

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Eagle Group Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHINA EAGLE GROUP COMPANY LIMITED

中國鵬潤集團有限公司*

(Incorporated in Bermuda with limited liability)

I. VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF BESTLY LEGEND LIMITED (好聯有限公司)

II. CONNECTED TRANSACTION RELATING TO THE SUBSCRIPTION OF CONVERTIBLE NOTES BY SHINNING CROWN HOLDINGS INC.

III. WHITEWASH WAIVER APPLICATION

IV. GENERAL MANDATES

AND

V. INCREASE IN AUTHORISED SHARE CAPITAL

Financial adviser to China Eagle Group Company Limited



Joint independent financial advisers to the Independent Board Committee

ALTUS CAPITAL LIMITED



KGI Capital Asia Limited

A letter from the Independent Board Committee containing its recommendation in respect of the Proposals to the Independent Shareholders is set out on pages 28 and 29 of this circular. A letter from Altus Capital Limited and KGI Capital Asia Limited, the joint independent financial advisers to the Independent Board Committee, containing their advice to the Independent Board Committee is set out on pages 30 to 57 of this circular.

A notice convening the special general meeting of the Company to be held at Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 10:00 a.m. on Wednesday, 31 March 2004 or any adjournment thereof is set out on pages 137 to 141 of this circular. A form of proxy for use at the special general meeting is enclosed. Whether or not you are able to attend the special general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars of China Eagle Group Company Limited in Hong Kong, Abacus Share Registrars Limited of G/F, BEA Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding the special general meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting thereof should you so wish.

15 March 2004

* for identification purposes only

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DEFINITIONS

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

“Access Capital”	Access Capital Limited, the financial adviser to the Company. It is a deemed licensed corporation for types 1 (dealings in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
“acting in concert”	has the meaning as defined in the Takeovers Code
“Altus”	Altus Capital Limited, one of the joint independent financial advisers to the Independent Board Committee in relation to the Proposals. It is a deemed licensed corporation for types 1 (dealings in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
“Announcement”	announcement dated 24 February 2004 issued by the Company with regard to the Proposals.
“associate(s)”	has the meaning as defined in the Listing Rules
“Beijing Bus”	北京市長途汽車公司 (Beijing Bus Company Limited*), the vendor of the contract dated 1 February 2002 entered into with the PRC Company for the acquisition and development of the Property, details of which are set out in the paragraph headed “7.3 About the PRC Company” in the “Letter from the Board”
“Bestly”	Bestly Legend Limited (好聯有限公司*), a company incorporated in the British Virgin Islands with limited liability and is beneficially wholly owned by Mr. Han
“Bestly Group”	Bestly and its subsidiaries
“Board”	board of Directors
“CN Issue”	issue of the Convertible Notes by the Company to Shinning Crown pursuant to the CN Subscription Agreement
“CN Subscription Agreement”	subscription agreement dated 6 February 2004 between Shinning Crown and the Company in respect of the CN Issue
“Company”	China Eagle Group Company Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange

* for identification purposes only

DEFINITIONS

“Convertible Notes”	convertible notes to be issued by the Company, the principal terms of which are set out in the paragraph headed “3.1 Principal terms of the CN Issue” in the “Letter from the Board”
“Directors”	directors of the Company
“Enlarged Group”	the Group and the Bestly Group
“Executive”	the Executive Director of the Corporate Finance Division of SFC or any delegates of the Executive Director
“Group”	the Company and its subsidiaries prior to completion of the Proposed Acquisition
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent committee of the Board, comprising the two independent non-executive Directors, formed specifically to consider and to advise the Independent Shareholders as to the fairness and reasonableness of the Proposals, so far as the Independent Shareholders are concerned
“Independent Shareholders”	Shareholders who are not involved in or interested in the transactions and other than (i) Shinning Crown and parties acting in concert with it and (ii) Mr. Han and parties acting in concert with him
“KGI”	KGI Capital Asia Limited, one of the joint independent financial advisers to the Independent Board Committee in relation to the Proposals. It is a deemed licensed corporation for types 1 (dealings in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO
“Latest Practicable Date”	12 March 2004, the latest practicable date prior to the printing of this circular, for the purpose of ascertaining certain information contained herein
“Listing Committee”	has the meaning ascribed to such term in the Listing Rules
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Han”	Mr. Han Yue Jun, the beneficial owner of the entire shareholding interest of each of Bestly and Link Zone International Limited
“Mr. Wong”	Mr. Wong Kwong Yu, the Chairman of the Company and a Director

DEFINITIONS

“PRC”	The People’s Republic of China (excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“PRC Company”	北京金尊房地產發展有限公司 (Beijing Jin Zun Property Development Limited*), a company incorporated in the PRC with limited liability
“PRC JV”	北京金尊房地產發展有限公司 (Beijing Jin Zun Technology Development Limited*), a Sino-foreign equity joint venture established under the laws of the PRC
“Property”	the parcel of land located at Area no. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC
“Proposals”	the Proposed Acquisition, the CN Issue and the Whitewash Waiver application
“Proposed Acquisition”	proposed acquisition by the Company of the entire issued share capital of Bestly under the Sale and Purchase Agreement
“Sale and Purchase Agreement”	sale and purchase agreement dated 6 February 2004 entered into between Mr. Han and the Company in respect of the Proposed Acquisition
“Series I Convertible Notes”	the convertible notes in the principal amount of HK\$24 million issued by the Company in July 2002 and due to mature in July 2004 which were subscribed by Mr. Han, the principal terms of which are set out in the circular issued by the Company on 8 May 2002
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shinning Crown”	Shinning Crown Holdings Inc., a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong
“Special General Meeting”	the special general meeting of the Company to be convened for the purpose of approving the transactions contemplated under the Sale and Purchase Agreement, the Supplemental Agreement and the CN Issue, and the Whitewash Waiver

* for identification purposes only

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	agreement dated 24 February 2004 entered into between Mr. Han and the Company supplemental to the Sale and Purchase Agreement
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Whitewash Waiver”	waiver to be granted by the Executive of the general offer obligation triggered under Rule 26 of the Takeovers Code by Shinning Crown and parties acting in concert with it as a result of the conversion of the Convertible Notes
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For the purpose of this circular, conversion of Renminbi into Hong Kong dollars is calculated at an approximate exchange rate of RMB1.06 to HK\$1.00, for the purpose of illustration only, and does not constitute a representation that any amount have been, could have been, or may be, exchanged at this or any other rate.

LETTER FROM THE BOARD



CHINA EAGLE GROUP COMPANY LIMITED

中國鵬潤集團有限公司*

(Incorporated in Bermuda with limited liability)

Directors:

Wong Kwong Yu, *Chairman*

Du Juan

Lam Pang

Ng Kin Wah

Sze Tsai Ping, Michael**

Peng Chengzhi**

*Principal place of business
in Hong Kong:*

Unit 6101, 61st Floor

The Centre

99 Queen's Road Central

Hong Kong

Registered office:

Cedar House

41 Cedar Avenue

Hamilton HM 12

Bermuda

** *Independent non-executive Director*

15 March 2004

To the Shareholders

Dear Sir/Madam,

**I. VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
RELATING TO
THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
OF BESTLY LEGEND LIMITED (好聯有限公司)**

**II. CONNECTED TRANSACTION
RELATING TO
THE SUBSCRIPTION OF CONVERTIBLE NOTES BY
SHINNING CROWN HOLDINGS INC.**

III. WHITEWASH WAIVER APPLICATION

IV. GENERAL MANDATES

AND

V. INCREASE IN AUTHORISED SHARE CAPITAL

1. INTRODUCTION

On 24 February 2004, the Company announced that it has entered into the Sale and Purchase Agreement with Mr. Han on 6 February 2004, for the acquisition of the entire equity interest in Bestly at a total consideration of HK\$300,000,000. The consideration of the Proposed Acquisition will be satisfied in cash.

* *for identification purposes only*

LETTER FROM THE BOARD

Mr. Han is the beneficial owner of the entire issued share capital of Bestly. Mr. Han together with his associate, namely Link Zone International Limited, and parties acting in concert with them own 434,570,000 Shares, representing approximately 15.30% of the existing issued share capital of the Company which comprised 2,839,303,500 Shares. Since Mr. Han is a substantial Shareholder and hence a connected person of the Company under the Listing Rules, the Proposed Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under the Listing Rules and will be subject to the approval of the Independent Shareholders at the Special General Meeting.

Given the Company can comply with the requirements under Rule 14.07(3) of the Listing Rules following completion of the Proposed Acquisition, the implementation of the subject transaction will not render the Company a new applicant for listing.

It is proposed that Shinning Crown (the controlling Shareholder which together with parties acting in concert with it are currently interested in 1,206,003,500 Shares, representing approximately 42.48% of the existing issued share capital of the Company which comprised 2,839,303,500 Shares) will subscribe the Convertible Notes to be issued under the CN Issue to finance the Proposed Acquisition.

Since Shinning Crown is the controlling Shareholder and hence a connected person of the Company under the Listing Rules, the CN Issue constitutes a connected transaction for the Company under the Listing Rules and will be subject to the approval of the Independent Shareholders at the Special General Meeting.

The purpose of this circular is to provide you with further details on: (i) the Proposed Acquisition; (ii) the CN Issue; and (iii) the application for the Whitewash Waiver. At the forthcoming Special General Meeting, resolutions will be proposed to seek Shareholders' requisite approval in relation to the aforesaid matters.

A notice convening the Special General Meeting to be held at Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 31 March 2004 at 10:00 a.m. or any adjournment thereof is set out on pages 137 to 141 of this circular for the purpose of considering and, if thought fit, passing, inter alia, (i) the ordinary resolutions in respect of the Sale and Purchase Agreement, the Supplemental Agreement and the CN Issue by a majority of the Independent Shareholders voting at the Special General Meeting; and (ii) the ordinary resolution by way of poll in respect of the Whitewash Waiver.

Mr. Wong is the sole shareholder of Shinning Crown, the subscriber of the Convertible Notes. Ms. Du Juan, the spouse of Mr. Wong, has been involved in the negotiation of the Proposals. Messrs. Lam Pang and Ng Kin Wah have also been involved in the negotiation of the Proposals. All of them are salaried employees of the Company. Accordingly, they are not eligible to be a member of the Independent Board Committee. The Independent Board Committee comprising Messrs. Sze Tsai Ping, Michael and Peng Chengzhi, the independent non-executive Directors, has been established to consider the terms of the Proposals and advise the Independent Shareholders as to whether the terms of the Proposals are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company as a whole. In addition, Altus and KGI, the joint independent financial advisers, have been appointed to advise the Independent Board Committee with respect to the Proposals.

2. THE PROPOSED ACQUISITION

2.1 Background information

The Company acquired from Mr. Han on 10 April 2002 the entire shareholding interest in Artway Development Limited, the sole asset of which is a 49% interest in the PRC JV which in turn holds an 80% interest in the PRC Company, for a consideration of HK\$195 million.

Details of the acquisition of Artway Development Limited were set out in the announcement and the circular issued by the Company dated 12 April 2002 and 8 May 2002 respectively.

2.2 The Sale and Purchase Agreement

Details of the principal terms of the Sale and Purchase Agreement are summarised below.

2.2.1 *Date:*

6 February 2004

2.2.2 *The Parties:*

a) The vendor

Mr. Han is the beneficial owner of the entire issued share capital of Bestly.

Mr. Han together with his associate, namely Link Zone International Limited, and parties acting in concert with them own (i) 434,570,000 Shares (representing approximately 15.30% of the existing issued share capital of the Company which comprised 2,839,303,500 Shares); and (ii) the Series I Convertible Notes in the principal amount of HK\$24 million. The Series I Convertible Notes were issued in July 2002 and due to mature in July 2004.

If the Series I Convertible Notes were to be converted in full on the Latest Practicable Date at a conversion price of HK\$0.120 per Share (which is equivalent to the initial conversion price of the Series I Convertible Notes), 200,000,000 new Shares will be issued, representing approximately 6.58% of the issued share capital of the Company as enlarged upon full conversion of the Series I Convertible Notes and approximately 3.61% of the issued share capital of the Company as enlarged upon full conversion of the Series I Convertible Notes and the Convertible Notes.

Since Mr. Han owned 434,570,000 Shares as at the Latest Practicable Date, upon full conversion of the Series I Convertible Notes at HK\$0.120 per Share, Mr. Han's shareholding in the Company will increase to 634,570,000 Shares, representing approximately 20.9% of the enlarged issued share capital of the Company (based on 3,039,303,500 Shares in issue as enlarged upon full conversion of the Series I Convertible Notes).

LETTER FROM THE BOARD

Mr. Han is a substantial Shareholder and hence a connected person of the Company under the Listing Rules.

b) Purchaser

The Company

2.2.3 Assets to be acquired:

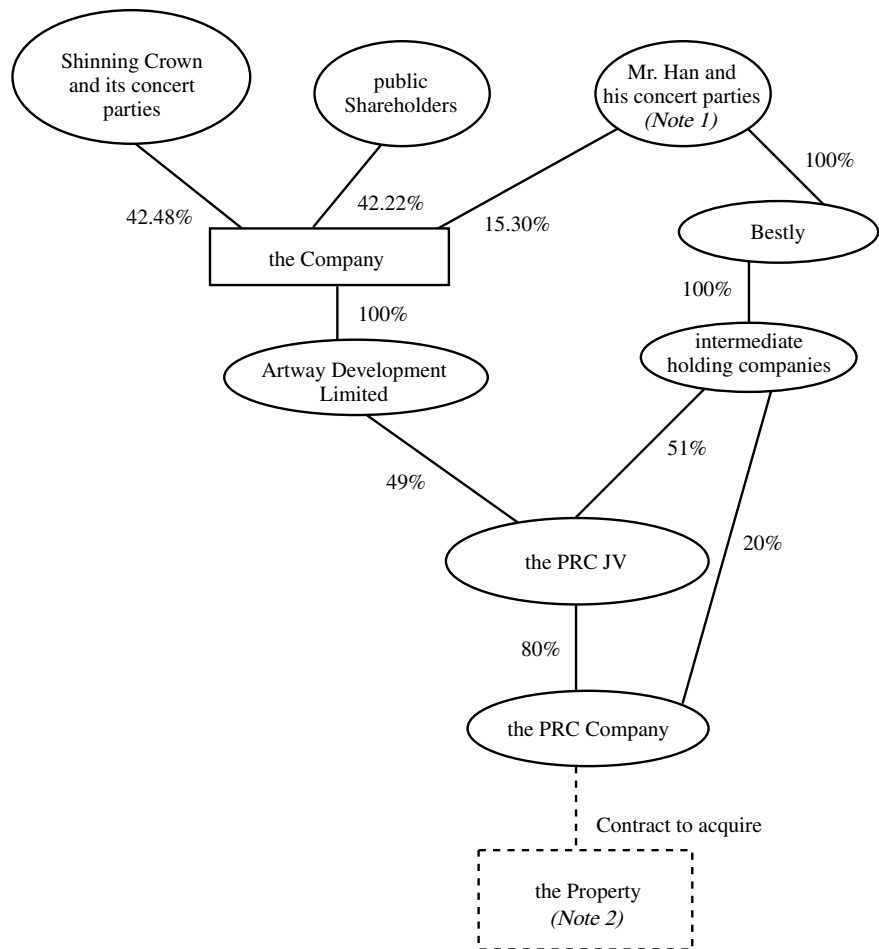
The entire issued share capital of Bestly.

Bestly beneficially owns (i) a 51% interest in the PRC JV, which in turn owns an 80% interest in the PRC Company; and (ii) a 20% interest in the PRC Company. Upon completion of the Proposed Acquisition, the PRC JV and the PRC Company will become wholly owned subsidiaries of the Company and their accounts will be consolidated for audit purposes.

LETTER FROM THE BOARD

Set out below are the respective corporate structure of the Group and companies held by Mr. Han both before and after completion of the Proposed Acquisition.

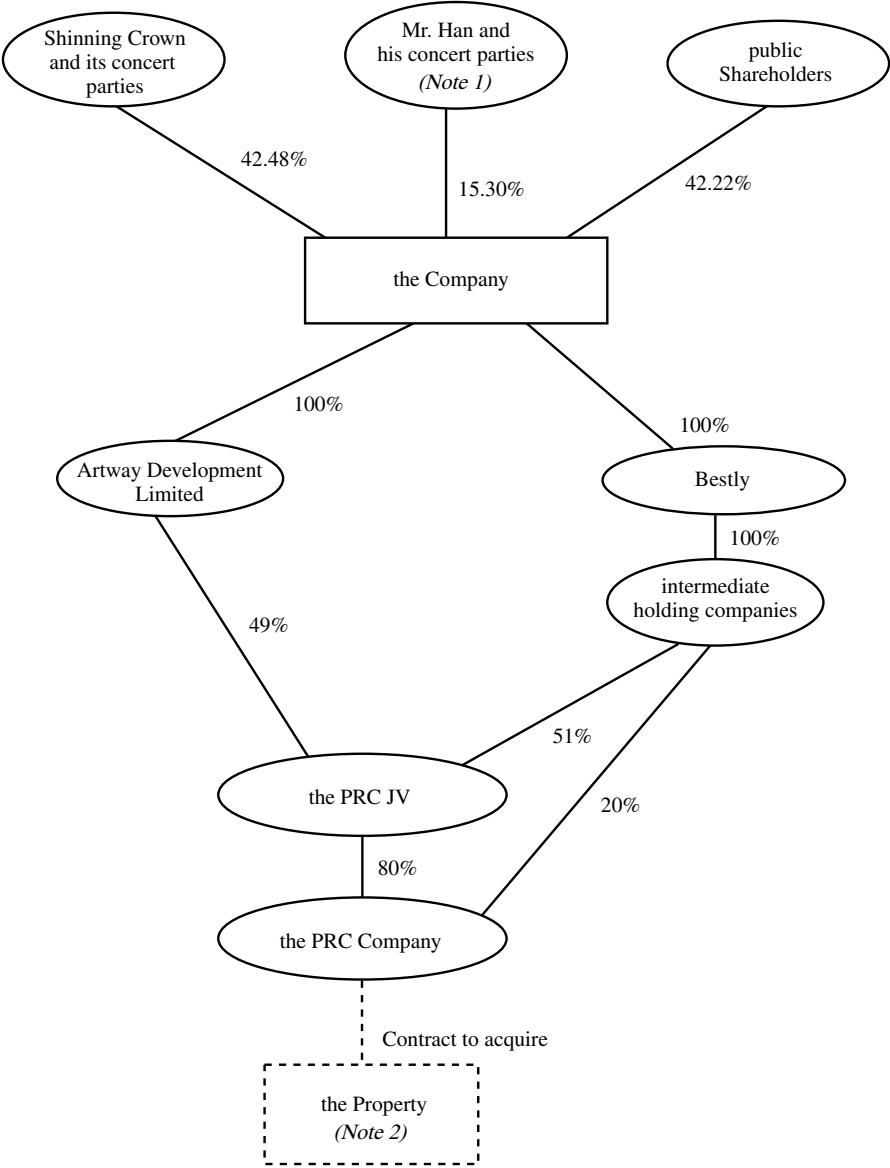
(i) Corporate structure of the Group and companies held by Mr. Han before completion of the Proposed Acquisition



- Notes:
1. Mr. Han is not acting in concert with Shinning Crown or Mr. Wong.
 2. The Property is located at Area no. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC.

LETTER FROM THE BOARD

(ii) Corporate structure of the Group after completion of the Proposed Acquisition (but before the exercise of the Convertible Notes and the Series I Convertible Notes in full)



- Notes: 1. Mr. Han is not acting in concert with Shinning Crown or Mr. Wong.
2. The Property is located at Area no. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC.

2.2.4 Consideration and terms of payment:

The consideration for the Proposed Acquisition is HK\$300 million payable in cash upon completion of the Sale and Purchase Agreement and the terms of payment were arrived at after arm's length negotiation between the Company and Mr. Han.

In arriving at the consideration, reference has been made to the independent property valuation of the property interest of the PRC Company in existing state as at 31 December 2003 of approximately RMB540 million (equivalent to approximately HK\$509.4 million) (after taking into account the estimated development cost of RMB3,825 million (equivalent to approximately HK\$3,608.5 million) (based on the budget prepared by the PRC Company and the construction cost data/index available from quantity surveyors), the estimated land premium of RMB470 million (equivalent to approximately HK\$443.4 million) (based on 北京市基準地價(2002) (Beijing Municipal Standard Land Price (2002)), which is published jointly by 北京市國土資源和房屋管理局出讓處 (Sale Office of Beijing Municipal Administration of State Land, Resources and Housing) and 北京房協房地產估價專業委員會 (Professional Commission for Real Estate Appraisal of Beijing Housing Association), and evidence on comparable site transactions as well as land premium assessments available) and a relocation and compensation fee of RMB250 million (equivalent to approximately HK\$235.8 million) (being the amount paid and/or payable by the PRC Company pursuant to the contract to acquire and develop the Property as described in the section headed "7. Information on Bestly, the PRC JV and the PRC Company" below)) by B.I. Appraisals Limited, a professional property surveyor, who is independent of and not connected with the Company. The aforesaid independent property valuation was prepared on the basis that the estimated development cost of RMB3,825 million (equivalent to approximately HK\$3,608.5 million) and the estimated land premium of RMB470 million (equivalent to approximately RMB443.4 million) have not been paid. Out of the relocation and compensation fee of RMB250 million (equivalent to approximately HK\$235.8 million), an amount of RMB167 million (equivalent to approximately HK\$157.5 million) is outstanding and remains payable by the PRC Company.

