarged by the issue of 27,200,000 Subscription Shares. The Subscription Shares, when fully paid, ranked pari passu in all respects with the existing issued share capital of the Company. The subscription was completed on 4th August, 2004. The net proceeds from the subscription of approximately HK\$2,500,000 will be applied for future investment purposes.

D. MATERIAL ADVERSE CHANGE

Save as disclosed in the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2004, the Directors confirm that there were no material change in the financial or trading position or prospects of the Group subsequent to 31 December 2003, being the date to which the last audited financial statements of the Company were made up, up to the Latest Practicable Date.

E. STATEMENT OF INDEBTEDNESS**Borrowings**

At the close of business on 31 January 2005, being the latest practicable date for purpose of this indebtedness statement prior to the printing of this circular, the Group had obligations under hire purchase contracts amounting to HK\$290,000.

Contingent liabilities

As at 31 January 2005, the Group did not have any material contingent liabilities.

Disclaimer

Save as aforesaid or as otherwise stated in this circular and apart from intragroup liabilities, no companies within the Group had outstanding as at 31 January 2005 in respect of any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, obligation under finance lease contracts, liabilities under acceptance (other than normal trade bills), acceptance credits, mortgages, charges, finance leases or hire purchase commitments guarantees or other material contingent liabilities.

F. WORKING CAPITAL

The Directors are of the opinion that, taking into account the cashflow generated from the operating activities, the financial resources available for the Group, including internally generated funds, the available credit facilities and the estimated net proceeds of the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

G. UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following is a statement of the unaudited pro forma net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Open Offer as if it had taken place on 30 June 2004. The unaudited pro forma financial information has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the Company's financial position following the Open Offer. This statement is based on the unaudited consolidated net tangible assets of the Group as at 30 June 2004 as shown in the interim financial statements of the Group for the six-months ended 30 June 2004, and adjusted to reflect the effect of the Open Offer as follows:

	Unaudited net tangible assets of the Group as at 30 June 2004	Estimated net proceeds from the Open Offer	Unaudited pro forma net tangible assets	Unaudited pro forma net tangible assets per share
	<i>HK\$'000</i>	<i>HK\$'000 (note 1)</i>	<i>HK\$'000</i>	<i>HK cents (note 2)</i>
Based on 80,000,000 Offer Shares at the Subscription Price of HK\$0.065 each	<u>14,318</u>	<u>4,500</u>	<u>18,818</u>	<u>11.76</u>

Notes:

1. The estimated net proceeds from the Open Offer are based on the Subscription Price of HK\$0.065 per Offer Share after deduction of the estimated related expenses in connection with the Open Offer.
2. The calculation of the unaudited pro forma adjusted net tangible assets of the Group per share is based on 160,000,000 Shares in issue as at the Latest Practicable Date and after the completion of the Share Consolidation.

H. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton 
均富會計師行

28 February 2005

The Directors
Haywood Investments Limited
17/F, Shiu Fung Commercial Building
51-53 Johnston Road
Wanchai
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Haywood Investments Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out under the heading of “unaudited pro forma net tangible assets” in section G of Appendix I to the circular of the Company dated 28 February 2005 in connection with, amongst other things, the proposed open offer (“Open Offer”) of new shares of the Company (the “Circular”). The unaudited pro forma financial information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the relevant financial information of the Group.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 and paragraph 13 of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the paragraph 29 of Chapter 4 and paragraph 13 of Appendix 1B of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on page 66 to the Circular for illustrative purposes only and because of its nature, it may not be indicative of the financial position of the Group at any future date.

Opinion

In our opinion:

- (i) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;
- (ii) such basis is consistent with the accounting policies of the Group; and
- (iii) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,

Grant Thornton
Certified Public Accountants
Hong Kong

I. BUSINESS REVIEW AND PROSPECTS

The Group is an investment company listed under Chapter 21 of the Listing Rules and is principally engaged in investment in listed and unlisted companies in Hong Kong and in the PRC.

For the period ended 30 June 2004, the Group recorded a loss of HK\$1,423,000 which was mainly attributable to the administrative expenses incurred during the period. The improved results which represented a reduction of approximately 22% as compared to the loss of HK\$1,818,000 for the corresponding period last year. The Group's turnover for the six months ended 30 June 2004 represented interest income generated from its financing activities.