Taking into account the reasons for and benefits of the Proposed Acquisition as set out below, the Directors (including the executive and the independent non-executive Directors) considered the terms of the Sale and Purchase Agreement to be fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

2.2.5 Conditions:

Completion of the Sale and Purchase Agreement is subject to, inter alia, the following conditions:

- a) approval by the Independent Shareholders at the Special General Meeting;
- b) the CN Subscription Agreement becoming unconditional (other than the condition for the Sale and Purchase Agreement being unconditional);

LETTER FROM THE BOARD

- c) the receipt by the Company of a valuation report from a reputable firm of professional property valuer acceptable to the Company confirming that the capital value of the property interest of the PRC Company in existing state as at 31 December 2003 shall be not less than RMB540 million (equivalent to approximately HK\$509.4 million); and
- d) the receipt by the Company of a legal opinion from a PRC lawyer acceptable to the Company relating to, among others, the due establishment and existence of the PRC JV and the PRC Company, the legality of their business operations and the ownership of the property, the subject of the development plan of the PRC Company, in form and substance acceptable to the Company.

As at the Latest Practicable Date, conditions (c) and (d) have been fulfilled.

With regard to the property valuation of not less than RMB540 million (equivalent to approximately HK\$509.4 million) as mentioned in condition (c) above, it has taken into account the relocation and compensation fee payable by the PRC Company, the development cost and the land premium as described in paragraph “2.2.4 Consideration and terms of payment” above.

Since Mr. Han is a connected person of the Company under the Listing Rules, the Proposed Acquisition constitutes a very substantial acquisition and connected transaction for the Company under the Listing Rules. Accordingly, the Proposed Acquisition will be subject to the approval of the Independent Shareholders at the Special General Meeting. Shinning Crown and parties acting in concert with it (including Mr. Wong), and Mr. Han and parties acting in concert with him will abstain from voting at the Special General Meeting.

Given the Company can comply with the requirements under Rule 14.07(3) of the Listing Rules following completion of the Proposed Acquisition, the implementation of the subject transaction will not render the Company a new applicant for listing.

2.2.6 The Supplemental Agreement

On 24 February 2004, the Vendor and the Purchaser entered into the Supplemental Agreement pursuant to which, the long stop date for the fulfilment of the conditions of the Sale and Purchase Agreement be revised from 31 March 2004 to 30 April 2004.

2.2.7 Completion

Completion of the Sale and Purchase Agreement will take place on the third business day after fulfillment of all the conditions of the Sale and Purchase Agreement or such other date as may be agreed by the parties in writing. None of the conditions mentioned in paragraph “2.2.5 Conditions” above can be waived.

LETTER FROM THE BOARD

If any of the said conditions are not fulfilled prior to 30 April 2004 or such later date as may be agreed by the parties in writing, the Sale and Purchase Agreement will be null and void and of no effect.

3. THE CN ISSUE

3.1 Principal terms of the CN Issue

It is proposed that Shinning Crown (the controlling Shareholder which together with parties acting in concert with it are currently interested in approximately 42.48% of the issued share capital of the Company) will subscribe the Convertible Notes to be issued under the CN Issue to finance the Proposed Acquisition.

The following are the principal terms of the Convertible Notes:

Amount: HK\$300 million

Interest rate: 2% per annum payable semi-annually in arrears

Maturity: third anniversary of the date of issue

Conversion price: The conversion price is the lower of (i) HK\$0.120 per Share or (ii) 90% of the average closing price of the ten trading days prior to the exercise of the conversion rights.

HK\$0.120 per Share represents a discount of 20.00% to the closing price of HK\$0.150 per Share as quoted on the Stock Exchange on 5 February 2004 (the last trading day prior to the issue of the Announcement) and a discount of approximately 30.76% to the average closing price of approximately HK\$0.173 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 5 February 2004.

Based on the conversion price of HK\$0.120 per Share, 2,500,000,000 new Shares will be issued upon the full conversion of the Convertible Notes, representing approximately 88.05% of the existing issued share capital and approximately 46.82% of the issued share capital as enlarged by the exercise in full of the conversion rights attached to the Convertible Notes.

Upon maturity when the Convertible Notes have to be converted, the conversion price shall be the same as mentioned above, being the lower of (i) HK\$0.120 per Share or (ii) 90% of the average closing price of the ten trading days prior to the exercise of the conversion rights.

The Shares to be issued upon exercise of the conversion rights attached to the Convertible Notes shall rank pari passu in all respects with all the Shares currently in issue and Shares in issue as at the date of conversion.

LETTER FROM THE BOARD

- Exercisable period:
- (i) Any time throughout the three years period from the date of issue of the Convertible Notes; and
 - (ii) mandatory conversion of the entire outstanding Convertible Notes on maturity.
- Redemption: Mandatory conversion and no cash redemption
- Transferability: The Convertible Notes may be assigned or transferred to any third party which is not a connected person (as defined in the Listing Rules) of the Company.

The terms of the CN Issue (including the conversion price of the Convertible Notes) are determined after arm's length negotiation between the Company and Shinning Crown.

Taking into account the recent performance of the stock market in Hong Kong in general and the reasons for and benefits of the Proposed Acquisition and the CN Issue as set out below, the Directors consider the terms of the CN Issue (including the conversion price of the Convertible Notes) to be fair and reasonable.

The gross proceeds to be generated from the CN Issue will amount to HK\$300 million and will be applied to pay for the consideration of the Proposed Acquisition. The expenses to be incurred for the Proposed Acquisition and the CN Issue are estimated to amount to approximately HK\$1.8 million and will be satisfied by the Group from its internal resources.

Shinning Crown and parties acting in concert with it have not dealt in any Shares in the past six months prior to 5 February 2004 (the last trading day prior to the date of the Announcement) and up to the Latest Practicable Date.

3.2 Implications under the Listing Rules and the Takeovers Code

Since Shinning Crown is the controlling Shareholder and hence a connected person of the Company under the Listing Rules, the CN Issue constitutes a connected transaction for the Company under the Listing Rules and will be subject to the approval of the Independent Shareholders' vote at the Special General Meeting. Shinning Crown and parties acting in concert with it (including Mr. Wong), and Mr. Han and parties acting in concert with him (including Link Zone International Limited) will abstain from voting at the Special General Meeting. Apart from Mr. Wong, none of the Directors hold, directly or indirectly any Shares, options, warrants or other convertible securities of the Company.

In the absence of the Whitewash Waiver, the aggregate shareholding of Shinning Crown and parties acting in concert with it in the Company will exceed the 2% creeper limit allowed under the Takeovers Code as a result of the exercise of the conversion rights under the Convertible Notes and Shinning Crown would be required to make a mandatory general offer for the Shares not owned by Shinning Crown and parties acting in concert with it under Rule 26 of the Takeovers Code.

LETTER FROM THE BOARD

As such, the CN Issue will be conditional upon, among others, the grant of the Whitewash Waiver. The Proposed Acquisition, being conditional upon, among others, the CN Issue becoming unconditional, is accordingly also conditional upon the grant of the Whitewash Waiver. Shinning Crown has applied to the Executive for the Whitewash Waiver and the Executive has indicated that the Whitewash Waiver will be granted subject to the approval by the Independent Shareholders by way of poll at the Special General Meeting.

3.3 Conditions of the CN Issue:

Completion of the CN Issue will be conditional upon, inter alia:

- i) the Sale and Purchase Agreement becoming unconditional (other than the condition for the CN Subscription Agreement being unconditional);
- ii) approval by the Independent Shareholders at the Special General Meeting;
- iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new Shares to be issued upon conversion of the Convertible Notes;
- iv) the Executive granting a Whitewash Waiver in respect of any obligation on Shinning Crown and parties acting in concert with it to make a general offer pursuant to Rule 26 of the Takeovers Code as a result of the exercise of the conversion rights under the Convertible Notes; and
- v) if required, the Bermuda Monetary Authority having approved the issue of the new Shares to be issued upon conversion of the Convertible Notes and the transferability of such Shares.

As at the Latest Practicable Date, none of the aforesaid conditions has been fulfilled.

None of the above conditions is waivable. If any of the conditions are not fulfilled on or before 30 April 2004 (or such later date as may be agreed by the parties in writing), each party shall be entitled by written notice to terminate the CN Issue.

An application has been made to the Stock Exchange for the listing of, and permission to deal in, the new Shares which will be issued upon conversion of the Convertible Notes.

4. EFFECTS OF THE PROPOSALS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding of the Company following completion of the Proposals.

LETTER FROM THE BOARD

a) Assuming the Convertible Notes and the Series I Convertible Notes are converted at HK\$0.120 per Share

Directors/Shareholders	Existing issued share capital		Issued share capital following completion of the CN Issue and before conversion of the Convertible Notes (assuming the Series I Convertible Notes are not converted)		Issued share capital upon full conversion of the Convertible Notes at the conversion price of HK\$0.120 per Share (assuming the Series I Convertible Notes are not converted)		Issued share capital upon full conversion of the Convertible Notes at the conversion price of HK\$0.120 per Share (assuming full conversion of the Series I Convertible Notes at the conversion price of HK\$0.120 per Share)	
	Shares	%	Shares	%	Shares	%	Shares	%
<i>The controlling Shareholders:</i>								
Shinning Crown								
(Note 1)	1,170,000,000	41.21	1,170,000,000	41.21	3,670,000,000	68.74	3,670,000,000	66.25
Mr. Wong	36,003,500	1.27	36,003,500	1.27	36,003,500	0.67	36,003,500	0.65
Sub-total	1,206,003,500	42.48	1,206,003,500	42.48	3,706,003,500	69.41	3,706,003,500	66.90
Mr. Han (Note 2)	434,570,000	15.30	434,570,000	15.30	434,570,000	8.14	634,570,000	11.46
Public	1,198,730,000	42.22	1,198,730,000	42.22	1,198,730,000	22.45	1,198,730,000	21.64
Total	<u>2,839,303,500</u>	<u>100.00</u>	<u>2,839,303,500</u>	<u>100.00</u>	<u>5,339,303,500</u>	<u>100.00</u>	<u>5,539,303,500</u>	<u>100.00</u>

Notes:

- Shinning Crown is wholly owned by Mr. Wong.
- The Shares are held as to 9,570,000 Shares personally by Mr. Han and as to 425,000,000 Shares by Link Zone International Limited, which is wholly and beneficially owned by Mr. Han.

LETTER FROM THE BOARD

- b) Given that the conversion price of the Convertible Notes and the conversion price of the Series I Convertible Notes are subject to adjustment and may be as low as HK\$0.100 per Share (i.e. equivalent to the existing par value of the Shares, as no Shares may be issued below its par value), the hypothetical effect to the shareholding following completion of the Proposals based on a conversion price of HK\$0.100 per Share will be as follows:

Directors/Shareholders	Existing issued share capital		Issued share capital following completion of the CN Issue and before conversion of the Convertible Notes (assuming the Series I Convertible Notes are not converted)		Issued share capital upon full conversion of the Convertible Notes at the conversion price of HK\$0.100 per Share (assuming the Series I Convertible Notes are not converted)		Issued share capital upon full conversion of the Convertible Notes at the conversion price of HK\$0.100 per Share (assuming full conversion of the Series I Convertible Notes at the conversion price of HK\$0.100 per Share)	
	Shares	%	Shares	%	Shares	%	Shares	%
<i>The controlling Shareholders:</i>								
Shinning Crown								
(Note 1)	1,170,000,000	41.21	1,170,000,000	41.21	4,170,000,000	71.41	4,170,000,000	68.59
Mr. Wong	36,003,500	1.27	36,003,500	1.27	36,003,500	0.62	36,003,500	0.59
Sub-total	1,206,003,500	42.48	1,206,003,500	42.48	4,206,003,500	72.03	4,206,003,500	69.18
Mr. Han (Note 2)	434,570,000	15.30	434,570,000	15.30	434,570,000	7.44	674,570,000	11.10
Public	1,198,730,000	42.22	1,198,730,000	42.22	1,198,730,000	20.53	1,198,730,000	19.72
Total	<u>2,839,303,500</u>	<u>100.00</u>	<u>2,839,303,500</u>	<u>100.00</u>	<u>5,839,303,500</u>	<u>100.00</u>	<u>6,079,303,500</u>	<u>100.00</u>

Notes:

- Shinning Crown is wholly owned by Mr. Wong.
- The Shares are held as to 9,570,000 Shares personally by Mr. Han and as to 425,000,000 Shares by Link Zone International Limited, which is wholly and beneficially owned by Mr. Han.

LETTER FROM THE BOARD

As set out in the tables above, the aggregate shareholding of the controlling Shareholders may exceed 50% of the enlarged issued share capital of the Company upon full conversion of the Convertible Notes. Shareholders should note that if the shareholding of the controlling Shareholders exceed 50% of the enlarged issued share capital of the Company, the controlling Shareholders may increase their holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

Each of Shinning Crown and Mr. Wong has undertaken to the Stock Exchange that following completion the Proposed Acquisition and the CN Issue and upon conversion of the Convertible Notes from time to time, appropriate steps will be taken to ensure that not less than 25% of the Shares will be held by the public. Should there be less than 25% of the Shares held in public hands upon conversion of the Convertible Notes from time to time, the Directors will take appropriate steps which may include, placing of new Shares to independent third parties not connected to or acting in concert with the directors, chief executives or substantial shareholders of the Company or its subsidiaries or any of their respective associates. The Stock Exchange has stated that if less than 25% of the Shares are held by the general public following conversion of the Convertible Notes, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- there are insufficient Shares in public hands to maintain an orderly market,

then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares. In this connection, it should be noted that upon conversion of the Convertible Notes, there may be an insufficient public float for the Shares and, therefore, trading in the Shares may be suspended until a sufficient level of public float is attained.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue a circular to its Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant.

5. REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION AND THE CN ISSUE

The Group is principally engaged in property development and investment, securities broking and investments and general trading.

The Group has since 2001 diversified from its then principal activities to property investment in the PRC with a view to capturing opportunities which may become available as a result of the strong economy in the PRC. On this basis, the Company acquired Artway Development Limited in 2002 at a consideration of HK\$195 million with the view that such investment (i.e. an indirect 39.2% interest in the property development project located at Area no. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC and held through the PRC Company) would provide the Company with a channel to develop the Company's property business in the PRC.

LETTER FROM THE BOARD

Due to the anticipated growth in the demand for residential/commercial properties in major cities in the PRC, in particular, Beijing as a result of the 2008 Beijing Olympic, the Directors believe that it is desirable to seek control of the aforesaid property interests held through the PRC Company (of which the Company currently has a 39.2% indirect interest resulting from the acquisition of Artway Development Limited in 2002) for future development and to pre-empt the possibility of any future sale of the controlling interest of the Property to a third party. The implementation of the Proposed Acquisition would allow the Company to have complete control (i.e. 100%) of the PRC JV and the PRC Company (which, in turn, have the right to acquire and develop the Property and to develop it in accordance with its own business assessment and decision).

Although the PRC Company only entered into a contract to acquire and develop the Property, it does not have the land use right and has not entered into the Land Use Right Transfer Agreement (as described under the section headed “7. Information on Bestly, the PRC JV and the PRC Company” below) to acquire the land use right of the Property. The Directors are of the view that by securing control over such contractual right to acquire and develop the Property (as the first step) through the PRC JV and the PRC Company, it would secure the Company’s position to control 100% of the Property once the PRC Company decided to develop the Property and enter into the Land Use Right Transfer Agreement. In addition, as described in section headed “2.2.4 Consideration and terms of payment” above, the Property is estimated with a value of approximately RMB540 million (equivalent to approximately HK\$509.4 million) as at 31 December 2003 by B.I. Appraisals Limited, a professional property surveyor, who is independent of and not connected with the Company.

Taking into account the consideration of HK\$195 million paid by the Company for the acquisition of Artway Development Limited in 2002 and HK\$300 million payable under the Sale and Purchase Agreement, the aggregate amount of HK\$495 million (equivalent to approximately RMB525 million) represents a discount of approximately 2.8% to the property value of RMB540 million (equivalent to approximately HK\$509.4 million) as at 31 December 2003 prepared by B.I. Appraisals Limited, a professional property surveyor, who is independent of and not connected with the Company.

Through the placing and top-up subscription of 473,000,000 Shares as announced on 8 January 2004 and completed on 21 January 2004, the Company raised net proceeds of approximately HK\$55.3 million which, as stated in the announcement of the Company on 8 January 2004, were intended to be used for future business expansion when investment opportunities arise and as at the Latest Practicable Date, the Directors have not identified any such investment opportunities. Although the Company has recently raised funds from the aforesaid top-up subscription of new Shares, the Directors believe that it is necessary for the Group to reserve its cash resources for future investment opportunities (as and when opportunity arises) and/or the development of the Property.

As mentioned above, the implementation of the Proposed Acquisition is to allow the Company to have complete control of the PRC JV and the PRC Company (which, in turn, have the right to acquire and develop the Property in accordance with its own business assessment and decision). The Directors consider the CN Issue is the best means to raise additional funding to finance the Proposed Acquisition. Besides, the CN Issue (with mandatory conversion into equity capital upon maturity) will strengthen the financial position of the Group and enlarge the capital base of the Company.

LETTER FROM THE BOARD

Although the stock market in Hong Kong has improved after the SARS incident and notwithstanding the implementation of various measures to boost the economy of Hong Kong by the Hong Kong Government, the trading volume of the Shares is still relatively low which exerts difficulties for the Company to seek interested parties to underwrite any substantial equity fund raising exercise. In addition, given the time required to complete a substantial equity fund raising exercise such as a rights issue and the uncertainty of completion of such equity fund raising exercise, the Directors therefore decided to discuss with Shinning Crown (the controlling Shareholder) with an objective to seek its support for the CN Issue.

There will not be any change to the continued employment of the management and employees of the Group following completion of the Proposed Acquisition and the CN Issue. The Directors confirmed that the existing principal business of the Group will continue. As at the Latest Practicable Date, the Directors had no intention of injecting any new assets or businesses into the Group and/or disposal or redeployment of any assets relating to the core businesses of the Group immediately after completion of the Proposed Acquisition and the CN Issue.

As far as the Directors are aware, as at the Latest Practicable Date, Shinning Crown did not have any intention to sell or transfer the Convertible Notes or the Shares to be issued upon conversion of the Convertible Notes.

6. INFORMATION ON THE COMPANY

The principal business of the Group is set out in the section headed “5. Reasons for and benefits of the Proposed Acquisition and the CN Issue” above.

- a) Set out below are the audited financials of the Group for the two years ended 31 March 2003:

	Financial year ended 31 March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,124	4,073
(Loss)/profit before taxation	(12,410)	(7,159)
Taxation	–	–
(Loss)/profit before minority interests	(12,410)	(7,159)
Minority interests	–	–
(Loss)/profit for the year/period	(12,410)	(7,159)
(Loss)/earnings per Share – basic (HK cents)	(0.8)	(2.8)
Shares in issue (weighted average)	<u>1,618,303,500</u>	<u>251,284,904</u>
	As at 31 March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	263,351	199,594
Total liabilities	77,441	1,274
Net assets	185,910	198,320
Net tangible assets	<u>(9,101)</u>	<u>198,320</u>

LETTER FROM THE BOARD

- b) Set out below are the unaudited financials of the Group for the six months period ended 30 September 2003:

	Six months ended 30 September 2003 <i>HK\$'000</i>	Six months ended 30 September 2002 <i>HK\$'000</i>
Turnover	2,283	4,091
(Loss)/profit before taxation	(8,954)	(10,758)
Taxation	–	–
(Loss)/profit before minority interests	(8,954)	(10,758)
Minority interests	29	–
(Loss)/profit for the period	(8,925)	(10,758)
(Loss)/earnings per Share – basic (HK cents)	(0.46)	(0.66)
Shares in issue (weighted average)	<u>1,928,390,932</u>	<u>1,618,303,500</u>
	As at 30 September 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Total assets	316,221	263,814
Total liabilities	49,149	76,897
Net assets	266,020	186,917
Net tangible assets	<u>264,764</u>	<u>(7,474)</u>

Taking into account the unaudited consolidated net tangible assets of the Group as at 30 September 2003 and adjusted by the net proceeds generated from the placing and top-up subscription of 473,000,000 new Shares which took place in January 2004, the pro forma adjusted unaudited consolidated net tangible assets of the Group will amount to approximately HK\$320.1 million.

Further details of the financials of the Company are set out in Appendix I to this circular.

Details of the financial of the Enlarged Group following completion of the Proposed Acquisition and the CN Issue are set out in Appendix III to this circular.

According to the paragraph headed “Pro forma statement of unaudited adjusted consolidated net tangible assets of the Enlarged Group” as stated in Appendix III to this circular, the net tangible assets per Share will increase by about 3.02% from approximately HK\$0.1127 per Share to approximately HK\$0.1161 per Share following completion of the Proposals and upon the full conversion of the Convertible Notes at the Conversion Price.

LETTER FROM THE BOARD

Based on the unaudited net asset value of the Group as at 30 September 2003 of approximately HK\$266.0 million and the total liabilities of approximately HK\$49.1 million, the gearing ratio (i.e. the total liabilities of the Group divided by the net asset value of the Group) was approximately 18.5%. Following the issuance of the Convertible Notes, the adjusted total liabilities of the Group would increase to approximately HK\$349.1 million. As the Convertible Notes carry a mandatory conversion feature at maturity, the HK\$300 million liability as a result of the issue of the Convertible Notes would have been converted into equity capital at maturity. Accordingly, the total liabilities of the Group would remain at approximately HK\$49.1 million assuming the Group does not incur further liabilities. Based on the pro forma adjusted unaudited net asset value of the Group of approximately HK\$566.0 million (i.e. the unaudited net asset value of the Group of HK\$266.0 million as of 30 September 2003 plus HK\$300.0 million upon full conversion of the Convertible Notes at maturity), the gearing ratio would be approximately 8.7%.

Following completion of the Proposals, the financials of the Bestly Group will be consolidated with the Group. Given the amount of earnings recorded in the latest available audited accounts of the Bestly Group for the period from 4 January 2002 (being the date of incorporation) to 31 December 2003 are insignificant, the Directors do not anticipate any effect on the earnings of the Group following completion of the Proposals.

7. INFORMATION ON BESTLY, THE PRC JV AND THE PRC COMPANY

7.1 About Bestly

Bestly Legend Limited (好聯有限公司) is a company incorporated in the British Virgin Islands on 4 January 2002 with limited liability. Its sole asset is (i) a 51% interest in the PRC JV, which in turn owns an 80% interest in the PRC Company; and (ii) a 20% interest in the PRC Company. It has no other business operation save for the aforesaid investment interests.

Further details of the financials of the Bestly Group are set out in Appendix II to this circular.

7.2 About the PRC JV

The PRC JV is a sino-foreign joint venture and (based on its business license) is licensed to engage in the provision of real estate information exchange service, property management service and computer software development. The principal asset of the PRC JV is its 80% interest in the PRC Company. The PRC JV commenced operation in February 2002.

7.3 About the PRC Company

The PRC Company is currently owned as to 80% by the PRC JV and as to 20% by Mr. Han through Bestly.

The PRC Company (based on its business license) is licensed to engage in the development and sale of real estate properties as well as property management. Since its inception in February 2002, the PRC Company has only entered into a contract with Beijing Bus, an independent third party not connected with the directors, chief executive and substantial shareholder of the Company

LETTER FROM THE BOARD

and its subsidiaries and their respective associates, on 1 February 2002 for the acquisition and development of the Property, being a parcel of land located at Area no. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC at a price of RMB250 million (equivalent to approximately HK\$235.8 million) (being equivalent to the amount of the relocation and compensation fee for the Property).

Apart from entering into a contract to acquire and develop the Property, the PRC Company has not been involved in any other property development and/or property management project in the PRC.

The PRC Company intends to construct a multi-purpose complex which comprises a residential apartment tower, an office tower as well as retail premises with car parking spaces for sale and lease.

7.4 The purchase price of RMB250 million payable by the PRC Company to Beijing Bus in accordance with the contract to acquire and develop the Property

As at the date of this circular, RMB83 million (equivalent to approximately HK\$78.3 million) of the purchase price of RMB250 million (equivalent to approximately HK\$235.8 million) has been paid to Beijing Bus, RMB80 million (equivalent to approximately HK\$75.5 million) is expected to be settled on or before September 2005 and the balance of RMB87 million (equivalent to approximately HK\$82.0 million) is expected to be settled on or before September 2006. The PRC Company will repay RMB69.5 million (equivalent to approximately HK\$65.1 million) to Mr. Han and his associate within six months after completion of the Proposed Acquisition, as it is the amount in excess of Mr. Han's attributable shareholding in the PRC Company. The PRC Company has various alternatives (including borrowing) to repay the aforesaid sum.

The initial development cost of the Property will also be funded by the PRC Company. The PRC Company has various alternatives other than the use of its own resources to settle the payment of RMB167 million (equivalent to approximately HK\$153.8 million) and the initial development cost. Any future funding requirements may be financed by bank borrowings or the proceeds to be generated from the pre-sale of the development. Since the Property is currently vacant (except a public bus factory is erected thereon), it has not generated any revenue.

7.5 The land premium

The land premium (which can be settled by installments) is payable when the Land Use Right Transfer Agreement (國有土地使用權出讓合同) in respect of the Property is signed between the PRC Company and the relevant PRC authority. Such agreement (which will record the amount of the land premium and formalise the payment schedule of the land premium) has not been and is not intended to be signed at or before completion of the Proposed Acquisition. After completion of the Proposed Acquisition, the PRC Company shall review its financial position and the property market condition in Beijing, and decide as to whether or not to proceed with the construction work of the Property and/or the entering into of the Land Use Right Transfer Agreement. In view of the substantial amount of funds to be incurred with respect to the acquisition and development of the Property, announcement will be made by the Company (whenever considered appropriate) relating to events such as (i) a decision to proceed with the construction work of the Property; or (ii) entering into the Land Use Right Transfer Agreement; or (iii) payment of the land premium or the

balance of the aforesaid purchase price to Beijing Bus; or (iv) making of the relevant financing arrangement(s) for the aforesaid payment(s).

The land premium of RMB470 million (equivalent to approximately HK\$443.4 million) (the basis of which is described in the section headed “2.2.4 Consideration and terms of payment” above) will have to be settled in full before the PRC Company can obtain the land use right of the Property. Each of the Company and the PRC Company is not under any contractual obligation to pay the land premium of RMB470 million (equivalent to approximately HK\$443.4 million).

Upon the PRC Company entering into the Land Use Right Transfer Agreement with the relevant PRC authority, and the full payment by the PRC Company of (i) the land premium of RMB470 million (equivalent to approximately HK\$443.4 million) in accordance with the Land Use Right Transfer Agreement and (ii) the balance of the purchase price of RMB167 million (equivalent to approximately HK\$153.8 million), the PRC Company will formally obtain and be entitled to the land use rights of the Property. Prior to the full settlement of the land premium, the PRC Company can proceed with construction work to develop the Property.

After completion of the Proposed Acquisition, if and when the Company and/or its subsidiary, in this case, the PRC Company, enter into the Land Use Right Transfer Agreement with the relevant PRC authority to acquire the land use right, such acquisition would in turn, constitute any notifiable transactions under the Listing Rules, the Company will comply with the disclosure and shareholders’ approval requirements as prescribed in the Listing Rules.

7.6 Contribution arrangements

7.6.1 Before completion of the Proposed Acquisition

Although no specific terms relating to fund contribution (in respect of the land premium and all future development cost) by each party have been included in the respective agreements for the formation of the PRC JV and the PRC Company, it is understood between the shareholders of the PRC JV and the PRC Company that the Company will (if required) contribute its portion of the fund requirements in accordance with its attributable shareholding interest in the PRC Company (being 49% of 80% (i.e. 39.2%)) and Mr. Han will (if required) contribute his portion in accordance with his attributable shareholding interest in the PRC Company (i.e. 60.8%). The Directors expect to finance the portion to be contributed by the Company by its own internal resources and/or bank borrowings, and any future funding requirements may be financed by the proceeds to be generated from the pre-sale of the development.

7.6.2 If the Proposed Acquisition lapses

If the Proposed Acquisition lapses, and since no specific terms relating to fund contribution (in respect of the land premium and all future development cost) by each party has been included in the respective agreements for the formation of the PRC JV and the PRC Company, in order to safeguard the interest of the Company, the Company undertakes to use its best endeavours to procure the respective shareholders of the PRC JV and the PRC Company to enter into an agreement to formalise the funding contribution arrangement in the future.

LETTER FROM THE BOARD

7.6.3 Following completion of the Proposed Acquisition

The PRC Company, which will become a wholly-owned subsidiary of the Company following completion of the Proposed Acquisition, will be responsible solely for the funding in respect of the development of the Property. The PRC Company has various alternatives other than the use of its own resources to settle the payment of RMB167 million (equivalent to approximately HK\$153.8 million), the land premium upon the entering of the Land Use Right Transfer Agreement and the initial development cost. Any future funding requirements may be financed by bank borrowings or the proceeds to be generated from the pre-sale of the development.

7.7 Financial information of the Bestly Group

As at the Latest Practicable Date, the aforesaid property is not mortgaged and none of the shares of or interest (as the case may be) in (i) Bestly; (ii) Artway Development Limited; (iii) the PRC JV; (iv) the PRC Company; and (v) each of the intermediate holding companies holding shares of or interest in the PRC JV or the PRC Company (as the case may be), was mortgaged or pledged.

Set out below are the audited consolidated financial results of the Bestly Group for the period from 4 January 2002 (being the date of incorporation) to 31 December 2003. No comparative figures have been produced as Bestly commenced business on 4 June 2003 and accordingly, the first set of financial statements covered the period from the date of incorporation to 31 December 2003.

	Period ended 31 December 2003 <i>HK\$'000</i>
Turnover	37
(Loss)/profit before taxation	8
Taxation	—
(Loss)/profit for the year	<u>8</u>
	As at 31 December 2003 <i>HK\$'000</i>
Total assets	303,390
Total liabilities	303,448
Net liabilities	<u>(58)</u>

Note to the above financial information:

The audited consolidated financial information of Bestly and its subsidiaries (being the PRC JV and the PRC Company) for the period ended 31 December 2003 or as at 31 December 2003 as set out above was prepared based on the fair value of the assets acquired by Bestly and adjusted for the revaluation of the Property due to the acquisition of Artway Development Limited by the Company in 2002.

LETTER FROM THE BOARD

The amount of investment recorded by the Group as at 30 September 2003 and set out in the interim report of the Group for the six months ended 30 September 2003 was prepared based on the fair value of the assets acquired by the Group and the value of the Property pursuant to an independent valuation prepared as at 10 April 2002 and set out in the Company's circular dated 8 May 2002.

8. GENERAL MANDATES

Ordinary resolutions will be proposed to Shareholders at the Special General Meeting to grant new general mandates to the Directors to exercise all powers of the Company:

- (i) to allot, issue and deal with new Shares up to 20% of the aggregate nominal amount of the share capital of the Company as at the date of the passing of the resolution;
- (ii) to repurchase on the Stock Exchange fully paid up Shares of an aggregate nominal amount of up to 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of the resolution; and
- (iii) to extend the mandate to issue new Shares by an amount representing the aggregate nominal amount of the Shares repurchased by the Company pursuant to and in accordance with the mandate to repurchase Shares referred to in (ii) above.

The general mandates will take effect as at the date of the Special General Meeting or any adjournment thereof and will continue to be in force until the conclusion of the next annual general meeting of the Company unless the same are renewed at such meeting or until revoked by ordinary resolutions of the Shareholders at the special general meeting held prior to the next annual general meeting of the Company.

9. INCREASE IN AUTHORISED SHARE CAPITAL

It is proposed that the authorised share capital of the Company be increased from HK\$2,000,000,000 (divided into 20,000,000,000 Shares) to HK\$5,000,000,000 (divided into 50,000,000,000 Shares). Such an increase will be proposed as an ordinary resolution in the forthcoming Special General Meeting and be subject to Shareholders' approval.

10. THE SPECIAL GENERAL MEETING

A notice convening the Special General Meeting to be held at Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 31 March 2004 at 10:00 a.m. or any adjournment thereof is set out on pages 137 to 141 of this circular for the purpose of considering and, if thought fit, passing, inter alia, (i) the ordinary resolutions in respect of the Sale and Purchase Agreement, the Supplemental Agreement and the CN Issue by a majority of the Independent Shareholders voting at the Special General Meeting; and (ii) the ordinary resolution by way of poll in respect of the Whitewash Waiver.

LETTER FROM THE BOARD

A form of proxy for use by the Shareholders at the Special General Meeting is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the branch share registrars of the Company in Hong Kong, Abacus Share Registrars Limited of G/F, BEA Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjourned meeting thereof (as the case may be) should you so wish.

11. ADDITIONAL INFORMATION

Your attention is drawn to the letter of advice from the Independent Board Committee and the letter from the joint independent financial advisers to the Independent Board Committee containing their advice to the Independent Board Committee in relation to the Proposals set out on pages 28 to 29 and pages 30 to 57 of this circular respectively.

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

By Order of the Board
China Eagle Group Company Limited
Ng Kin Wah
Executive Director



CHINA EAGLE GROUP COMPANY LIMITED

中國鵬潤集團有限公司*

(Incorporated in Bermuda with limited liability)

To the Independent Shareholders

15 March 2004

Dear Sir or Madam,

**I. VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
RELATING TO
THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
OF BESTLY LEGEND LIMITED (好聯有限公司)**

**II. CONNECTED TRANSACTION
RELATING TO
THE SUBSCRIPTION OF CONVERTIBLE NOTES BY
SHINNING CROWN HOLDINGS INC.**

AND

III. WHITEWASH WAIVER APPLICATION

We refer to the circular dated 15 March 2004 of the Company (“Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Proposals are fair and reasonable so far as the Independent Shareholders are concerned. Altus and KGI have been appointed to advise the Independent Board Committee in respect of the terms of the Proposals.

We wish to draw your attention to the “Letter from the Board” set out on pages 5 to 27 of the Circular which contains, inter alia, information of the Proposals, as well as the “Letter from Altus and KGI” set out on pages 30 to 57 of the Circular which contains its advice in respect of the terms of the Proposals.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taking into account the joint advice of Altus and KGI, we consider the terms of the Proposals to be fair and reasonable so far as the Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting in respect of the Proposals.

Yours faithfully,

For and on behalf of

Independent Board Committee

Sze Tsai Ping, Michael

Peng Chengzhi

Independent non-executive Directors

LETTER FROM ALTUS AND KGI

The following is the full text of the letter of advice to the Independent Board Committee from Altus and KGI, the joint independent financial advisers to the Independent Board Committee dated 15 March 2004 prepared for incorporation in this circular.

ALTUS CAPITAL LIMITED

8/F Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong



KGI Capital Asia Limited

Asia Pacific Finance Tower 27/F
Citibank Plaza
3 Garden Road
Central
Hong Kong

15 March 2004

The Independent Board Committee
China Eagle Group Company Limited
Unit 6101, 61/F
The Center
Hong Kong

Dear Sirs,

**I. VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION
RELATING TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED
SHARE CAPITAL OF BESTLY LEGEND LIMITED (好聯有限公司);
II. CONNECTED TRANSACTION RELATING TO THE SUBSCRIPTION OF
CONVERTIBLE NOTES BY SHINNING CROWN HOLDINGS INC.; AND
III. WHITEWASH WAIVER APPLICATION**

INTRODUCTION

We refer to the circular dated 15 March 2004 (the “Circular”) issued by the Company to its Shareholders of which this letter forms part and to our appointment as joint independent financial advisers to the Independent Board Committee in respect of the Proposed Acquisition, the CN Issue and the Whitewash Waiver application, the details of which are set out in the “Letter from the Board” (the “Letter”) contained in the Circular. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular of which this letter forms part unless the context otherwise requires.

On 24 February 2004, the Company announced on 6 February 2004 that it had entered into the Sale and Purchase Agreement with Mr. Han, pursuant to which Mr. Han conditionally agreed to sell and the Company conditionally agreed to purchase the entire issued share capital of Bestly for a consideration of HK\$300 million. The consideration is payable in cash upon the completion of the Proposed Acquisition.

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The Sale and Purchase Agreement is conditional upon, amongst other things, the CN Subscription Agreement becoming unconditional and the approval by the Independent Shareholders at the Special General Meeting.

The Company also announced that the Company had entered into the CN Subscription Agreement on 6 February 2004 with Shinning Crown pursuant to which the Company proposed to issue the Convertible Notes in an aggregate amount of HK\$300 million to Shinning Crown. Upon the full conversion of the Convertible Notes, based on a conversion price of HK\$0.12 per Share, a total of 2,500,000,000 new Shares will be issued by the Company, representing approximately 88.05% of the existing issued share capital and approximately 46.82% of the issued share capital as enlarged by the exercise in full of the conversion right attached to the Convertible Notes. The proceeds from the CN Issue will be used to finance the Proposed Acquisition. If Shinning Crown and parties acting in concert with it increase their shareholding by 2% or more as a result of the exercise in full of the conversion right attached to the Convertible Notes, Shinning Crown would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code. As Shinning Crown does not intend to make such a general offer, the Directors have been informed by Shinning Crown that an application has been made by Shinning Crown to the Executive for the Whitewash Waiver. The Executive has agreed to grant the Whitewash Waiver, subject to a vote by way of poll, by the Independent Shareholders at the Special General Meeting.

The CN Issue is conditional upon, amongst other things, the approval by the Independent Shareholders at the Special General Meeting; the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the new Shares which will be issued as a result of the exercise of the conversion rights attached to the Convertible Notes; and the Executive granting the Whitewash Waiver in respect of any obligation on Shinning Crown and parties acting in concert with it to make a general offer pursuant to Rule 26 of the Takeovers Code. If the CN Issue does not become unconditional, the Sale and Purchase Agreement would be terminated and the parties to the Sale and Purchase Agreement will not proceed with the Proposed Acquisition.

In accordance with the Listing Rules, (a) the Proposed Acquisition constitutes a very substantial acquisition and connected transaction for the Company, as Mr. Han is a substantial Shareholder hence a connected person of the Company; and (b) the CN Issue constitutes a connected transaction for the Company. Both of which are subject to, amongst other things, the approval of the Independent Shareholders.

The Independent Board Committee has been appointed to advise the Independent Shareholders in relation to the Proposed Acquisition, the CN Issue and the Whitewash Waiver application. In assessing the eligibility of the Directors to be a member of the Independent Board Committee, we have considered and taken into account the confirmations by each of the Directors to the SFC in respect of their interests in the Company and noted that Mr. Wong Kwong Yu, is a substantial Shareholder and a salaried employee, Ms. Du Juan, Mr. Lam Pang and Mr. Ng Kin Wah are all salaried employees of the Company and all involved in the negotiation of the Proposed Acquisition. Based on the foregoing, we consider that Mr. Wong Kwong Yu, Ms. Du Juan, Mr. Lam Pang and Mr. Ng Kin Wah are not eligible to be members of the Independent Board Committee. The Independent Board Committee thus comprises Messrs. Sze Tsai Ping, Michael and Mr. Peng Chengzhi, both are independent non-executive Directors.

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We have been appointed by the Company to advise the Independent Board Committee on the fairness and reasonableness of (a) the Proposed Acquisition; (b) the CN Issue; and (c) the Whitewash Waiver application, so far as the interests of the Independent Shareholders are concerned.

BASIS OF OUR OPINION

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinions and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and remain true as at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter contained in the Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have also discussed with the management of the Group regarding the prospects of the businesses of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any such statement contained in this circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding (a) the Proposed Acquisition; (b) the CN Issue; and (c) the Whitewash Waiver application and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information (which is known to the Company) has been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and fact, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Proposed Acquisition, the CN Issue and the Whitewash Waiver application, we have considered the following principal factors and reasons:

A. Proposed Acquisition

1. Reasons and effects of the Proposed Acquisition

(i) Businesses of the Group and experience of Mr. Wong

The Group is principally engaged in property investment and development, securities broking and investment and general trading. As stated in the Company's circular dated 8 May 2002 in relation to the acquisition of 39.2% attributable interest

in the PRC Company and in the Letter, the Company has diversified its principal activities to property investment in the PRC since 2001 with a view to capturing opportunities which may become available as a result of the continuous development of the PRC economy and the entry of the PRC into the World Trade Organisation (“WTO”). Also, as stated in the Company’s annual report for the year ended 31 March 2003 (the “Annual Report”) and the interim report for the six months ended 30 September 2003 (the “Interim Report”), the Company will continue to view land and property development and investment as its core businesses and to capture opportunities in Hong Kong and the PRC real estate markets so as to invest in potential property projects. As stated in the Letter and the Interim Report, with favourable factors, including the PRC’s accession to the WTO, Beijing hosting the 2008 Olympic, Shanghai hosting the 2010 World Exposition and the next Disney Theme Park in Hong Kong which is currently under construction, the Directors consider that it would be in the interest of the Company as a whole to further invest in the property markets in Hong Kong and the PRC. In light of the favourable conditions, in 2002, the Group acquired a 39.2% interest in the PRC Company which has a right to develop the Property and the Directors believe that it is desirable to seek complete control of the PRC Company which in turn will allow full control of the development of the Property. The implementation of the Proposed Acquisition would allow the Company to have complete control of the Property and to develop it in accordance with the Group’s own business assessment and decision.

Furthermore, Mr. Wong, the Chairman of the Group, is also the chief executive officer and founder of The Eagle Investment in Beijing, the PRC. The Eagle Investment is a PRC enterprise with core businesses in real estate development and household electrical appliances retailing since 1996. Property projects completed included (a) Eagle Garden, a large scale resident development project in Beijing which comprise six residential towers with total gross floor area of around 300,000 square metres and all units have been sold out; and (b) Eagle Run Plaza, which is, a 32-storey tall commercial building and has a total floor area of around 200,000 square metres, has been partly sold and partly held for investment purpose.