The Group's investment portfolio as at 30 June 2004 remained largely unchanged from that disclosed in the Group 2003 Annual Report, except that the Company subscribed for approximately 9.09% equity interest of a company principally involved in the insurance brokerage business operated in Hong Kong for a consideration of about HK\$3 million in May 2004. The Group disposed all of its investments in convertible loan notes which was fully provided for in the 2002 and 2003 annual reports to third parties for a nominal sum of HK\$1 each.

As at 30 June 2004, about 0.3% in value of the Group's investment portfolio was constituted by investments in Hong Kong listed securities, about 23.7% was represented by an equity interest in a company principally involved in the insurance brokerage business operated in Hong Kong and the remaining 76% was represented by an equity interest in a building materials manufacturing company in the PRC. The Group's investment portfolio was mainly financed by Shareholders' funds of HK\$14,318,000. As at 30 June 2004, the Group's cash and bank balances were HK\$2,633,000 and the net asset value per Share was approximately HK\$0.08.

On 29 March 2004, the Company raised net proceeds of approximately HK\$3,408,000 following the placement of 28,800,000 new Shares ("Placing Shares") through a placing agent, to more than six independent investors. The net proceeds from the placement have been used as additional working capital of the Company.

As a complement to the Group's management team, the newly appointed investment manager Altus Capital Limited ("ACL") with its diversified track records in Hong Kong and the PRC would certainly enrich the Group's portfolio. The appointment of ACL was approved by the Stock Exchange and the relevant announcement of its appointment was duly published on 13 July 2004.

Subsequent to the period ended 30 June 2004, the Company raised further net proceeds of approximately of HK\$2,500,000 from a new allotment and issuance of 27,200,000 new Shares under the general mandate granted by Shareholders on 1 June 2004 to an independent subscriber. The allotment and issuance was completed on 4 August 2004. In October 2004, the Company subscribed for approximately 25% equity interest of a company based in Hong Kong principally involved in the trading of flooring materials for a consideration of about HK\$0.5 million. Given the remaining unutilized net proceeds raised and other liquid assets on hand, the Directors are satisfied that the Group has sufficient financial resources to meet its ongoing operational requirements.

The directors of the Company consider that with the introduction of the significant policies such as CEPA, Individual Travel Scheme can be integrated with the economic dynamics of southern China and accordingly it is expected that these favourable developments will benefit the Group's investment portfolio and enhance its return to the Shareholders.

Looking ahead, the Group's prospects are to revive and thrive in this encouraging market sentiment, on the strength of revised investment policies, fresh funding sources, and competent human resources.

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, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL OF THE COMPANY

(1) Authorised and issued share capital

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

	<i>HK\$</i>
<i>Authorised:</i>	
<u>200,000,000</u> Shares	<u>2,000,000</u>
<i>Issued and fully paid up or credited as fully paid up:</i>	
<u>200,000,000</u> Shares	<u>2,000,000</u>

All existing Shares rank equally in all respects, including in particular as to dividend, voting rights and return on capital. The Shares in issue are listed on the Stock Exchange.

All of the Offer Shares and New Shares will rank *pari passu* in all respects, including in particular as to dividend, voting rights and return on capital, with all Shares in issue as at the date of allotment and issue of the Offer Shares and New Shares. All of the Offer Shares and New Shares will be listed on the Stock Exchange. There are no arrangement under which future dividends are waived or agreed to be waived.

No share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

No part of the share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the share or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

(2) Share options

As at the Latest Practicable Date, there was no outstanding option under the share option scheme of the Company adopted on 23 May 2002.

(3) Convertible securities

As at the Latest Practicable Date, there was no outstanding option, warrants or securities convertible or exchangeable into Shares.

3. DISCLOSURE OF INTERESTS

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 then 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.

None of the Directors or their respective associates 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.