According to the Directors and Mr. Wong, there is no other acquisition being negotiated by Eagle Investment as at the Latest Practicable Date. Mr. Wong has undertaken to the Company that, at any time, he shall not either on his own account or for any other person, firm or company, directly or indirectly, be engaged in any business in any form or manner that is in competition, directly or indirectly, with or is likely to be in competition, directly or indirectly, with the property business of the Group in the PRC.

We concur with the views of the Directors that the Proposed Acquisition provides the Company with a channel to further develop the Company’s property business in the PRC and is in line with the present strategy of the Company and that Mr. Wong has sufficient experience in real estate development in Beijing, the PRC.

(ii) Business of Bestly

Bestly, a company incorporated in the British Virgin Islands on 4 January 2002 with limited liability, is wholly owned by Mr. Han. Its assets consisted of (i) a 51% interest in the PRC JV, which in turn owns an 80% interest in the PRC Company; and (ii) 20% interest in the PRC Company. Apart from the aforesaid interest, it has no material assets or liabilities. As at 31 December 2003, the audited consolidated net liabilities of Bestly and its subsidiaries amounted to approximately HK\$58,000. For the period from 4 January 2002 to 31 December 2003, Bestly recorded an audited consolidated net profit of approximately HK\$8,000.

The PRC JV is a sino-foreign joint venture and (based on its business license) is licensed to engage in the provision of real estate information exchange service, property management services and computer software development. The principal asset of the PRC JV is its 80% interest in the PRC Company. The PRC JV commenced operation in February 2002.

The PRC Company is currently owned as to 80% by the PRC JV and as to 20% by Mr. Han through Bestly. The PRC Company (based on its business license) is licensed to engage in the development and sale of real estate properties as well as property management. Since its inception in February 2002, the PRC Company has only entered into a contract with Beijing Bus, an independent third party not connected with the directors, chief executive and substantial shareholder of the Company and its subsidiaries and their respective associates, on February 2002 for the acquisition and development of the Property, being a parcel of land located at Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC at a price of RMB 250 million (equivalent to approximately HK\$235.8 million) (being equivalent to the amount of the relocation and compensation fee for the Property). Apart from investing in the Property, the PRC Company has not been involved in any other property development and/or property management projects in the PRC.

The Property has a site area of approximately 35,300 square metres, which is still under development and the construction work has not yet commenced. As at the Latest Practicable Date, various applications for the development of the Property were submitted to various government departments by the PRC Company. According to the Valuation Report, the PRC Company intends to construct a multi-purpose complex which consists of a residential apartment tower and an office tower as well as retail premises with car parking spaces. According to the Board and as stated in the valuation report prepared by B.I. Appraisals Limited (the “Valuer”), an independent professional property surveyor appointed by the Company to prepare a valuation report on the open market value of the Property as at 31 December 2003 (the “Valuation Report”), the Property will be developed into a mixed commercial and residential development with a total gross floor area of approximately 350,000 square metres. Please refer to the Valuation Report in Appendix IV to the Circular for detailed information on land uses and gross floor areas of the proposed development.

(iii) Benefits of the Proposed Acquisition

According to the Interim Report, the Company's principal businesses, being the property development and investment, securities broking and investments and general trading, recorded a turnover of approximately HK\$2.3 million for the six months ended 30 September 2003, representing a decrease of approximately 44.2% to the corresponding period in 2002. The substantial decrease in the Group's turnover was mainly due to (a) the disposal of the Group's trading business of computer-aided-design-systems and machinery in November 2002; and (b) no turnover in the segment of general trading of household and electric appliance products. Amongst the turnover, approximately HK\$2.2 million came from commission income of securities and futures businesses. Apart from the securities and futures businesses, the Group do not conduct any other active businesses currently.

We have been informed by the Directors that they believe that the development of the Property has business potential. Since the acquisition of 39.2% interest in the PRC Company, which owns the development right of the Property, the Group has been updated with the information in relation to the development of the Property and has gained full access to the accounts and records of the PRC Company. Based on these accessible information, the Directors are of the view that the development of the Property is in progress. Based on Mr. Wong's past experience in the development of large property projects in the PRC as stated above, the Directors consider that the Property is expected to be completed by not later than 2008 and anticipated to be offered for sale to the market in the form of pre-sale by not later than 2006. According to the Directors, the Group intends to sell a portion of the Property in the market for an instant return by two ways (a) in the form of pre-sale and (b) when it is completed, while the remaining portion of the Property will be kept by the Group for leasing so as to ensure stable future cash inflow. Based on the aforesaid, the development of the Property will generate cash inflow to the Company by not later than 2006.

As stated in the Letter, due to the anticipated growth in the demand for residential/commercial properties in major cities in the PRC, in particular, Beijing as a result of the 2008 Beijing Olympic, the Directors believe that it is desirable to seek control of the Property held through the PRC Company for future development and to pre-empt the possibility of any future sale of the controlling interest of the Property to a third party. The implementation of the Proposed Acquisition would allow the Company to have complete control (i.e. 100%) of the PRC JV and the PRC Company which in turn have the right to acquire and develop the Property and to develop it in accordance with its own business assessment and decision. Although the PRC Company only entered into a contract to acquire and develop the Property, and it does not have the land use right or has entered into the Land Use Right Transfer Agreement to acquire the land use right of the Property, the Directors are of the view that by securing control over such contractual right to acquire and develop the Property through the PRC JV and the PRC Company would secure the Company's position to control 100% of the Property once the PRC Company decided to develop the property and enter into the Land Use Right Transfer Agreement.

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The Board are of the view that the future development and the holding of large international events in Beijing will lead to a growth in demand for properties in Beijing, therefore, the Proposed Acquisition is beneficial to the Group and the Shareholders as a whole.

The Proposed Acquisition is in line with the medium term to long term development objective of the Company which is to diversify its businesses as stated in the Interim Report. This will have to be weighed against the risks in developing and selling the constructed Property. With regard to the sales of the constructed Property, we are of the view that since the Property is still under development and the construction work has not yet commenced and the pre-sale of the development has not yet started, it is impossible to assess with certainty the response of the market towards the Property and thus the potential financial benefits to the Group. Independent Shareholders should note that the Directors are of the view that the outlook of the property market in Beijing, the PRC is good as a result of the PRC's accession to WTO, Beijing's successful bid for the 2008 Olympic and Shanghai's hosting the 2010 World Exposition.

There is also the possibility of the Group conducting the Proposed Acquisition only after the completion of the Property to mitigate the uncertainties and risks involved. However, in the view of the Directors, in such an event, the valuation of the Property would likely be different and would likely to be higher.

As stated in the Interim Report, the Group is capturing the opportunities to explore Hong Kong and the PRC real estate markets so as to invest in potential property projects. According to the Directors, as more information on the development of the Property has been obtained since the Group's acquisition of 39.2% interest in the PRC Company on 8 May 2002 and the development of the Property would be completed by not later than 2008, they believe that it is an opportunity for the Group to acquire a majority stake in the PRC Company, accordingly the Property, at this stage.

Overall, we are of the view that (a) although the PRC Company only entered into a contract to acquire and develop the Property, and it does not have the land use right or has entered into the Land Use Right Transfer Agreement to acquire the land use right of the Property, we concur with the view of the Directors that by securing control over such contractual right to acquire and develop the Property through the PRC JV and the PRC Company would secure the Company's position to control 100% of the constructed Property once the PRC Company (which will become an indirect wholly owned subsidiary of the Company upon the completion of the Proposed Acquisition) decided to develop the Property and enter into the Land Use Right Transfer Agreement; and (b) the Proposed Acquisition is in line with the Group's stated business strategy and we concur with the view of the Directors that the Proposed Acquisition is beneficial to the Company based on the Directors' view that the demand for properties in Beijing, the PRC will increase as a result of the PRC's accession to WTO, Beijing's successful bid for the 2008 Olympic and Shanghai hosting the World Exposition.

2. *Consideration and funding for the Proposed Acquisition*

(i) Basis of the consideration

Pursuant to the Sale and Purchase Agreement, the aggregate consideration for the Proposed Acquisition is HK\$300 million which is payable in cash upon completion of the Sale and Purchase Agreement. This consideration has been determined after arm's length negotiation between the Company and Mr. Han, and with reference to the Valuation Report. We have assessed and reviewed the methodology and bases and assumptions regarding the Valuation Report and are of the view that they are reasonably prepared. Further details can be found in the section headed "Valuation of the Property" below. Compared to the value of 60.8% equity interest of the Property which is of approximately RMB328 million (equivalent to approximately HK\$309.7 million) accordingly to the Valuation Report, the consideration represents a discount of approximately 3.1%. Taking into account the consideration of HK\$195 million paid by the Company for the acquisition of Artway Development Limited as announced on 8 May 2002 and the consideration of HK\$300 million payable under the Sale and Purchase Agreement, the aggregate amount of HK\$495 million represents a discount of approximately 2.8% to the value of the Property which was of RMB540 million (equivalent to approximately HK\$509 million) as at 31 December 2003. We are of the view that the consideration for the Proposed Acquisition is fair to the Group as it represents a discount to the value of the Property as stated in the Valuation Report.

(ii) Funding for the Proposed Acquisition

The consideration under the Sale and Purchase Agreement is approximately HK\$300 million which will be satisfied by the proceed from the CN Issue.

Under the Convertible Notes, the Company shall pay Mr. Wong an interest of 2% per annum for each of the three anniversaries from its issuance. The Convertible Notes are subject to mandatory conversion and to the extent Mr. Wong has not converted the Convertible Notes, such outstanding Convertible Notes shall be converted into Shares on the third anniversary from the date of issue. The Directors have confirmed that the payments of the interest in respect of the Convertible Notes will be financed principally by the Group's internal resources and will not be dependent on any future cashflow generated from the sales of the Property.

Based on the above, given the Group's current internal resources, the Proposed Acquisition is not likely to have any immediate adverse impact on the financial position of the Group to the extent of affecting the Group's operation and the Group should have the ability to pay its liabilities under the Convertible Notes by its internal resources.

Notwithstanding the above, the Proposed Acquisition represents a significant commitment in the near future for the Group as the Property has been identified by the Group as its key investment in its business development. Given the funding requirements for the development of the Property as stated below, the Group's ability to venture into other businesses in the near term may be limited. The Group has therefore committed fully to the investment as it is convinced with the potential of the Property. Independent Shareholders should take into consideration that if the Proposed Acquisition were approved, the development of the Property would become one of the Group's main business development areas in addition to the Group's current businesses.

3. Funding for the future development and sales of the Property

As stated in the Letter, the estimated development cost for the Property is approximately RMB3,825 million (equivalent to approximately HK\$3,608 million) (based on the budget prepared by the PRC Company and construction cost data/index available from quantity surveyors), the estimated land premium is approximately RMB470 million (equivalent to approximately HK\$443.4 million) (based on “北京市基準地價(2002)” the Beijing Municipal Standard Land Price (2002)) which is published jointly by 北京市國土資源和房屋管理局出讓處 (Sale Office of Beijing Municipal Administration of State Land, Resources and Housing) and 北京房協房地產估價專業委員會 (Professional Commission for Real Estate Appraisal of Beijing Housing Association) and a relocation and compensation fee of RMB 250 million (equivalent to approximately HK\$235.8 million) (being the amount paid and/or payable by the PRC Company to Beijing Bus pursuant to the contract to acquire and develop the Property entered into between the PRC Company and Beijing Bus in 2002). Therefore, the total estimated development cost for the Property is approximately RMB4,545 million (equivalent to approximately HK\$4,287.7 million).

As stated in the Letter, as at the Latest Practicable Date, RMB83 million (equivalent to approximately HK\$78.3 million) of the purchase price of RMB250 million (equivalent to approximately HK\$235.8 million) has been paid to Beijing Bus and the balance of RMB167 million (equivalent to approximately HK\$157.5 million) in which RMB80 million (equivalent to approximately HK\$75.5 million) will be paid on or before September 2005 while the rest being RMB87 million (equivalent to approximately HK\$82.0 million) will be paid on or before September 2006. The PRC Company will repay RMB69.5 million (equivalent to approximately HK\$65.1 million) to Mr. Han and his associate within six months after completion of the Proposed Acquisition, as it is in excess of Mr. Han's attributable shareholding in the PRC Company. The Directors consider that the initial development cost of the Property, i.e. approximately RMB3,825 million (equivalent to approximately HK\$3,608 million) will also be funded by the PRC Company. The PRC Company has various alternatives other than the use of its own resources to settle the payment of RMB167 million (equivalent to approximately HK\$157.5 million) and the initial development cost. Any future funding requirements may be financed by bank borrowings or the proceeds to be generated from the pre-sale of the development.

The land premium (which can be settled by instalments) is payable when the Land Use Right Transfer Agreement (國有土地使用權出讓合同) in respect of the Property is

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signed between the PRC Company and the relevant PRC authority. According to the Directors, such agreement (which will record the amount of the land premium and formalise the payment schedule of the land premium) has not been and is not intended to be signed on or before completion of the Proposed Acquisition. The land premium of RMB470 million (equivalent to approximately HK\$443.4 million) will have to be settled in full before the PRC Company can obtain the land use right of the Property. The PRC Company will officially have the land use right of the Property upon the PRC Company entering into the Land Use Right Transfer Agreement with the relevant PRC authority and the full payment of (i) the land premium of RMB470 million (equivalent to approximately HK\$443.4 million) in accordance with the Land Use Right Transfer Agreement and (ii) the balance of the relation and compensation fee of RMB167 million (equivalent to approximately HK\$157.5 million).

Also, as stated in the Letter, since there is no specific terms relating to fund contribution (in respect of the land premium and all future development cost) by each party having been included in the respective agreements for the formation of the PRC JV and the PRC Company, the Company undertakes to use its best endeavours to procure the respective shareholders of the PRC JV and the PRC Company to enter into an agreement to formalise the funding contribution arrangement in the future in order to safeguard the interest of the Company if the Proposed Acquisition is lapsed. Following completion of the Proposed Acquisition, as the PRC Company will become a wholly-owned subsidiary of the Company, the PRC Company will be responsible solely for the funding in respect of the development of the Property. The Directors consider that there are various alternatives other than the use of its own resources by the PRC Company to settle the payment of (a) RMB 167 million as the balance of the relocation and compensation fee; (b) RMB69.5 million, being the amount in excess of Mr. Han's attributable shareholding in the PRC Company; (c) RMB470 million, the estimated land premium upon the entering of the Land Use Right Transfer Agreement; and (d) RMB3,825 million, the initial development cost. Besides, the above fees and expenses can be financed by the proceeds to be generated from the pre-sale of the development which the Directors consider it to be a common practice of property developers in Hong Kong and the PRC.

If the development and sales of the constructed Property are proved to be successful, the Group will likely achieve a good return on its investment. However, this will have to be weighed against the risks of the development and sales of the Property. With regard to the development of the Property, we are of the view that since the development of the Property has not completed and the payment method for the development costs is yet to be determined, it is impossible to assess with certainty the costs of such development and the market reaction towards the Property and therefore it is impossible to work out the repayment ability and the potential financial benefits to the Group. Independent Shareholders should note that the projections of Directors are based on a booming property markets in Beijing, in light of the PRC's accession to WTO, Beijing's successful bid for the 2008 Olympic and Shanghai hosting the 2010 World Exposition.

4. *Valuation of the Property*

As set out in Appendix IV to the Circular, the consideration of the Proposed Acquisition is determined based on arm's length negotiations between the parties to the Sale and Purchase Agreement, and with reference to the valuation of the open market value of the Property of approximately RMB540 million (equivalent to approximately HK\$509 million) as stated in the Valuation Report.

In assessing the fairness and reasonableness of the valuation, we have also reviewed the methodology, bases and assumptions underlying the Valuation Report.

(i) Methodology

It was stated in the Valuation Report that the Valuer used the "Direct Comparison Approach" to value the Property. The Valuer adopted the Direct Comparison Approach assuming such property interest is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence or offerings as available in the relevant market and by taking into account the development plan provided by the Company and making reference to the comparable site transactions and land prices as available in the market.

In addition, the Valuer also takes into consideration (i) the estimated development costs of RMB3,825 million (based on the budget prepared by the PRC Company and construction cost data/index available from quantity surveyors); (ii) the estimated land premium of RMB470 million (based on (Beijing Municipal Standard Land Price (2002)) which is published jointly by Sale Office of Beijing Municipal Administration of State Land, Resources and Housing and Professional Commission for Real Estate Appraisal of Beijing Housing Association; (iii) evidence on comparable site transactions as well as land premium assessments available; (iv) a relocation and compensation fee of RMB250 million that will be expended to complete the proposed development to reflect the development potential of the Property; and (v) the quality of the completed development.

We have discussed with the Valuer regarding the basis of the valuation and the underlying assumptions which included the following:

- (a) the owner of the Property has valid and enforceable title to the property interest which is freely transferable, and has free and uninterrupted right to use the same for the whole of the unexpired term granted subject to payment of annual land use fees and all requisite land premium/purchase consideration otherwise payable has been fully settled;
- (b) the property interest of the Property is sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, or any similar arrangement that would serve to affect its value;

- (c) no option or right of pre-emption concerning or affecting the sale of the property interest and no forced sale situation;
- (d) no allowance has been made for any charges, mortgages or amount owing on the Property nor for any expenses or taxation that may be incurred in effecting a sale; and
- (e) the Property is free from encumbrance, restrictions, and outgoings of an onerous nature that could affect its value.

According to the legal opinion prepared by Jingtian & Gongcheng, the PRC legal adviser of the Company, they do not foresee any legal impediment in obtaining approvals from the relevant government in respect of the development of the Property.

Having considered the above, we are of the view that the valuation performed by the Valuer is fair after due care and consideration.

5. *Business prospects and risks associated with the Property*

(i) Business prospects

In an attempt to ascertain the prospects of the Property, we have reviewed (a) the budget prepared by the PRC Company which illustrate the detailed information regarding the estimated construction cost and the sale proceeds from the development of the Property; (b) Beijing Municipal Standard Land Price (2002) which is published jointly by Sale Office of Beijing Municipal Administration of State Land, Resources and Housing and Professional Commission for Real Estate Appraisal of Beijing Housing Association); and (c) the Valuation Report.

We are of the view that the budget is reasonably prepared and if such budget materialise, the Proposed Acquisition will provide financial benefits to the Group.

(ii) Risks

As previously mentioned, we consider that there are uncertainties associated with the Proposed Acquisition notwithstanding the potential significant benefits and these uncertainties and risks include (a) there is no certainty as to the time required for the PRC Company to obtain the land use right of the Property; (b) there is no certainty as to the exact amount of land premium payable, the Group's ability to fund the payment of the land premium and other future development costs; (c) the commercial marketability of the constructed Property and the time as to when the Company can and will launch the constructed Property; and (d) the possible impact of investment loss to the Group in the event of failure to develop of the Property or an ill-investment decision which led to financial loss to the Group.

Accordingly, we would like to point out the potential risks and returns associated with the Proposed Acquisition. The Property may or may not perform as projected, which will significantly affect the Group's financial performance. The Proposed Acquisition will, therefore, result in a significant change in the risk profile of the Group's businesses, which may or may not accord with the risk/return preferences of individual shareholders.

6. *Financial effects of the Proposed Acquisition on the Group*

The following sets out the impact of the Proposed Acquisition on the financial position of the Group:

(i) Net asset value

A pro forma statement of the unaudited adjusted combined assets and liabilities of the Enlarged Group comprising the Group and the Bestly Group as set in Appendix III to the Circular was prepared using the net asset value of the Group as at 30 September 2003 and adjusted by the top-up placing of the Shares which was completed on 21 January 2004 and the valuation of the capital value of the property interest of the PRC Company in existing state. Based on the aforesaid, upon completion of the Proposed Acquisition, the pro forma unaudited net asset value of the Enlarged Group would be approximately HK\$620 million. We are of the view that since the net asset value of the Group would increase from approximately HK\$266 million as at 30 September 2003, the latest published financial statement, to approximately HK\$620 million upon the completion of the Acquisition, the Acquisition is beneficial to the Group and the Shareholders as a whole.

(ii) Profit and loss account

A negative goodwill of approximately HK\$9,411,000 will be generated from the Proposed Acquisition. According to the accounting policies of the Company, the negative goodwill will be amortised over its weighted average useful life of twenty years, resulting in sum of approximately HK\$470,550 which will appear as a profit of the Company in each of the next twenty financial year.

(iii) Gearing

The gearing ratio of the Group based on its indebtedness as at 30 September 2003 and on its shareholders equity as at 30 September 2003 is approximately 18.5%. Since, as the Convertible Notes are subject to mandatory conversion, Shinning Crown will convert all the Convertible Notes during the conversion period and, therefore, the HK\$300 million liabilities would be converted into share capital. The dilution effect on the shareholding rights of the Independent Shareholders upon the full conversion of the Convertible Notes by Shinning Crown would discuss in the paragraphs headed "Dilution on shareholding rights of the Independent Shareholders" and "Effect of the Convertible Notes" below. In such a case, the total liabilities of the Group would reduce back to HK\$49.1 million and the pro forma net asset value would increase to

HK\$566.0 million assuming full conversion of the Convertible Notes. The gearing ratio would then reduce substantially to 8.7%. We are of the view that since the gearing ratio of the Group would lower to the previous level upon the full conversion of the Convertible Notes by Shinning Crown prior to the third anniversary of the date of issue according to the terms of the Convertible Notes, the Group's gearing after the Proposed Acquisition is within an acceptable level.