4. 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	%
Lee Wing On, Samuel (<i>note 1</i>)	Beneficial	32,790,400	20.49
Hung Fung Man (<i>note 1</i>)	Beneficial	32,790,400	20.49
Kingston Securities Limited (<i>note 2</i>)	Beneficial	31,802,400	19.88
Chu Yuet Wah (<i>note 2</i>)	Interests of controlled corporation	31,802,400	19.88
Ma Siu Fong (<i>note 2</i>)	Interests of controlled corporation	31,802,400	19.88
Cui Zanning	Beneficial	12,000,000	6.00

Notes:

- Ms. Hung Fung Man is the wife of Mr. Lee Wing On, Samuel. Ms. Hung is deemed to be interested in the Shares which Mr. Lee Wing On, Samuel is interested under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- Kingston Securities Limited is deemed to be interested in these shares by virtue of the Underwriting Agreement. The entire issued share capital of the Underwriter is beneficially owned as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong.

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 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.

5. EXPERTS

The following are the qualifications of the experts who have been named in this document or have given opinions, letters or advice which are contained in this document:

Name	Qualification
Ample Capital Limited	a deemed licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO
Grant Thornton	certified public accountants

As at the Latest Practicable Date, neither of Ample Capital Limited nor Grant Thornton had any beneficial interest 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 or had any interest, either directly or indirectly, in any assets which have been, since 31 December 2003, being the date to which the latest published audited accounts 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.

On 28 February 2005, each of Ample Capital Limited and Grant Thornton has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and/or references to its names, in the form and context in which it respectively appears.

6. LITIGATION

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.

7. PROCEDURE BY WHICH A POLL MAY BE DEMANDED PURSUANT TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

Pursuant to the articles of association of the Company, at any general meeting, a resolution put to vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least five Shareholders present in person or by proxy and entitled to vote;
- (iii) any Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or

- (iv) any Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

Unless a poll is so demanded and the demand is not withdrawn, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried unanimously or by a particular majority, or lost shall be conclusive, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

8. 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:

- (i) the Company entered into a placing agreement with its placing agent, Upbest Securities Company Limited on 27 February 2003 for the placement of 24,000,000 Shares on a fully underwritten basis to more than six professional investors who are not connected persons of the Company (as defined under the Listing Rules) at a price of HK\$0.04 per placing Share;
- (ii) the Company entered into placing agreement with its placing agent, Koffman Securities Limited on 10 March 2004 to place 28,800,000 Shares on a best effort basis to more than six independent investors at the price of HK\$0.124 per placing Share;
- (iii) the Company entered into an agreement on 4 March 2004 with Haywood Investment Management Limited wherein both parties agreed to terminate the investment management agreement dated 6 July 1998. On the same day, the Company entered into a new investment management agreement with Altus Capital Limited, wherein the latter agreed to provide investment management services to the Company; and
- (iv) the Underwriting Agreement.

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.

9. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

10. CORPORATE INFORMATION**Company Secretary and Qualified Accountant**

Mr. Chu Kin Wang, Peleus, HKICPA, HKICS

Authorised Representatives

Mr. Chu Kin Wang, Peleus
Flat 1, 10/F, Tower D
Galaxia, 3 Lung Poon Street
Diamond Hill
Kowloon, Hong Kong

Mr. Wong Fong Kim
Room 2211, 23/F
Wise Mansion
28 Connaught Road West
Hong Kong

Principal Banker

Wang Hang Bank Limited
161 Queen's Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16/F, The Center
99 Queen's Road Central
Hong Kong

Hong Kong Branch Share Registrar

Secretaries Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Principal Share Registrar

Bank of Butterfield International (Cayman) Limited
Butterfield House
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Auditors

Grant Thornton
Certified Public Accountants
13th Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Financial Adviser to the Company

Kingston Corporate Finance Limited
Suite 2801
28th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

**Independent Financial Adviser to
the Independent Board Committee**

Ample Capital Limited
Unit B, 9th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

The Underwriters

Kingston Securities Limited
Suite 2801
28th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Orient Securities Limited
8th Floor, Luk Kwok Centre
No. 72 Gloucester Road
Wanchai
Hong Kong

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on any weekday (except for public holidays) at the head office and principal place of business of the Company at 17th Floor, Shiu Fung Commercial Building, 51-53 Johnston Road, Wanchai, Hong Kong up to and including 8 April 2005:

- (1) the memorandum and articles of association of the Company;
- (2) the annual reports of the Company for the two years ended 31 December 2003;
- (3) unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2004;
- (4) the letter from the Independent Board Committee, the text of which is set out on page 20 of this document;
- (5) the letter from Ample Capital Limited, the text of which is set out on pages 21 to 30 of this circular;
- (6) the report on unaudited pro forma financial information from Grant Thornton, the text of which are reproduced in appendix I to this circular; and
- (7) the material contracts referred to the section headed “Material Contracts” in this appendix and the respective circular (if applicable) in relation to the material contracts.

NOTICE OF EGM



HAYWOOD INVESTMENTS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 905)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Haywood Investments Limited (the “**Company**”) will be held at 10:00 a.m. on Thursday, 17 March 2005 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions numbered 1 to 3 as ordinary resolutions of the Company:

1. ORDINARY RESOLUTION 1

“**THAT** the authorised share capital of the Company be increased from HK\$2,000,000 divided into 200,000,000 shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 shares of HK\$0.01 each by the creation of an additional 800,000,000 unissued shares of HK\$0.01 each.”

2. ORDINARY RESOLUTION 2

“**THAT** subject and conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) of the listing of and permission to deal in the issued ordinary shares of the Company consolidated in the manner as set out in paragraph (a) of this Resolution numbered 2 below:

- (a) with effect from the first business day immediately following the date on which this Resolution is passed, being a day on which shares are traded on the Stock Exchange, every five issued and unissued ordinary shares of HK\$0.01 each in the ordinary share capital of the Company be consolidated into two shares of HK\$0.025 each (each a “**New Share**”), such New Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company;
- (b) all fractions of the New Shares to which holders of issued shares of HK\$0.01 each in the share capital of the Company would otherwise be entitled to be aggregated, sold and retained for the benefit of the Company; and
- (c) the directors of the Company be and are generally authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary or expedient to give effect to the foregoing arrangements.”

NOTICE OF EGM

3. ORDINARY RESOLUTION 3

“**THAT** subject to the passing of Resolution numbered 2 and conditional upon: (a) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Offer Shares (as defined below) to be allotted and issued to the shareholders of the Company (the “**Shareholders**”) pursuant to the terms and conditions of the Open Offer (as defined below); (b) the registration of all documents relating to the Open Offer required by law to be registered with the Registrar of Companies in Hong Kong on or before 21 March 2005 or such later date as the Company, Mr. Lee Wing On, Samuel (“**Mr. Lee**”) and Kingston Securities Limited (“**Kingston**”) (for and on behalf of itself and Orient Securities Limited, together the “**Underwriters**”) may agree and the filing of all relevant documents with the Registrar of Companies in the Cayman Islands on or before 21 March 2005 or such later date as the Company, Mr. Lee and Kingston (for and on behalf of the Underwriters) may agree; and (c) the obligations of the Underwriters under the underwriting agreement (the “**Underwriting Agreement**”) dated 28 January 2005, as amended by a supplemental underwriting agreement dated 4 February 2005, entered into between the Company, Mr. Lee and the Underwriters becoming unconditional and the Underwriting Agreement not being terminated in accordance with the terms thereof prior to 4:00 p.m. on the second business day after the last day for acceptance of Offer Shares,

- (i) the issue by way of open offer (the “**Open Offer**”) of 80,000,000 New Shares (the “**Offer Shares**”) to the Shareholders whose names appear on the register of members of the Company on 17 March 2005 (excluding those Shareholders with registered addresses outside Hong Kong) in the proportion of one Offer Share for every New Share then held pursuant to and in accordance with the terms and conditions set out in the circular dated 28 February 2005 despatched by the Company to the Shareholders (the “**Circular**”), a copy of which had been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification, be and is hereby approved and the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements or overseas Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and
- (ii) the Directors be and are hereby authorised to do all such acts and things as they consider necessary or expedient in connection with the Open Offer.”

By Order of the Board
Phang Yul Cher Yeow
Director

Hong Kong, 28 February 2005

NOTICE OF EGM

Registered Office:

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands

Head office and principal place of business in Hong Kong:

17th Floor
Shiu Fung Commercial Building
51-53 Johnston Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person to represent the member.
2. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Shares as if he is solely entitled thereto, but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members in respect of such Share shall alone be entitled to vote in respect thereof.
3. A form of proxy for use at the meeting is enclosed with the Circular.
4. The form of proxy and power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be delivered to the office of Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they so wish. If a member who has lodged a form of proxy attends the meeting, his form of proxy will be deemed to have been revoked.