(iv) Working Capital

According to the "Pro forma statement of unaudited adjusted combined assets and liabilities of the Enlarged Group" as set out in Appendix III to the Circular, the Group had a net current asset of approximately HK\$52 million as of 30 September 2003. On a pro forma basis, the Group's net current asset will decrease to approximately HK\$34 million upon the completion of the Proposed Acquisition. The change is due to the acquisition of the Property. We are of the view that the Enlarged Group should have sufficient working capital for its present requirement based on (a) the working capital forecast prepared by the Group; and (b) the future funding requirements for the development of the Property is financed by other methods of funding such as bank borrowing and pre-sale of development.

(v) Dilution on the shareholding rights of the Independent Shareholders

The dilution effect on the shareholding rights of the Independent Shareholders upon the full conversion of the Convertible Notes by Shinning Crown would discuss in the paragraph headed "Effect of the Convertible Notes" below. Although the shareholding rights of the Independent Shareholders will decrease to approximately 22.45% from approximately 42.23% as at Latest Practicable Date upon the full conversion of Convertible Notes (based on the convertible price of HK\$0.12), the net tangible assets per Share of the Group will increase about 3.02% from approximately HK\$0.1127 per share to approximately HK\$0.1161 per Share upon the full conversion of Convertible Notes. Based on the above, we are of the view that the dilution effect brought by the Proposed Acquisition to be acceptable as far as the Independent Shareholders are concerned.

RECOMMENDATION

In arriving at our conclusion that the terms of the Proposed Acquisition are in themselves fair and reasonable, we had considered the principal factors set out in detail above, the outline of which, together with our views thereon, is set out below:

- (i) the consideration payable for the Proposed Acquisition represents a discount of approximately 3.1% (when compared to the value of 60.8% equity interest of the Property of approximately RMB328 million according to the Valuation Report) or 2.8% (when taking into account the consideration of HK\$195 million paid by the Company for the acquisition of Artway Development Limited as announced on 8 May 2002), to the valuation of the capital value of the property interest of the PRC Company by the Valuer. Particular attention was paid to the

methodology, the bases and the assumptions used to arrive at the valuation, which are reasonable and sound;

- (ii) the PRC Company, supported by the experience of Mr. Wong has clear and firm intention to develop the Property and the implementation of such intention can result in gains to the Group;
- (iii) from the Group's perspective, the Proposed Acquisition is consistent with the Group's overall business strategy and the nature of the Group's existing operation;
- (iv) the fund raising method for the future development cost such as the bank borrowing, pre-sale of the development;
- (v) the Proposed Acquisition will not have any immediate negative impact on the financial position of the Group;
- (vi) the risk factors in the section under the heading "Business prospectus and risks associated with the Property"; and
- (vii) the Proposed Acquisition will result in the development of the Property becoming one of the Group's main business development areas.

The Independent Board Committee is advised to ask the Independent Shareholders to carefully consider each of the above. Having considered the factors above, and on the basis of our opinion that the terms of the Proposed Acquisition are fair and reasonable, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote for the resolution to be proposed at the Special General Meeting to approve the Proposed Acquisition.

B. The issue of the Convertible Notes and the Whitewash Waiver application

1. Use of proceeds from the Convertible Notes

The proceeds from the CN Issue are intended to be used primarily for funding the Proposed Acquisition, and the reasons for the entering into of the Sale and Purchase Agreement are detailed as described in the section headed "Proposed Acquisition" above. The Company entered into the Sale and Purchase Agreement with Mr. Han for the acquisition by the Company of the entire issued capital in Bestly for a consideration of HK\$300 million. Bestly owns 51% interest in the PRC JV and 20% in the PRC Company. In other words, the Proposed Acquisition will enable the Group to own the entire interest in the PRC JV and the PRC Company and to acquire the entire control of the Property, which is located at Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC, for future development.

Based on the above, we are of the view that while the Company has an apparent reason for the issue of the Convertible Notes, and since the Proposed Acquisition is in line with the objective of the Company, the CN Issue is in the interest of the Company and the Shareholders as a whole.

2. *Other funding methods*

The CN Issue is chosen as the method for funding the Proposed Acquisition. Comparing with other fund raising methods, such as open offers and rights issues or borrowing from commercial banks, the Directors believe that the CN Issue is the best alternative for the following reasons:

- (i) the average daily trading volume of the Shares for a one year period from 6 February 2003 to 5 February 2004 is 4,340,206 Shares with the exclusion of suspended days, representing approximately 0.15% of the entire issued share capital of the Company as at the Latest Practicable Date which comprised, 2,839,303,500 Shares, and approximately 0.36% of the public float shares (1,198,730,000 Shares). As the trading volume of Shares is very thin and the financial performance of the Group was unsatisfactory, the Directors believe that the Company would not be able to engage suitable securities firms as underwriters to fully underwrite an open offer or a rights issue without having a substantial discount on the offer price. However, the Directors believe that the issue of the Convertible Notes with a reasonable discount which would not have a significant dilution effect is in the interests of the Shareholders;
- (ii) the interest rate of a commercial bank loan is much higher than the interest rate of the Convertible Notes, accordingly the Directors favour the CN Issue in light of the savings in interest payments, and
- (iii) the conditions of the Sale and Purchase Agreement are to be fulfilled prior to 30 April 2004 and as there is a foreseeable need of funds for the Proposed Acquisition, and the completion of the Proposed Acquisition will be conditional upon the completion of the CN Issue, time constraint is an important factor. The CN Issue is relatively simple and fast when compared against an open offer or a right issue.

Having considered the thin trading volume of the Shares, the lower interest rate payable under the Convertible Notes as well as the time constraint, we concur with the view of the Directors that the CN Issue is the best fund-raising alternative available to the Company.

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3. *Principal terms of the Convertible Notes*

Amount:	HK\$300,000,000
Interest rate:	2% per annum payable semi-annually
Maturity:	3rd anniversary of the date of issue
Conversion price:	The lower of (i) HK\$0.12 per share or (ii) 90% of the average closing price of the 10 trading days prior to the exercise of the conversion rights. The conversion price is the same as the Placing. Based on the conversion price of HK\$0.12 per share, there will be 2,500,000,000 new shares to be issued, representing approximately 88.05% of the existing issued share capital and approximately 46.82% of the issued share capital as enlarged by the CN Issue.
Exercisable period:	(i) Any time throughout the 3-year period from the date of issue; and (ii) compulsory conversion of the entire outstanding Convertible Notes by the third anniversary of the date of issue.
Redemption:	Compulsory conversion and no cash redemption

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4. Comparison between the terms of the Convertible Notes and the terms of the recent convertible notes/bonds issued by other main board-listed companies of the Stock Exchange

- (i) Comparison on the conversion price of the Convertible Notes to conversion prices of recently issued convertible notes/bonds in the market

As published by the Stock Exchange on its website, we have identified five companies the shares of which are listed on the main board of the Stock Exchange, which have issued convertible bonds/notes during the one-month period up to and including 5 February 2004. We have reviewed the fixed conversion prices of the convertible notes issued by these companies for the purpose of comparing the discounts of the conversion price that are offered by the Company to those offered by other listed companies (the “Comparables”).

Company (Note 1)	Principal amount (HK\$ million)	Conversion price (HK\$)	Closing price on the last trading day (Note 2) (HK\$)	Premiums (+)/ Discounts (-) of the conversion price to the closing price on the last trading day (Note 2)
Henderson Land Development Co., Ltd. (0012)	5,000,000,000	48.96	40.80	+20.00%
Eganagoldpfeil (Holdings) Ltd (0048)	117,000,000	2.0604	1.85	+11.37%
Sen Hong Resources Holdings Ltd (0076)	72,000,000	1.00	1.21	-17.36%
Softbank Investment Int'l Ltd (0648)	48,000,000	0.10	0.077	+29.87%
Vanda Systems & Comm. Holdings Ltd (0757)	3,200,000,000	0.96	1.10	-12.72%
The Company	300,000,000	0.12 *	0.15	-20.00%
Maximum discount				-17.36%
Maximum premium				+29.87%

* Conversion price of the Company is the lower of (i) HK\$0.12 per Share or (ii) 90% of the average closing price of the 10 trading days prior to the exercise of the conversion rights

Note 1: Henderson Land Development Co. Ltd. is principal engaged in the business of properties development.

Eganagoldpfeil (Holdings) Ltd is principal engaged in the business of design, manufacturing and trading of household goods.

Sen Hong Resources Holdings Ltd is principal engaged in the business of Oil refining.

Softbank Investment Int'l Ltd is principal engaged in the business of providing financial service.

Vanda Systems & Comm. Holdings Ltd is principal engaged in the business of providing software application.

Note 2: Refer to the closing price on the last trade day immediately preceding the day on which trading in the Shares was suspended

As stated in the paragraph headed “Principal terms of the Convertible Notes” the conversion price of the Company is the lower of (a) HK\$0.12 per Share or (b) 90% of the average closing price of the 10 trading days prior to the exercise of the conversion rights. In case (a), as indicated on the above table, the 20% discount of conversion price offered by the Company to the closing price on the last trading day is slightly below the low-end of the range of discounts offered by the Comparables with respect to their convertible notes that were issued in the one-month period up to and including 5 February 2004 which ranged from a discount of approximately 17.36% to a premium of approximately 29.87% in which 3 out of 5 Comparables have premiums on their respective conversion price to their respective convertible note. In case (b), since the closing prices of the Shares prior to the exercise of the conversion rights of the Convertible Notes are unknown, we therefore could not assess the 10% discount on the average closing price of the 10 trading days prior to the exercise of the conversion rights is favourable or not.

According to the Directors, the floating mechanism for the determination of the conversion price of the Convertible Notes is determined after negotiation with Shinning Crown. The Directors consider that the floating mechanism for the determination of the conversion price of the Convertible Notes is fair and reasonable based on (a) having considered the thin trading volume of the Shares and the lower interest rate payable under the Convertible Notes as well as the time constraint, which is discussed in the paragraph headed “Other funding method” above; (b) the conversion price represent 11.11% premium to the net tangible asset per Share even if it is at par value, i.e HK\$0.10; and (c) the dilution effect of the Convertible Notes would only decrease the public float from approximately 22.45% (based on HK\$0.12 conversion price) to 20.53% even if the conversion price is at par value. Based on the above, we concur with the view of the Directors that floating mechanism for the determination of the conversion price of the Convertible Notes is fair and reasonable. But the Independent Shareholders shall note that the conversion price of the Convertible Notes could lower than HK\$0.10 if the Company adjust its par value in the future and it may have large dilution effect, since it is impossible to forecast the Company’s par value in the future, it is impossible to assess the respective effect to the Company.

- (ii) Comparison on the interest, the maturity date and the redemption method of Convertible Notes to those of recently issued convertible notes/bonds in the market

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We have reviewed the interest payable, the maturity date and redemption method of each of the convertible notes issued by the Comparables for the purpose of assessing the fairness and reasonableness of the interest payable under, whether the CN Issue is compulsory or not and maturity date of the CN Issue that were offered by the Company to those offered by Comparables.

	Interest rate (per annum)	Maturity date	Redemption
Henderson Land Development Co., Ltd. (0012)	1%	2 years	Not compulsory
Eganagoldpfeil (Holdings) Ltd (0048)	1%	2 years	Not compulsory
Sen Hong Resources Holdings Ltd (0076)	5%	3 years	Not compulsory
Softbank Investment Int'l Ltd (0648)	5%	2 years	Not compulsory
Vanda Systems & Comm. Holdings Ltd (0757)	1%	5 years	Not compulsory
 The Company	 2%	 3 years	 Compulsory
Minimum	1%	2 years	
Maximum	5%	5 years	
 Mean	 2.6%		

Sources: Stock Exchange

As indicated on the above table, the interest rate of 2% offered by the Company is less than the mean interest rates of 2.6% and within the range offered from 1% to 5% offered by the Comparables. In addition, the maturity date offered by the Company is within the range that offered by the Comparables. Furthermore, the entire outstanding Convertible Notes issued by the Company must be compulsory conversion by the third anniversary of the date of issue, it is foreseen that there will be no financial burden on the Company after the maturity date, which is favourable to the Company and the Shareholders as a whole.

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- (iii) Comparison on the conversion price of the Convertible Notes to the market price and analysis of trading volume of the Shares

Performance of market price

Pursuant to the terms contained in the CN Subscription Agreement, the Convertible Notes shall be compulsory converted at the conversion price of HK\$0.12 per Share by the third anniversary of the date of issue. The table below states the closing price as at 5 February 2004, the average closing prices of the Shares as quoted on the Stock Exchange, and the discounts on the conversion price of the Convertible Notes to the prices respectively.

Date/Corresponding Period	Closing price/ average closing price for the period (HK\$)	Approximately discounts on the conversion price to the closing price/average closing price
As at 5 February 2004	0.150	20.00%
10 trading-day period up to and including 5 February 2004	0.173	44.17%
20 trading-day period up to and including 5 February 2004	0.160	33.33%

Sources: Stock Exchange

As shown in the table above, the discount of the conversion price to the closing price/average closing prices for the stated different periods ranged from approximately 20.00% to approximately 44.17%.

The following chart demonstrates the movement trend of daily closing prices of the Shares for a period of one year from 6 February 2003 to 5 February 2004. During the period, there was a downward trend in the price of the Shares from the highest closing price of HK\$0.47 on 14 February 2003 to HK\$0.18 on 19 May 2003, thereafter, the closing price fluctuated within a range between HK\$0.20 and HK\$0.15.

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During the same period, the highest closing price of Shares was on 14 February 2003 when it closed HK\$0.47 per Share and while the lowest closing price of the Shares was HK\$0.12 per Share on 18 December 2003. The conversion price represents a discount of approximately 72.34% to the highest closing price and is the same as the lowest closing price of the Shares during that period.



Sources: Stock Exchange, Yahoo

Given the fact that the Shares have been traded at a market price which is the same as the conversion price, we consider the recent discount of the conversion price to be fair and reasonable to the Shareholders.

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Trading volume

The following table shows the average daily trading volume of the Shares for a 12-months period from 6 February 2003 up to and including 5 February 2004, and the average daily trading volume of the Shares to the total number of Shares issued by the Company.

Month	Total trading volume for the month (‘000 shares)	Number of trading days in the month	Average daily trading volume for the month (‘000 shares)	Percentage of average daily trading volume for the month to total number of issued Shares (Note 3)
2003				
February (Note 1)	35,600	17	2,094.12	0.074%
March	50,142	21	2,387.71	0.084%
April	57,624	20	2,881.20	0.101%
May	22,416	20	1,120.80	0.039%
June	10,600	19	557.89	0.020%
July	2,926	22	133.00	0.005%
August	1,488	21	70.86	0.002%
September	3,260	21	155.24	0.005%
October	7,982	22	362.82	0.013%
November	38,782	20	1,939.10	0.068%
December	3,420	21	162.86	0.006%
2004				
January	475,152	17	27,950.12	0.984%
February (Note 2)	1,132	4	283.00	0.010%

Sources: Stock Exchange

Note 1: Since 6 February 2003

Note 2: Up to and including 5 February 2004

Note 3: Based on 2,839,303,500 Shares in issue as at the Latest Practicable Date

According to the table above, the trading of the Shares remained relatively low and less than 1% of the issued Shares held in public hands were traded in the each of the 12 months from 6 February 2003 up to and including 5 February 2004. There was relatively high trading volume in January 2004 which was due to the placing of 473,000,000 existing Shares and the subscription of 473,000,000 new Shares pursuant to a top-up placing which took place in January 2004. Otherwise, the trading volume of the Shares had been very thin and with very low liquidity.

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- (iv) Comparison of the conversion price of the Convertible Notes to the net tangible assets value of the Group

According to the Interim Report, the unaudited consolidated net tangible assets value (“NTA”) of the Group as at 30 September 2003 was approximately HK\$264,764,000, equivalent to approximately HK\$0.09 per Share, based on 2,839,303,500 Shares in issue as at the Latest Practicable Date. Accordingly, the conversion price of HK\$0.12 per Share represented a premium of approximately 33.33% to the unaudited consolidated NTA per Shares of the Group as at 30 September 2003. Given that the conversion price is subject to adjustment and may be as low as HK\$0.10 per Share (i.e. equivalent to the existing par value of the Share, as no Share may be issued below its par value), in this circumstance, the conversion price would represented a premium of approximately 11.11% to the unaudited consolidated NTA per Share of the Group as at September 2003.

- (v) Comparison of the conversion price of the Convertible Notes to previously issued convertible notes of the Company

Based on the circular of the Company dated on 8 May 2002, the Company issued two series of convertible notes on 22 April 2002 and 10 July 2002 respectively in aggregate principle amount of HK\$75,000,000 and with a conversion price of HK\$0.12 per Share as part of the consideration for the acquisition of the 39.2% indirect interest in the PRC Company. The conversion price of the Convertible Notes is equivalent to the conversion price of the previously issued convertible notes, which represented a deeper discount of approximately 70.0% to the closing price of HK\$0.40 per Share quoted on The Hong Kong Stock Exchange dated on 10 April 2002 and a discount of approximately 68.3% to the average closing price of approximately HK\$0.378 per Share for the ten trading days up to and including 10 April 2002.

- (vi) Conclusion

In light of the above, even though the discount of conversion price at HK\$0.12 is slightly below the low-end of the range of discount offered by Comparables with respect to their convertible notes that were issued in the one-month period up to and including 5 February 2004 which ranged from a discount of approximately 17.36% to a premium of approximately 29.87% in which 3 out of 5 Comparables have premiums on their respective conversion price to their respective convertible note as discussed in (i) above, the interest payable as well as the maturity date under the Convertible Notes are within the range offered by the Comparables as discussed in (i) and (ii) above. In addition, as indicated in (ii), all Convertible Notes issued by the Company should be converted into the Shares by the third anniversary of the date of issue, it is foreseen that there will be no financial burden on the Company after the maturity date, which is favourable to the Company. Furthermore, based on the significant premium to the unaudited consolidated net tangible assets value per Share of the Group as at 30 September 2003, and the relatively lower discount offered by the Company when compared against the previous convertible notes issued by the Company as discussed in (iv) and (v) above, we are of the view that the conversion price of the Convertible Notes is fair and reasonable.

5. *Effect of the Convertible Notes*

(i) Effect on net tangible assets value

According to the paragraph headed “Pro forma statement of unaudited adjusted consolidated net tangible assets of the Enlarged Group” as stated in Appendix III of the Circular, the net tangible assets per Share of the Group will increase about 3.02% from approximately HK\$0.1127 per Share to approximately HK\$0.1161 per Share if the Convertible Notes are fully converted at the conversion price. We are of the view that it is favourable to the Company and its Shareholders as a whole.

(ii) Effect on liquidity and gearing

Based on the unaudited consolidated balance sheet in the Interim Report, the net asset value of the Group was approximately HK\$266.0 million and the total liabilities of the Group were approximately HK\$49.1 million. The gearing ratio was approximately 18.5%. After the issuance of the Convertible Notes, the pro forma total liabilities of the Group would increase to approximately HK\$349.1 million. Since the Convertible Notes are subject to mandatory conversion, the HK\$300 million liabilities would, by the maturity date of the Convertible Notes, be converted into share capital. As a result, the total liabilities of the Group would reduce back to HK\$49.1 million and the pro forma net asset value would increase to HK\$566.0 million. The gearing ratio would then reduce substantially to approximately 8.7%.

Since the fund raised by the issue of the Convertible Notes will be used to settle the consideration of the Proposed Acquisition, the net effect on the liquidity and working capital of the Company would be zero.

(iii) Effect on Earnings/(Losses)

The proceeds from the issue of the Convertible Notes are intended to be used to fund the Proposed Acquisition. Since, we are not able to predict the expected return on the Proposed Acquisition, we could only focus on the analysis of the dilution effect upon full conversion of the Convertible Notes on the earning/(loss) per Share.

As disclosed in the Annual Report, the loss per Share for the year ended 31 March 2003 was HK\$0.80 cents based on the consolidated losses attributable to the Shareholders of HK\$12,409,788 and the weighted average number of 1,618,303,500 Shares in issue during the year. Upon full conversion of the Convertible Notes at the conversion price of HK\$0.12 per Share, the pro forma diluted loss per Share will be approximately HK\$0.23 cents based on the consolidated losses attributable to the Shareholders of HK\$12,409,788 for the year ended 31 March 2003 and the total issued Shares of 5,339,303,500 Shares as enlarged by the issue of the new Shares upon full conversion of the Convertible Notes, representing a dilution of about 71.25%.

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(iv) Dilution on the shareholding rights of the Independent Shareholders

As at the Latest Practicable Date, the subscriber of the Convertible Notes, Shinning Crown, is beneficially interested in 1,170,000,000 Shares, representing approximately 41.21% of the entire issued share capital of the Company.

Upon full conversion of the Convertible Notes by Shinning Crown at the conversion price of HK\$0.12 per Share, 2,500,000,000 new Shares will be issued to Shinning Crown by the Company, representing approximately 88.05% of the existing issued share capital of the Company and approximately 46.82% of the enlarged issued share capital of the Company based on 2,839,303,500 Shares currently in issue as at the Latest Practicable Date. Given that the conversion price of the Convertible Notes is subject to adjustment and may be as low as HK\$0.10 per Share (i.e. equivalent to the existing par value of the Shares, as no Shares may be issued below its par value), the hypothetical effect to the shareholding following full conversion by Shinning Crown of the Convertible Notes into new Shares at the conversion price of HK\$0.10 per Share will be issuing 3,000,000,000 new Shares to Shinning Crown by the Company, representing approximately 105.66% of the existing issued share capital of the Company and approximately 51.38% of the enlarged issued share capital of the Company based on 2,839,303,500 Shares currently in issue as at the Latest Practicable Date.

The dilution effect on the shareholding of the Shareholders is shown as below:

	Shareholding as at the Latest Practicable Date	Shareholding upon full conversion of the Convertible Notes at HK\$0.12	Shareholding upon full conversion of the Convertible Notes at HK\$0.10
	%	%	%
Shinning Crown	41.20	68.74	71.41
Mr. Wong	1.27	0.67	0.62
Mr. Han	15.30	8.14	7.44
Independent Shareholders	42.23	22.45	20.53
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

As shown in the above table, the shareholding interests of the Independent Shareholders will be reduced from approximately 42.23% to approximately 22.45% upon full conversion of the Convertible Notes at the conversion price of HK\$0.12 per Share representing a dilution of approximately 46.8%. In the event the number of Shares held in public hands fall below 25% of the entire issued share capital of the Company upon conversion of the Conversion Notes and the allotment and issue of Conversion Shares, the Directors will use their best endeavours to ensure the number of Shares in the public hands shall satisfy the minimum requirement of Rule 8.08 of the Listing Rules in order to maintain the required public float.

Independent Shareholders should note that if the public float cannot be maintained in accordance with Rule 8.08 of the Listing Rules immediately after full conversion of the Convertible Notes, trading of the Shares may be suspended for such period until the public float is restored. Even if trading in the Shares is allowed, Independent Shareholders should note that The Stock Exchange reserves its right to suspend trading of the Shares if there is any unusual price movements in the Shares.

6. *Whitewash Waiver*

The Company would issue the Convertible Notes in dollar value of HK\$300 million to Shinning Crown the proceeds of which is to finance the Proposed Acquisition.

The Directors informed us that due to the illiquid state of the Shares and the unimpressive financial performance of the Company, they believe that other alternative fund raising methods would not be in the interest of the Shareholders. Please refer to the paragraph headed “Other funding methods” above for detailed information. Given the foreseeable need of funds for the Proposed Acquisition, the Directors considered issuing the Convertible Notes to Shinning Crown is fair and reasonable. If Shinning Crown and parties acting in concert with it increase their shareholdings by 2% or more as a result of the conversion of the Convertible Notes, Shinning Crown would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code. As Shinning Crown does not intend to make such a general offer, the Directors have been informed by Shinning Crown that an application has been made by Shinning Crown to the Executive for the Whitewash Waiver. The Executive has agreed to grant the Whitewash Waiver, subject to a vote by way of poll, by the Independent Shareholders at the Special General Meeting. If the Whitewash Waiver is not obtained, the CN Issue and the Proposed Acquisition will not proceed.

If upon completion of the Proposed Acquisition, Shinning Crown and parties acting in concert with it hold more than 50% of the enlarged issued share capital of the Company, Shinning Crown and parties acting in concert with it will be allowed to increase their shareholdings in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

In this regard, if the Whitewash Waiver is not approved by the Independent Shareholders, the parties to the CN Subscription Agreement will not be able to proceed as certain conditions to the CN Subscription Agreement are not fulfilled. Accordingly, parties to the Proposed Acquisition will not proceed with the Sale and Purchase Agreement as certain conditions to the Sale and Purchase Agreement are not fulfilled and we consider this may have a negative impact on the Group’s profitability.

When considering the effects of the Whitewash Waiver, we noted that by approving the Whitewash Waiver, Independent Shareholders will allow Shinning Crown, its associates and parties acting in concert with it to possibly increase their shareholdings in the Company by 2% without the obligation to make a general offer. Independent Shareholders should further note that if, upon completion of the CN Issue, Shinning Crown and parties acting in

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concert with it were to have an aggregate shareholding in the Company of more than 50%, Shinning Crown and parties acting in concert with it would be able to increase their shareholding in the Company without incurring any further obligation to make a general offer under Rule 26 of the Takeovers Code. Nevertheless, we consider that such a possibility arises by virtue of Shinning Crown's intention to facilitate the Proposed Acquisition and its continued support for the Group.

RECOMMENDATIONS ON THE CN ISSUE AND THE WHITEWASH WAIVER

Having considered the above principal factors concerning the CN Issue, we are of the view that the terms of the CN Issue are fair and reasonable so far as the Independent Shareholders are concerned and would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the CN Issue to be proposed at the Special General Meeting.

The Proposed Acquisition is conditional upon the approval of the CN Issue and the CN Issue is conditional upon the approval of the Whitewash Waiver. If the Whitewash Waiver is not approved, the CN Issue, together with the Proposed Acquisition, will not proceed. Having taken into account our recommendation on the CN Issue above, we consider it to be fair and reasonable for the Independent Shareholders to approve the Whitewash Waiver. Accordingly, we would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Whitewash Waiver to be proposed at the Special General Meeting.

Yours faithfully,

For and on behalf of

Altus Capital Limited

Arnold Ip

Executive Director

Kevin Chan

Executive Director

For and on behalf of

KGI Capital Asia Limited

William Fang

Managing Director

Kim Chan

Director

1. SUMMARY OF AUDITED FINANCIAL STATEMENTS OF THE GROUP

Terms defined herein apply to this section only.

The following is a summary of the results of the Company and its subsidiaries for the three years ended 31 March 2003, the audited consolidated income statement of the Group for the year ended 31 March 2003, the audited consolidated balance sheet of the Group and the audited balance sheet of the Company as at 31 March 2003, the audited consolidated statement of changes in equity and the audited consolidated cash flow statement of the Group for the year ended 31 March 2003, together with the accompanying notes extracted from the annual report of the Company for the year ended 31 March 2003.

a) Summary of results of the Group for the three years ended 31 March 2003

THREE YEAR FINANCIAL SUMMARY

	For the year ended 31 March		
	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000
Turnover	4,124	4,073	13,067
Loss before taxation	(12,410)	(7,159)	(14,205)
Taxation	-	-	-
Loss attributable to the shareholders	(12,410)	(7,159)	(14,205)
Loss per Share (cents)	(0.8)	(2.8)	(5.6)
Dividend	Nil	Nil	Nil
Total assets (as at 31 March)	263,351	199,594	55,828
Total liabilities (as at 31 March)	(77,441)	(1,274)	(5,745)
Net assets (as at 31 March)	185,910	198,320	50,083

For the three years ended 31 March 2003, no exceptional items or extraordinary items or minority interests has been recorded.

b) Audited financial statements of the Group for the year ended 31 March 2003

CONSOLIDATED INCOME STATEMENT*For the year ended 31 March 2003*

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	2	4,124	4,073
Other revenue	2	8,129	4,024
		12,253	8,097
Cost of sales		(5,795)	(1,734)
Selling & distribution costs		(58)	(1,205)
Administrative expenses		(16,720)	(9,785)
Other operating expenses		(815)	(1,824)
Loss from operations		(11,135)	(6,451)
Loss on disposal and dissolution of subsidiaries	25	–	(612)
Finance cost		(1,251)	(96)
Share of loss of an associate		(24)	–
Net loss before taxation	3	(12,410)	(7,159)
Taxation	5	–	–
Net loss attributable to Shareholders	7	(12,410)	(7,159)
Loss per Share	8	0.8 cents	2.8 cents

CONSOLIDATED BALANCE SHEET

As at 31 March 2003

			2003	2002
	Note	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS				
– FIXED ASSETS	9		10,525	38,571
– INTEREST IN ASSOCIATES	10		7,235	–
– GOODWILL ON CONSOLIDATION	11		195,011	–
CURRENT ASSETS	13	50,580		161,023
CURRENT LIABILITIES	14	(77,441)		(1,274)
NET CURRENT (LIABILITIES)/ASSETS			(26,861)	159,749
NET ASSETS			185,910	198,320
CAPITAL AND RESERVES				
SHARE CAPITAL				
15				
Authorised			2,000,000	500,000
Issued & fully paid			161,830	161,830
SHARE PREMIUM	16		40,734	40,734
RESERVE ON CONSOLIDATION			620	620
ACCUMULATED LOSS	19		(17,274)	(4,864)
			185,910	198,320

BALANCE SHEET

As at 31 March 2003

		2003	2002
	Note	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
– INTEREST IN SUBSIDIARIES	12	243,806	58,085
CURRENT ASSETS	13	17,801	139,433
CURRENT LIABILITIES	14	(75,716)	(56)
NET CURRENT (LIABILITIES)/ ASSETS		(57,915)	139,377
NET ASSETS		185,891	197,462
CAPITAL AND RESERVES			
SHARE CAPITAL	15		
Authorised		2,000,000	500,000
Issued & fully paid		161,830	161,830
SHARE PREMIUM	16	40,734	40,734
CONTRIBUTED SURPLUS	18	40,423	40,423
ACCUMULATED LOSS	19	(57,096)	(45,525)
		185,891	197,462

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2003

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	(Accumulated loss)/ retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	18,800	27,349	620	1,019	2,295	50,083
Loss on revaluation of land and buildings	–	–	–	(1,019)	–	(1,019)
Issue of ordinary shares	143,030	–	–	–	–	143,030
Premium on issue of ordinary shares	–	13,385	–	–	–	13,385
Net loss for the year	–	–	–	–	(7,159)	(7,159)
At 31 March 2002 & 1 April 2002	161,830	40,734	620	–	(4,864)	198,320
Net loss for the year	–	–	–	–	(12,410)	(12,410)
At 31 March 2003	161,830	40,734	620	–	(17,274)	185,910

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 March 2003*

	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Net cash (used in)/from operating activities	22(a)	(16,731)	7,158
Cash flows from investing activities			
Acquisition of a subsidiary	22(b)	(119,998)	(12,000)
Purchases of fixed assets		(393)	(426)
Disposals of fixed assets		27,046	6,888
Disposal of subsidiaries		—	4,630
Net cash used in investing activities		(93,345)	(908)
Cash flow from financing activities			
Bank loans, secured		—	(2,596)
Increase in other receivable		(19,979)	—
Issue of ordinary share capital		—	142,735
Net cash (used in)/from financing activities		(19,979)	140,139
Net (decrease)/increase in cash and cash equivalents		(130,055)	146,389
Cash and cash equivalents at the beginning of year		149,957	3,568
Cash and cash equivalents at the end of year		19,902	149,957
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		3,902	14,933
Time deposit, unpledged		16,000	135,024
		19,902	149,957

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

1) PRINCIPAL ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Company is set out below.

b) Basis of preparation of the financial statements and consolidation

The measurement basis used in the preparation of the financial statements is historical cost as modified by the revaluation of certain properties and investment in securities.

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 March 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal respectively. All significant intercompany transactions and balances within the group are eliminated on consolidation.

In the current year, the Group has adopted the following Statement of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

These new or revised SSAPs do not have material impact to the accounting policies and financial results of the Group except that certain comparative figures have been reclassified to conform with the new disclosure requirements.

c) Goodwill

Positive goodwill arising on consolidation represents a payment made by the acquirer in anticipation of future economic benefits.

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

- for acquisitions before 1 April 2001, positive goodwill is eliminated against reserve and is reduced by impairment loss; and
- for acquisitions on or after 1 April 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than twenty years. No amortization is required until the relevant asset is available for use. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Negative goodwill arising on acquisitions of subsidiaries represents the excess of the Group’s share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. For acquisitions before 1 April 2001, negative goodwill is credited to reserve.

d) **Subsidiary companies**

Subsidiary companies are those in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company’s balance sheet are stated at cost less any impairment loss.

e) **Associated companies**

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group’s share of the results of associated companies, and the consolidated balance sheet includes the Group’s share of net assets of the associated companies less any impairment loss.

f) **Fixed assets and depreciation**

All fixed assets are stated at cost or valuation less accumulated depreciation or amortization and any impairment losses. Depreciation is calculated to write off the cost or valuation of fixed assets at an annual rate on a straight line basis over their estimated useful lives as follows:–

Land held on short and medium-term leases	:	Over the remaining leases terms
Buildings and improvements	:	Over the remaining leases terms or expected useful lives to the Group whichever is shorter
Office equipment, furniture & fixtures and motor vehicles	:	7% to 20%
Computer equipment	:	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalized and depreciated over the estimated useful lives to the Group.

The gain or loss on disposal of fixed assets other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

g) **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

h) Investment securities

Investment securities which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

i) Other investments in securities

Other investments in securities are stated at fair value in the balance sheet. Realized and unrealized holding gains and losses for other investments in securities are included in net profit or loss for the year.

j) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

k) Operating leases

Rental income and expenses applicable to operating leases, under which substantially all the rewards and risks of ownership of assets remain with the lessor are credited or charged to the income statement on a straight line basis over the term of the respective leases.

l) Translations of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

m) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt.

n) Borrowing costs

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

o) 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. Related parties may be individuals or corporate entities.

p) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. For the purposes of the consolidated cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

q) Employee benefits

The Group contributes to defined contribution retirement benefit schemes which are available to employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to these schemes are expensed as incurred.

r) Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:–

- (a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably;
- (c) interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) dividends, when the right to receive payments is established; and
- (e) rental income, on a straight-line basis over the lease terms.

2) **TURNOVER AND OTHER REVENUE**

The Company is principally engaged in investment holding. Principal activities of subsidiaries are set out in note 12.

An analysis of turnover and other revenue is as follows:–

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
General trading	2,631	–
Sale of computer-aided-design systems and machinery	450	2,238
Rental income	1,043	1,835
	<u>4,124</u>	<u>4,073</u>
Other revenue		
Exchange gain	5	–
Gain on disposal of other investments in securities	–	2,864
Gain on disposal of fixed assets	–	40
Unrealised gain on revaluation of other investments in securities at fair value	–	800
Bank interest income	166	132
Other interest income	593	–
Other income	94	188
Waive of loan from a former director	7,271	–
	<u>8,129</u>	<u>4,024</u>

3) NET LOSS BEFORE TAXATION

Net loss before taxation is arrived at after charging and crediting the following:–

	2003 HK\$'000	2002 <i>HK\$'000</i>
Charging:–		
Audit fee		
– audit services	200	200
– other services	228	–
Depreciation	815	1,189
Amortization of deferred development cost	–	926
Loss on disposal of fixed assets	578	173
Loss on disposal of other investments in securities	183	–
Bad debts written off	–	1,120
Operating lease rental for land & buildings	1,961	833
Borrowing costs recognized as expenses	2	96
Interest on convertible notes	1,249	–
Staff costs including directors' emoluments		
– salaries and other benefits	7,490	1,911
– pension contributions	130	36
	7,620	1,947
Cost of inventories	5,795	1,734
Exchange loss	1	92
Loss on disposal and dissolution of subsidiaries	–	612
Crediting:–		
Exchange gain	5	–
Bank interest income	166	132
Other interest income	593	–
Rental income	1,043	1,835
Unrealised gain on revaluation of other investments in securities at fair value	–	800
Other income	94	188
Gain on disposal of other investments in securities	–	2,864
Gain on disposal of fixed assets	–	40
Waiver of loan from a former director	7,271	–

4) SEGMENT INFORMATION

The Group is principally engaged in property development, property investment, general trading, sale of computer-aided-designed systems and machinery. In accordance with the Group's internal financial reporting and operating activities, the primary reporting is by business segments and the secondary reporting is by geographical segments.

Business segments

A summary of business segments is set out as follows:–

For the year ended 31 March 2003

	General trading <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Sale of computer- aided-design- systems and machinery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
Sales to external customers	<u>2,631</u>	<u>1,043</u>	<u>450</u>	<u>4,124</u>
Results				
Segment result	<u>179</u>	<u>622</u>	<u>(2,340)</u>	(1,539)
Unallocated expenses				<u>(9,596)</u>
Loss from operations				(11,135)
Share of loss of an associate				(24)
Finance costs				<u>(1,251)</u>
Net loss attributable to shareholders				<u>(12,410)</u>
ASSETS				
Segment assets	50	4,697	2,683	7,430
Unallocated assets				<u>255,921</u>
Total assets				<u>263,351</u>
LIABILITIES				
Segment liabilities	186	16	33	235
Unallocated liabilities				<u>77,206</u>
Total liabilities				<u>77,441</u>
OTHER INFORMATION				
Depreciation	–	143	–	143
Unallocated depreciation	–	–	–	672
Unallocated capital expenditure	–	–	–	393

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

For the year ended 31 March 2002

	Property investment <i>HK\$'000</i>	Sale of computer- aided-design- systems and machinery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover			
Sales to external customers	<u>1,835</u>	<u>2,238</u>	<u>4,073</u>
Results			
Segment result	<u>1,293</u>	<u>(1,843)</u>	(550)
Unallocated expenses			<u>(5,901)</u>
Loss from operations			(6,451)
Loss on disposal and dissolution of subsidiaries			(612)
Finance costs			<u>(96)</u>
Net loss attributable to shareholders			<u>(7,159)</u>
ASSETS			
Segment assets	31,344	7,912	39,256
Unallocated assets			<u>160,338</u>
Total assets			<u>199,594</u>
LIABILITIES			
Segment liabilities	356	114	470
Unallocated liabilities			<u>804</u>
Total liabilities			<u>1,274</u>
OTHER INFORMATION			
Depreciation	84	—	84
Unallocated depreciation	—	—	1,106
Unallocated amortization	—	—	926
Unallocated impairment and revaluation	—	—	2,900
Capital expenditure	25,682	—	25,682
Unallocated capital expenditure	—	—	426

Geographical segments

An analysis of the Group’s revenue, certain asset and expenditure for geographical location is presented below:–

	Hong Kong		The PRC		Other Far East Asia countries		North America		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover										
Sales to external customers	<u>518</u>	<u>332</u>	<u>3,606</u>	<u>1,765</u>	<u>–</u>	<u>1,974</u>	<u>–</u>	<u>2</u>	<u>4,124</u>	<u>4,073</u>
Segment assets	<u>54,747</u>	<u>165,599</u>	<u>208,604</u>	<u>33,995</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>263,351</u>	<u>199,594</u>
Capital expenditure				25,682					–	25,682
Unallocated capital expenditure									<u>393</u>	<u>426</u>
									<u>393</u>	<u>26,108</u>

5) TAXATION

No Hong Kong profits tax has been provided for in the financial statements as companies within the Group derived no assessable profits during the year. (2002 – Nil)

Deferred tax has not been provided for in the financial statements as there are deferred tax net debit balance. At the balance sheet date, potential assets unprovided in respect of deferred tax are as follows:–

	2003 HK\$'000	2002 HK\$'000
Depreciation charges in excess of depreciation allowances	203	192
Accumulate tax loss	<u>5,823</u>	<u>3,808</u>
Net debit balance	<u>6,026</u>	<u>4,000</u>

6) DIRECTORS’ AND FIVE HIGHEST PAID INDIVIDUALS’ EMOLUMENTS

(a) Directors’ emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows:–

	2003 HK\$'000	2002 HK\$'000
Fees	90	–
Other emoluments	<u>3,566</u>	<u>1,538</u>
	<u>3,656</u>	<u>1,538</u>

(b) The remuneration of the directors is within the following bands:–

	Number of directors	
	2003	2002
	HK\$'000	HK\$'000
HK\$		
Nil – 1,000,000	3	7
2,500,001 – 3,000,000	<u>1</u>	<u>0</u>

(c) Amongst the five highest paid individuals in the Group, three (2002: Four) are directors of the Company whose emoluments are disclosed in note 6(a). The aggregate amounts of emoluments of the remaining two (2002: One) individuals are as follows:–

	2003	2002
	HK\$'000	HK\$'000
Emoluments	<u>1,534</u>	<u>294</u>

7) NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of HK\$11,570,952 (2002: HK\$8,986,461) which have been dealt with in the financial statements of the Company.

8) LOSS PER SHARE

The calculation of loss per share is based on the consolidated losses attributable to the shareholders of HK\$12,409,788 (2002: HK\$7,159,335) and the weighted average number of 1,618,303,500 shares in issue during the year. (2002: 251,284,904)

No diluted loss per share is presented for the year ended 31 March 2003 and 31 March 2002 as exercise of the Company’s outstanding share options and conversion of the Company’s outstanding convertible notes has an anti-dilutive effect.

9)
 FIXED ASSETS

The Group	Land and buildings in Hong Kong under medium-term lease <i>HK\$'000</i>	Land and buildings outside Hong Kong <i>HK\$'000</i>	Office equipment, motor vehicle, machinery and furniture & fixture <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost/valuation						
At 31/3/2002						
At cost	–	31,821	5,411	2,570	4,916	44,718
At valuation	7,350	–	–	–	–	7,350
Provision for diminution in value	(1,500)	–	–	–	–	(1,500)
Additions	–	182	19	–	192	393
Disposals	–	(26,990)	(2,127)	–	–	(29,117)
At 31/3/2003	<u>5,850</u>	<u>5,013</u>	<u>3,303</u>	<u>2,570</u>	<u>5,108</u>	<u>21,844</u>
Accumulated depreciation						
At 31/3/2002	1,185	738	3,945	1,306	4,823	11,997
Charges for the year	143	121	269	193	89	815
Written back	–	(150)	(1,343)	–	–	(1,493)
At 31/3/2003	<u>1,328</u>	<u>709</u>	<u>2,871</u>	<u>1,499</u>	<u>4,912</u>	<u>11,319</u>
Net book value						
At 31/3/2003	<u>4,522</u>	<u>4,304</u>	<u>432</u>	<u>1,071</u>	<u>196</u>	<u>10,525</u>
At 31/3/2002	<u>4,665</u>	<u>31,083</u>	<u>1,466</u>	<u>1,264</u>	<u>93</u>	<u>38,571</u>

On 15 August 2002, the Company entered an agreement with the original contracting party in respect of three properties, Units 1901, 1902 and 1909, Block B, Pengrun Building, 26 Xiaoyun Road, Chaoyang district, Beijing, China. The agreement was effective on 31 August 2002. The original contracting party agreed to repay to the Company the consideration of acquisition of the properties of HK\$25,681,330 before 31 March 2003.

Land and buildings outside Hong Kong as stated above are held as follows:–

	<i>HK\$'000</i>
Under medium-term leases	<u>5,014</u>

10) INTEREST IN ASSOCIATES

	2003 HK\$'000	2002 <i>HK\$'000</i>
Share of net assets	<u>7,235</u>	<u>–</u>

Details of the associates at 31 March 2003 are as follows:–

Name of companies	Place of incorporation	Paid up registered capital	Percentage of equity held	Principal activities
Shares held indirectly:–				
Beijing Jin Zun Technology Development Limited	The People's Republic of China	RMB16,000,000	49	Provision of property management and development of computing software
Beijing Jin Zun Property Development Limited	The People's Republic of China	RMB10,000,000	39.2	Development and sale of real properties

11) GOODWILL ON CONSOLIDATION

	<i>HK\$'000</i>
Addition through acquisition of a subsidiary during the year and carried forward	<u>195,011</u>

12) INTEREST IN SUBSIDIARIES

	2003 HK\$'000	2002 <i>HK\$'000</i>
Unlisted shares at cost	240,624	45,623
Amounts due from subsidiaries	76,334	51,962
Amounts due to subsidiaries	<u>(27,452)</u>	<u>–</u>
	289,506	97,585
Impairment loss	<u>(45,700)</u>	<u>(39,500)</u>
	<u>243,806</u>	<u>58,085</u>

Amounts due from subsidiaries are interest-free, unsecured and have no fixed term of repayment except for an amount of HK\$25,056,937 (2002: HK\$9,517,375) due from a subsidiary which is interest bearing at 3% per annum (2002: Nil% per annum).

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Details of subsidiaries at 31 March 2003 are as follows:–

Name of companies	Country or place of incorporation	Issued and paid up capital	Percentage holding	Principal activities
Shares held by Company directly:				
Capital Automation (BVI) Limited	British Virgin Islands	Ordinary US\$50,000	100	Investment holding
Smartech Cyberworks Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Artway Development Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Eagle Decade Investments Limited	British Virgin Islands	Ordinary US\$1	100	Dormant
Shares held indirectly:				
Citimate (Hong Kong) Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$1,000,000	100	Dormant
China Eagle Management Limited (Formerly known as Fast Rich Investment Limited)	Hong Kong	Ordinary HK\$10,000	100	Management services
Profit Made Properties Limited	Hong Kong	Ordinary HK\$10,000	100	Dormant
Top Advance Technology Limited	Hong Kong	Ordinary HK\$10,000	100	Dormant
China Eagle Capital Company Limited (Formerly known as Best Power Properties Limited)	Hong Kong	Ordinary HK\$10,000	100	Dormant
Capital Computerized Machinery Manufacturing (Shaoxing) Company Limited	The People’s Republic of China	Registered capital HK\$6,286,189	100	Dormant

Details of subsidiaries at 31 March 2003 are as follows:–

Name of companies	Country or place of incorporation	Issued and paid up capital	Percentage holding	Principal activities
Shares held indirectly: (Continued)				
New Smarter Trading Limited	Hong Kong	Ordinary HK\$100	100	Dormant
Capital Machinery Agency And Supplies Limited	Hong Kong	Ordinary HK\$10,000	100	Marketing of machinery
Capital Realty Development Company Limited	Hong Kong	Ordinary HK\$100,000	100	Property holding
Hong Kong Punching Centre Limited	Hong Kong	Ordinary HK\$100,000	100	Property holding
China Sino Technology Limited	Hong Kong	Ordinary HK\$10,000	100	Property investment

13) CURRENT ASSETS

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Inventories				
– Raw materials	1,310	1,423	–	–
– Work-in-progress	634	634	–	–
– Finished goods	731	3,885	–	–
Other investments in securities	–	3,800	–	–
Other receivables	19,979	–	–	–
Accounts receivable, prepayment and deposits	8,024	1,324	1,039	472
Cash and bank balances	3,902	14,933	762	3,937
Time deposit, unpledged	16,000	135,024	16,000	135,024
	<u>50,580</u>	<u>161,023</u>	<u>17,801</u>	<u>139,433</u>
Other investments in securities listed in Hong Kong at market value	<u>–</u>	<u>3,800</u>	<u>–</u>	<u>–</u>

14) CURRENT LIABILITIES

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts payable and accrued expenses	1,785	1,274	60	56
Interest payable	656	–	656	–
Convertible notes	75,000	–	75,000	–
	<u>77,441</u>	<u>1,274</u>	<u>75,716</u>	<u>56</u>

15) SHARE CAPITAL

	2003	2002
	HK\$'000	HK\$'000
Authorised: 20,000,000,000 ordinary shares of HK\$0.1 each (2002: 5,000,000,000 ordinary shares of HK\$0.1 each)	<u>2,000,000</u>	<u>500,000</u>

Pursuant to a special general meeting held on 20 June 2002, authorized share capital of the Company was increased from HK\$500,000,000 to HK\$2,000,000,000 by the creation of additional 15,000,000,000 new shares at HK\$0.10 each.

	2003	2002
	HK\$'000	HK\$'000
Issued & fully paid:		
At the beginning of the year		
(1,618,303,500 ordinary shares of HK\$0.1 each)	161,830	18,800
	<u>–</u>	<u>143,030</u>
Issue of shares		
At the end of the year		
(1,618,303,500 ordinary shares of HK\$0.1 each)	<u>161,830</u>	<u>161,830</u>

16) SHARE PREMIUM

	2003	2002
	HK\$'000	HK\$'000
Balance at the beginning of the year	40,734	27,349
Net premium on issue of ordinary shares	<u>–</u>	<u>13,385</u>
Balance at the end of the year	<u>40,734</u>	<u>40,734</u>

17) AGING ANALYSIS

No aging analysis is performed as there were no trade receivables and trade payables as at the balance sheet date.

18) CONTRIBUTED SURPLUS

The contributed surplus of the Company represents the difference between the nominal value of the Company’s shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would the payment be, unable to pay its liabilities as they become due; or
- (ii) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

19) ACCUMULATED LOSS

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Accumulated loss)/retained earnings brought forward	(4,864)	2,295	(45,525)	(36,540)
Net loss for the year	(12,410)	(7,159)	(11,571)	(8,985)
Accumulated loss carried forward	(17,274)	(4,864)	(57,096)	(45,525)

20) DEFERRED DEVELOPMENT COSTS

	2003	2002
	HK\$'000	HK\$'000
Balance at the beginning of the year	–	926
Amortized during the year	–	(926)
Balance at the end of the year	–	–

21) REVALUATION RESERVE

	2003	2002
	HK\$'000	HK\$'000
Surplus arising on revaluation of land and buildings		
Balance at the beginning of the year	–	1,019
Provision for diminution in value	–	(1,019)
Balance at the end of the year	–	–

22) NOTES TO CASH FLOW STATEMENT

a) Reconciliation of operating loss to net cash (used in)/from operating activities

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(12,410)	(6,547)
Adjustment for:		
Interest income	(759)	(132)
Interest expenses	1,251	96
Depreciation	815	1,189
Waive of loan from a former director	(7,271)	–
Share of loss of an associate	24	–
Provision for diminution in value	–	3,206
Amortization of deferred development costs	–	926
Net loss on disposals of fixed assets	578	133
Operating loss before changes in working capital	(17,772)	(1,129)
Decrease/(increase) in other investment in securities	3,800	(3,693)
Decrease in inventories	3,267	1,096
(Increase)/decrease in accounts receivable and prepayments	(6,698)	12,720
Increase/(decrease) in accounts payable and accruals	508	(154)
Decrease in amount due to related companies	–	(262)
Decrease in amount due to a former director	–	(1,456)
Cash (used in)/generated from operations	(16,895)	7,122
Interest received	759	132
Interest paid	(595)	(96)
Net cash (used in)/from operating activities	(16,731)	7,158

b) Acquisition of a subsidiary

On 10 April 2002, the Company had entered into an acquisition agreement with Link Zone International Limited, a company incorporated in the British Virgin Islands for the acquisition of the entire issued shares capital of Artway Development Limited (“Artway”). Artway was incorporated on 8 January 2002 under the law of the British Virgin Islands and holds 49% interest of Beijing Jin Zun Technology Development Limited (北京金尊科技發展有限公司) (“PRC JV”). Other than the aforesaid, Artway had no material assets or liabilities on 10 April 2002.

PRC JV is engaged in the provision of property management and research and development of computing software. The establishment of PRC JV was approved by the Beijing Administrative for Industry and Commerce on 28 February 2002 for a term of 30 years. PRC JV holds an 80% interest of Beijing Jin Zun Property Development Limited (北京金尊房地產開發有限公司) (“PRC Company”). Other than the aforesaid, the PRC JV had no material assets or liabilities on 10 April 2002.

PRC Company is engaged in the development and sale of real properties as well as the management of real properties. PRC Company was incorporated on 1 February 2002 in the PRC for a term of 20 years. On 1 February 2002, PRC Company entered into a contract of acquisition of a site located at Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (the “Property”). PRC Company intends to construct a multi-purpose complex which consists of a residential apartment tower and an office tower as well as retail premises with car parking spaces. The property was valued by VIGERS Hong Kong Limited on the basis that the property will be developed and completed in accordance with the Group’s latest development proposals.

The acquisition agreement was unconditional and completed on 10 April 2002. The consideration for the acquisition amounted to HK\$195,000,000, as to an amount of HK\$120,000,000 had been settled in cash at completion which had taken place after signing of the agreement, as to an amount of HK\$75,000,000 had been settled by the issue of the First Notes on 22 April 2002 and Second Notes on 10 July 2002.

Pursuant to the Valuation Report on Artway Development Limited issued by Vigers Hong Kong Limited, the fair market value of a 100% equity interest of Artway Development Limited as at 10 April 2002 was reasonably stated at HK\$196,000,000 through the application of income approach with technique known as the discounted cash flow method to discount the future economic benefits of the Company into a present value as of the Appraisal Date.

	2003 HK\$'000	2002 HK\$'000
Net (liabilities)/assets acquired:–		
Fixed assets	–	25,682
Interest in an associate	7,259	–
Prepayment	2	–
Cash at bank and on hand	2	–
Accrued expenses	(3)	–
Amount due to a director	(7,271)	–
Net identifiable assets and liabilities	(11)	25,682
Goodwill arising on consolidation	195,011	–
	195,000	25,682
Satisfied by:–		
Cash consideration	120,000	12,000
First convertible note	37,500	–
Second convertible note	37,500	–
Issue of new ordinary shares at HK\$0.38 per consideration share	–	13,682
	195,000	25,682

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:–

	2003 HK\$'000	2002 HK\$'000
Cash consideration	120,000	12,000
Less: Cash of the subsidiary acquired	(2)	–
	<u>119,998</u>	<u>12,000</u>

23) CONVERTIBLE NOTES

Pursuant to the acquisition agreement dated 10 April 2002, First and Second convertible Notes (issued on 22 April 2002 and 10 July 2002 respectively) amounting to HK\$75,000,000 were issued to Link Zone International Limited as the balance of total consideration of HK\$195,000,000.

These Notes were issued up to an aggregate principal amount of HK\$75,000,000 due 2004, convertible into shares of the Company at the option of the holders. The Notes were in registered form in the denomination of HK\$500,000 each or integral multiples thereof.

The Notes bear interest from the date of their issue at the rate of 2% per annum. Such interest is payable semi-annually in arrears.

24) COMMITMENTS AND CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant commitments and contingent liabilities.

25) DISPOSAL AND DISSOLUTION OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	–	5,242
Current assets	–	3,151
Liabilities and accumulated loss taken up		
by purchasers or loan waived	–	(7,001)
(Loss)/gains on disposals	–	(612)
	<u>–</u>	<u>–</u>
Sales proceeds	<u>–</u>	<u>780</u>

On 18 May 2001, the Company’s subsidiary (Capital Automation (BVI) Limited) entered an agreement with Li Man Yick on the disposal of a subsidiary (Capital Services & Supplies Inc.) which had a net assets of HK\$780,000 at 31 March 2001. The consideration was HK\$780,000 (USD100,000) for the shares and HK\$3,330,000 for the full discharge of the loan due to Capital Automation (BVI) Limited.

On 18 June 2001, the Company’s subsidiary (Capital Automation (BVI) Limited) entered an agreement with HK Concepts International Limited (Chan Ngan Hoi, Chan Tik Yuen and Leung King Wa were former directors of Capital Automation (BVI) Limited) on the disposal of Capital Automation Information System Inc. which had net liabilities of HK\$1,060,113.30 at 31 March 2001. The consideration was HK\$7.8 (USD1) for the shares.

On 9 August 2001, the Company dissolved a subsidiary (Capital Automation Inc.) which had net liabilities of HK\$5,712,716.57 as at that date.

The revenue and operating results of the disposed subsidiaries are as follows:–

	2003 HK\$'000	2002 HK\$'000
Turnover	–	–
Contribution to operating loss for the year	<u>–</u>	<u>(42)</u>

26) OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for a term of 2 years with a rent-free period of two months.

At 31 March 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:–

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	–	2,339
In the second to fifth years, inclusive	<u>–</u>	<u>585</u>
	<u>–</u>	<u>2,924</u>

(b) As lessee

The Group leases certain office properties under operating lease arrangements. Leases for the properties are negotiated for a term of 2 years.

At 31 March 2003 , the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	675	1,447	255	895
In the second to fifth years, inclusive	<u>–</u>	<u>1,280</u>	<u>–</u>	<u>199</u>
	<u>675</u>	<u>2,727</u>	<u>255</u>	<u>1,094</u>

27) POST BALANCE SHEET EVENT

On 3 September 2002, China Eagle Capital Company Limited, an indirect subsidiary, entered into a conditional agreement with independent third parties regarding the transfer of 95% of issued share capital of Gold City Securities Limited and Gold City Futures Limited. The transactions were completed on 23 May 2003 and 20 May 2003 at considerations of HK\$14,516,418 and HK\$8,210,965 respectively.

On 9 April 2003, Capital Realty Development Company Limited, an indirect subsidiary, disposed certain of its land and building situated in PRC with carrying amount of HK\$3,530,376 for a consideration of RMB4,500,000 to an independent third party.

On 26 June 2003, the Company had made a placing arrangement with Ricofull Securities Limited as Placing Agent to place 323,000,000 Placing Shares to 10 Placees at a price of HK\$0.12 per Placing Share. The gross proceeds from the Placing was HK\$38,760,000 and the net proceeds from the Placing was HK\$37,984,800. The placing was completed on 15 July 2003.

Pursuant to a meeting of the board of directors on 17 July 2003, the board approved the conversion of HK\$51,000,000 convertible notes, comprising full amount of the First Notes and partial amount of the Second Notes of amounts HK\$37,500,000 and HK\$13,500,000 respectively. The conversion price was HK\$0.12 per share.

28) CHANGE OF COMPANY NAME

Pursuant to a special general meeting held on 20 June 2002, the Company's name was changed from "Capital Automation Holdings Limited" (京華自動化集團有限公司) to "China Eagle Group Company Limited" (中國鵬潤集團有限公司).

29) RETIREMENT SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for its eligible employees in Hong Kong. The MPF Scheme has operated since 1 December 2000.

Contributions are made based on rates applicable to the respective employees' monthly salaries and are charged to the income statement as they become payable in accordance with government regulations.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2. SUMMARY OF UNAUDITED INTERIM RESULTS OF THE COMPANY

Terms defined herein are applied to this section only.

The following is a summary of the unaudited consolidated income statement of the Group for the six months ended 30 September 2003, together with the accompanying notes extracted from the interim report of the Company for the six months ended 30 September 2003.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2003

(Expressed in Hong Kong dollars)

		Six months ended 30 September					
		Continuing	2003 Discontinued	Total	Continuing	2002 Discontinued	Total
Note		operations	operation		operations	operation	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
							restated (Note 7)
Turnover	2	2,277	6	2,283	3,641	450	4,091
Other revenue		398	-	398	233	-	233
Other net loss		(574)	-	(574)	-	(372)	(372)
Cost of sales		-	(2,674)	(2,674)	(3,117)	(2,329)	(5,446)
Selling and distribution costs		(1,063)	(22)	(1,085)	(308)	(89)	(397)
Administrative expenses		(6,322)	(10)	(6,332)	(7,862)	-	(7,862)
Other operating expenses		(431)	-	(431)	(482)	-	(482)
Loss from operations	2	(5,715)	(2,700)	(8,415)	(7,895)	(2,340)	(10,235)
Finance costs	3	(540)	-	(540)	(504)	-	(504)
Share of profits less losses of associates		1	-	1	(19)	-	(19)
Loss from ordinary activities before taxation	3	(6,254)	(2,700)	(8,954)	(8,418)	(2,340)	(10,758)
Taxation	4	-	-	-	-	-	-
Loss from ordinary activities after taxation		<u>(6,254)</u>	<u>(2,700)</u>	<u>(8,954)</u>	<u>(8,418)</u>	<u>(2,340)</u>	<u>(10,758)</u>
Minority interests				29			-
Loss attributable to shareholders				<u>(8,925)</u>			<u>(10,758)</u>
Loss per share							
Basic	6(a)			<u>(0.46) cents</u>			<u>(0.66) cents</u>
Diluted	6(b)			<u>N/A</u>			<u>N/A</u>

CONSOLIDATED BALANCE SHEET*At 30 September 2003**(Expressed in Hong Kong dollars)*

		30 September 2003	31 March 2003
	<i>Note</i>	\$'000	\$'000
		(Unaudited)	(Audited)
			restated (Note 7)
Non-current assets			
Fixed assets	8		
– investment properties		330	330
– other property, plant and equipment		7,329	10,195
		7,659	10,525
Goodwill/negative goodwill		1,256	(950)
Other assets		2,803	–
Interest in associates	9	203,247	203,246
		214,965	212,821
Current assets			
Derivative financial instruments	10	10,890	–
Inventories		–	2,675
Accounts receivable	11	24,759	–
Other receivables		1,063	28,003
Cash and cash equivalents	12	64,544	19,902
		101,256	50,580
Current liabilities			
Accounts payable	13	22,755	–
Other payables and accruals		2,394	2,441
Convertible notes	14	24,000	75,000
		49,149	77,441
Net current assets/(liabilities)		52,107	(26,861)
Minority interests		(1,052)	–
NET ASSETS		266,020	185,960
CAPITAL AND RESERVES			
Share capital	15	236,630	161,830
Reserves	16	29,390	24,130
		266,020	185,960

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2003**(Expressed in Hong Kong dollars)*

	Six months ended	
	30 September	
	2003	2002
	\$'000	\$'000
	(Unaudited)	(Unaudited)
		restated
		(Note 7)
Shareholders' equity at 1 April	185,910	198,320
Prior period adjustment arising from restatement of goodwill (<i>note 7</i>)	50	—
As restated	185,960	198,320
Loss for the period		
As previously reported		(10,783)
Prior period adjustment arising from restatement of goodwill		25
Loss for the period (2002: as restated)	(8,925)	(10,758)
Movements in share capital		
Share issued	74,800	—
Share premium arising from issue of share	14,185	—
	88,985	—
Shareholders' equity at 30 September	266,020	187,562

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2003**(Expressed in Hong Kong dollars)*

	Six months ended	
	30 September	
	2003	2002
	\$'000	\$'000
	(Unaudited)	(Unaudited)
Net cash from/(used in) operating activities	25,653	(43,141)
Net cash used in investing activities	(18,996)	(176,258)
Net cash inflow from financing activities	37,985	75,000
Net increase/(decrease) in cash and cash equivalents	44,642	(144,399)
Cash and cash equivalents at 1 April	19,902	149,957
Cash and cash equivalents at 30 September	64,544	5,558
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	17,500	5,558
Deposits with bank maturing within three months	47,044	—
Cash and cash equivalents at 30 September	64,544	5,558

Included in the above amounts are the following net cash flows related to discontinued operation for the six months ended 30 September 2003:

	Six months ended	
	30 September	
	2003	2002
	\$'000	\$'000
Net cash from operating activities	6	450

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1) Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (the “HKSA”). KPMG’s independent review report to the board of directors is included on page 19.

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

The financial information relating to the financial year ended 31 March 2003 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the financial year ended 31 March 2003, on which the previous auditors, Louis Leung & Partners CPA Limited, have expressed an unqualified opinion in their report dated 28 July 2003, are available from the Company’s registered office.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 March 2003.

The same accounting policies adopted in the financial statements for the year ended 31 March 2003 have been applied to the interim financial report, except the adoption of new policies as disclosed in notes 1(a) to note 1(e) below.

(a) Income taxes

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenses, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1 April 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, deferred tax has been calculated by the Group using the balance sheet method 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, using the appropriate current rates of taxation ruling in countries in which the Group operates.

The new accounting policy has been adopted prospectively as the effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

(b) Revenue recognition

Commission and brokerage on dealing in securities and futures contracts is recognised when the relevant contract is executed.

Realised profits and losses arising from trading in futures contracts are accounted for in the year in which the positions are closed as the difference between the net sales proceeds and the carrying amount of the contracts. Open positions are valued at market rate with unrealised profits and losses included in the consolidated income statement.

Revenue from sales of listed securities is recognised when the relevant contract is executed.

(c) *Negative goodwill*

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

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

In respect of any negative goodwill not yet recognised in the consolidated income statement:

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

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

(d) *Derivative financial instruments*

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

- (i) Investments in securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (ii) Profits or losses on disposal of investments in securities are accounted for in the income statement as they arise.

(e) *Trust accounts*

Trust accounts maintained by subsidiaries of the Group to hold clients' monies are not recognised in the financial statements.

2) Turnover and segment reporting

The Group is principally engaged in property development and investment, securities broking and investments and general trading.

Segment information is prepared in respect of the Group’s business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group’s internal financial reporting.

Business segments

The Group comprises the following main business segments:

- Property development and investment : Development of properties and leasing of properties
- Securities broking and investments : Stockbroking business and dealing in futures contracts and options
- General trading : Trading of household and electric appliance products

	Securities broking and investments <i>(Note)</i>		Property development and investment		General trading		Sale of computer- aided-design- systems and machinery <i>(Note 5)</i>		Consolidated	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue from external customers	<u>2,244</u>	<u>–</u>	<u>33</u>	<u>1,010</u>	<u>–</u>	<u>2,631</u>	<u>6</u>	<u>450</u>	<u>2,283</u>	<u>4,091</u>
Segment result	<u>(576)</u>	<u>–</u>	<u>33</u>	<u>665</u>	<u>–</u>	<u>179</u>	<u>(2,700)</u>	<u>(2,340)</u>	<u>(3,243)</u>	<u>(1,496)</u>
Unallocated expenses									<u>(5,172)</u>	<u>(8,739)</u>
Loss from operations									<u>(8,415)</u>	<u>(10,235)</u>
Finance costs									<u>(540)</u>	<u>(504)</u>
Share of profits less losses of associates									<u>1</u>	<u>(19)</u>
Minority interests									<u>29</u>	<u>–</u>
Net loss attributable to shareholders									<u>(8,925)</u>	<u>(10,758)</u>

Geographical segments

No geographical analysis is presented as all of the Group’s revenue and results are derived from activities in Hong Kong.

Note: On 3 September 2002, China Eagle Capital Co. Limited, an indirect subsidiary, entered into a conditional agreement with independent third parties regarding the acquisition of 95% of the issued share capital of each of Eagle Legend Securities Limited and Eagle Legend Futures Limited. The acquisitions were completed on 23 May 2003 and 20 May 2003 at considerations of \$14,516,000 and \$8,211,000 respectively.

The principal activities of Eagle Legend Securities Limited and Eagle Legend Futures Limited are stockbroking business in Hong Kong and dealing in futures contracts and options on the Hong Kong Futures Exchange Limited respectively.

3) Loss from ordinary activities before taxation

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

	Six months ended 30 September 2003 \$'000 (Unaudited)	2002 \$'000 (Unaudited)
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	—	3
Interest on convertible notes	540	501
	<u>540</u>	<u>501</u>
(b) Staff costs:		
Contributions to defined contribution retirement plan	76	61
Salaries, wages and other benefits	3,237	3,342
	<u>3,313</u>	<u>3,403</u>
(c) Other items:		
Operating lease charges in respect of land and buildings	1,086	801
Depreciation	431	482
Cost of inventories sold	2,674	5,446
(Gain)/loss on disposal of fixed assets	(510)	372
Net realised and unrealised loss on derivative financial instruments	1,084	—
Provision of inventories	1,980	—
Rental income	(33)	(1,010)
Amortisation of negative goodwill	(25)	(25)
Amortisation of positive goodwill	37	—
	<u>37</u>	<u>—</u>

4) Taxation

- (i) No provision has been made for Hong Kong Profits Tax as the Group sustained losses for taxation purposes during the period (2002: Nil).
- (ii) No provision has been made for the PRC income tax as the associates of the Group sustained losses for taxation purposes during the period (2002: Nil).

5) Discontinued operation

In November 2000, the Group closed its only computer-aided-design-systems and machinery manufacturing plant located in the PRC which was sold in November 2000 for cash consideration of \$3,519,000. A loss on disposal of the plant of \$799,000 was recognised in the consolidated income statement for the year ended 31 March 2001.

Subsequent to the cessation of production in 2000, the Group sold the remaining stock of computer-aided-design-systems and machineries through June 2003. The results have been included in the segment of sale of computer-aided-design-systems and machinery in note 2. As at 30 September 2003, cost of computer-aided-design systems and machinery amounted to \$5,149,000 (March 2003: \$5,867,000). Full provision on the inventories of computer-aided-design systems and machinery amounting to \$5,149,000 has been made in the period ended 30 September 2003 (March 2003: \$3,169,000).

The net liabilities of the discontinued operation as at 30 September 2003 were as follows:

	30 September 2003 \$'000	31 March 2003 \$'000
Total assets	391	586
Total liabilities	(8,652)	(8,660)
Net liabilities	(8,261)	(8,074)

6) Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of \$8,925,000 (2002: restated \$10,758,000) on the weighted average of 1,928,390,932 (2002: 1,618,303,500) shares in issue during the period.

(b) Diluted loss per share

Diluted earnings per share is not shown as all the potential ordinary shares are anti-dilutive.

7) Prior year adjustment

On 10 April 2002, the Company acquired the entire issued share capital of Artway Development Limited (“Artway”) for a consideration of \$195,000,000 and recorded a positive goodwill of \$195,011,000 based on the historic net book value of Artway, without adjusting the fair value of the respective identifiable assets and liabilities. Pursuant to the valuation report prepared by Vigers Hong Kong Limited on 10 April 2002, the fair market value of Artway as at 10 April 2002 was \$196,000,000. Accordingly, as required by SSAP 30 “Business combinations”, a prior year adjustment was made to recognise the negative goodwill of \$1,000,000 instead of the positive goodwill of \$195,011,000 at the acquisition date. The negative goodwill is being amortised over its weighted average useful life of twenty years. This adjustment had the following effect for the year ended 31 March 2003:

	\$
Increase in interest in an associate	196,011,000
Decrease in positive goodwill	(195,011,000)
Increase in negative goodwill	(950,000)
Decrease in administrative expenses	<u>(50,000)</u>

8) Fixed assets

On 9 April 2003, Capital Realty Development Limited, an indirect subsidiary, disposed of certain of its land and building situated in PRC with carrying amount of \$3,530,376 for a consideration of RMB4,500,000 to an independent third party.

9) Interest in associates

(a)

	30 September 2003 \$'000 (Unaudited)	31 March 2003 \$'000 (Audited)
Share of net assets	<u>203,247</u>	<u>203,246</u>

The following list contains the particulars of significant associates, all of which are unlisted corporate entities, which principally effected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by the associate	
Beijing Jin Zun Technology Development Ltd ("Beijing Jin Zun Technology")	Incorporated	People's Republic of China ("PRC")	Registered capital RMB 16,000,000	49%	49%	–	Property management, research and development of computing software and investment holding
Beijing Jin Zun Property Development Ltd ("Beijing Jin Zun Property")*	Incorporated	PRC	Registered capital RMB 10,000,000	39.2%	–	80%	Property investment

* Beijing Jin Zun Property is engaged in the development and sale of properties as well as the management of properties. Beijing Jin Zun Property was incorporated on 1 February 2002 in the PRC for a term of 20 years. On 1 February 2002, Beijing Jin Zun Property entered into a contract (“the transfer contract”) of acquisition of a site located at “Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (the “Property”)” at a consideration of RMB250,000,000 with Beijing Bus Company Limited (“Beijing Bus”). Beijing Jin Zun Property intends to construct a multi-purpose complex.

According to the opinion of the Group’s external PRC legal counsel in regarding of acquisition of the Property, the transfer contract is legally valid. Upon fulfillment of its obligations, Beijing Jin Zun Property shall obtain the right to conduct development on the Property and shall be entitled to be the developer of the Property in respect of applying for project recognition, planning and land utilization. Upon the full settlement of the land premium, completion of the above application procedures and the grant of the relevant approvals, Beijing Jin Zun Property has the right to engage in the development and sale and obtain the relevant interest.

The Property was valued by Vigers Hong Kong Limited at RMB530,000,000 in April 2002 based on the open market value basis after taken into account the consideration of RMB250,000,000 payable by Beijing Jin Zun Property to Beijing Bus.

(b)

Unaudited additional financial information in respect of consolidated results of Beijing Jin Zun Technology and Beijing Jin Zun Property is given as follows:

	Six months ended	
	30 September	
	2003	2002
	\$'000	\$'000
Turnover	<u>-</u>	<u>-</u>
Profit/(loss) for the period	<u>2</u>	<u>(39)</u>
Company's directly share of profit/(losses)	<u>1</u>	<u>(19)</u>
	30 September	31 March
	2003	2003
	\$'000	\$'000
Non-current assets	730,037	730,037
Current assets	<u>39</u>	<u>39</u>
Total assets	<u>730,076</u>	<u>730,076</u>
Current liabilities	(215,283)	(215,286)
Minority interest	<u>(100,004)</u>	<u>(100,003)</u>
Net assets	<u>414,789</u>	<u>414,787</u>
Company's share of net assets	<u>203,247</u>	<u>203,246</u>

10)

Derivative financial instruments

At 30 September 2003, the Group had exposure to foreign currency contracts and futures contracts with principal amounts totalling \$2,366,000 and \$8,524,000 respectively.

11)

Accounts receivable

	30 September	31 March
	2003	2003
	\$'000	\$'000
	(Unaudited)	(Audited)
Amount receivable arising from the ordinary course of business of dealing in		
Securities and equity options transactions:		
– Cash clients	<u>24,759</u>	<u>-</u>

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities and equity options transactions are two days after the trade date. The balances are all aged within 30 days.

12) Cash and cash equivalents

	30 September 2003 \$'000 (Unaudited)	31 March 2003 \$'000 (Audited)
Cash at bank and in hand	17,500	3,902
Deposits with banks maturing within three months	47,044	16,000
	<u>64,544</u>	<u>19,902</u>

13) Accounts payable

	30 September 2003 \$'000 (Unaudited)	31 March 2003 \$'000 (Audited)
Amounts payable arising in the ordinary course of business of dealing in		
Securities and equity options transactions:		
– Cash clients	22,180	–
– CCASS	575	–
	<u>22,755</u>	<u>–</u>

The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities and equity options transactions in respect of cash clients are two days after the trade date.

Accounts payable to clients arising from the ordinary course of business of dealing in futures and options transactions represent margin deposits received from clients for their trading of futures and options respectively. The excesses of the outstanding amounts over the required margin deposit stipulated are repayable to clients on demand.

No aged analysis of cash clients is disclosed as, in the opinion of the directors, an aged analysis is not meaningful in view of the nature of the business of dealing in securities and options contracts.

14) Convertible notes

Pursuant to the acquisition agreement dated 10 April 2002 as part of the total consideration of \$195,000,000 for the acquisition of Artway, first and second convertible notes (issued on 22 April and 10 July 2002 respectively) totalling \$75,000,000 were issued to Link Zone International Limited.

These notes are due 2004 and convertible to shares of the Company of \$0.10 each at a conversion price of the lower of (i) the price of \$0.12 per share, subject to adjustment and (ii) 93% of the average closing price per share for the five trading days immediately prior to the date of the exercise date, at the option of the holders in the denomination of \$500,000 each or integral multiples thereof.

The notes bear interest from the date of their issue at a fixed rate of 2% per annum, which is payable semi-annually in arrears.

At 30 September 2003, convertible notes of \$24,000,000 were outstanding.

15) Share capital

	No. of shares ‘000	Amount \$'000
<i>Issued and fully paid:</i>		
Ordinary shares of \$0.1 each		
At 1 April 2003	1,618,304	161,830
Placing of shares (<i>Note (i)</i>)	323,000	32,300
Shares issued upon conversion of convertible notes (<i>Note (ii)</i>)	425,000	42,500
	<u>2,366,304</u>	<u>236,630</u>

Notes:

- (i) On 26 June 2003, the Company made a placing arrangement with Ricofull Securities Limited as Placing Agent to place 323,000,000 ordinary shares of \$0.10 each to 10 placees at a price of \$0.12 per ordinary share. The net proceeds from the placing was \$37,985,000 after deducted expenses of \$775,000.
- (ii) On 17 July 2003, convertible notes totalling \$51,000,000 were converted, comprising full amount of the First Notes and partial amount of the Second Notes of amounts \$37,500,000 and \$13,500,000 respectively, into 425,000,000 ordinary shares of \$0.1 each. The conversion price was \$0.12 per ordinary share.

16) Reserves

	Share premium \$'000	Reserve on consolidation \$'000	Accumulated losses \$'000	Total \$'000
At 1 April 2003	40,734	620	(17,274)	24,080
Prior year adjustment	—	—	50	50
As restated	40,734	620	(17,224)	24,130
Placing of shares	5,685	—	—	5,685
Shares issued upon conversion of convertible notes	8,500	—	—	8,500
Net loss for the period	—	—	(8,925)	(8,925)
At 30 September 2003	<u>54,919</u>	<u>620</u>	<u>(26,149)</u>	<u>29,390</u>

17) Deferred taxation

Deferred tax assets which represent the net tax effect of timing differences due to tax losses available to set off against future assessable profits have not been recognised in the financial statements as the Directors are not certain that these benefits will be realised in the foreseeable future. The major components of the unrecognised deferred tax assets of the Group at 30 September 2003 are:

	30 September 2003 \$'000 (Unaudited)	31 March 2003 \$'000 (Audited)
(i) Depreciation allowances in excess of related depreciation	(399)	(316)
Increment in Hong Kong Profits Tax rate	(30)	–
	(429)	(316)
(ii) Future benefit of tax losses	8,586	6,612
Increment in Hong Kong Profits Tax rate	620	–
	9,206	6,612
Unrecognised deferred tax assets	8,777	6,296

The unrecognised deferred tax assets is calculated at the Hong Kong Profits Tax rate of 17.5% (31 March 2003: 16%) on the 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.

18) Material related party transactions

A subsidiary paid operating lease rentals in respect of the Group's office premises to Gome Home Appliances (Hong Kong) Limited, a related company of the Group totalling \$437,333 (2002: \$Nil) during the period. The amount had been fully settled by the period end (31 March 2003: \$Nil).

Beijing Eagle Investment Co., Limited, a related company, received operating lease rentals on behalf of a subsidiary in the preceding year. At 30 September 2003, reimbursement payable to the subsidiary amounted to \$185,000 (31 March 2003: \$384,000).

A subsidiary made unsecured advancements to Mr Han Yuejun, a minority shareholder of an associate in the previous year. The amount was fully settled during the current period (31 March 2003: \$19,979,000).

19) Post balance sheet event

At 30 September 2003, the Group had exposure to foreign currency contracts and futures contracts with principal amounts totalling \$2,366,000 and \$8,524,000 respectively. Subsequent to 30 September 2003, these contracts realised losses totalling \$9,262,000.

20) Comparative figures

Certain comparative figures have been restated and reclassified as a result of the prior year adjustment as described in note 7.

In addition to the foregoing, certain comparative figures have been reclassified to conform with the current period’s presentation.

21) Approval of interim financial report

The interim financial report was approved by the Board of Directors on 9 December 2003.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 31 January 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding borrowings of HK\$24 million, which represented the Series I Convertible Notes issued to Link Zone International Limited. The Series I Convertible Notes bear interest from the date of issue at a fixed rate of 2% per annum.

Save as disclosed in this statement of indebtedness and apart from intra-group liabilities, the Enlarged Group did not have outstanding, at the close of business on 31 January 2004, any loan capital issued and outstanding or agreed to be issued, bank drafts, loans, debt securities or other similar indebtedness, finance lease, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 31 January 2004.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31 January 2004 up to the Latest Practicable Date.

4. MATERIAL CHANGE

Save as the information disclosed in the unaudited interim results of the Group for the six months ended 30 September 2003 and the placing and top-up subscription of new Shares announced by the Company on 7 January 2004, the Directors are not aware of any material change in the financial position or trading position or prospects of the Group since 31 March 2003, the date to which the latest published audited consolidated accounts for the Group have been made up.

5. WORKING CAPITAL

The Directors are of the opinion that, upon completion of the transactions contemplated in this circular and after taking into account the present internal financial resources, the Enlarged Group will have sufficient working capital for its present requirements.



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15 March 2004

The Directors
China Eagle Group Company Limited

Dear Sirs,

We set out below our report on the financial information relating to Bestly Legend Limited (the “Company”) and its subsidiaries (herewith collectively referred as the “Group”) for inclusion in a circular dated 15 March 2004 (“the Circular”) in connection with a very substantial acquisition and connected transaction for China Eagle Group Company Limited.

The Company was incorporated as a limited liability company in the British Virgin Islands on 4 January 2002 and is engaged in investment holding.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are incorporated and operated in Mainland China. Details of these subsidiaries are as follows:

Name	Registered capital issued and fully paid up	Percentage of equity attributed to the Company		Principal activities
		Direct	Indirect	
Beijing Wenyeen Software Technology Limited (北京文業安軟件發展有限公司)	RMB16,760,000.00	80%	20%	Investment holding
Beijing Xinwenan Technology Limited (北京信文安科技有限公司)	RMB9,900,000.00	80%	20%	Investment holding
Beijing Jin Zun Technology Development Limited (北京金尊科技發展有限公司)	RMB16,000,000.00	—	51%	Provision of property management and development of computer software
Beijing Jin Zun Property Development Limited (北京金尊房地產開發有限公司)	RMB10,000,000.00	—	60.8%	To engage in development and sale of real estate properties and the management of real estate properties

Beijing Wenyeen Software Technology Limited (“Wenyeen”) is limited liability company established in Mainland China on 4 June 2003 to be operated for period of 30 years up to 2033.

Beijing Xinwenan Technology Limited (“Xinwenan”) is a limited liability company established in Mainland China on 4 June 2003 to be operated for a period of 30 years up to 2033.

Beijing Jin Zun Technology Development Limited (“Jin Zun Technology”) is a limited liability company established in Mainland China on 30 January 2002 to be operated for a period of 30 years up to 2032.

Beijing Jin Zun Property Development Limited (“Jin Zun Property”) is a limited liability company established in Mainland China on 1 February 2002 to be operated for a period of 20 years up to 2022.

We have acted as auditors of the Company for the period from 4 January 2002 (date of incorporation) to 31 December 2003 (the “Relevant Period”). The accounts of Jin Zun Technology for the period from its date of establishment to 31 December 2002 were audited by Zhong Yi Certified Accountants Co. Limited (中逸會計師事務所有限公司), certified public accountants registered in the Mainland China. No audited accounts have been prepared for the subsidiaries, Wenyeen, Xinwenan and Jin Zun Property since the date of establishment. For the purpose of this report, we have carried out independent audit procedures on the accounts of the Group in accordance with the accounting principles generally accepted in Hong Kong for the Relevant Period.

We have examined the audited accounts of the Company and the unaudited management accounts of its subsidiaries for the Relevant Period on the basis set out in note (2) under section II below. Our examination was made in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountants” issued by the Hong Kong Society of Accountants.

The financial information as set out in section I to III below has been prepared based on the audited accounts of the Company and unaudited management accounts of the subsidiaries. The directors of the Company and respective subsidiaries are responsible for the preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the financial information. It is our responsibility to form an independent opinion, based on our examination, on the consolidated balance sheet of the Group as at 31 December 2003 and the consolidated results of the Group for the Relevant Period.

In our opinion, the financial information, for the purpose of this report, gives a true and fair view of the consolidated state of the affairs of the Group as at 31 December 2003 and of the consolidated results of the Group for the Relevant Period.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 4 JANUARY 2002
(DATE OF INCORPORATION) TO 31 DECEMBER 2003

	Notes	HK\$
Turnover	3	37,460.00
Other operating expenses		(29,498.22)
Profit from operations		7,961.78
Finance costs		—
Profit before taxation		7,961.78
Taxation	4	—
Net profit for the period carried forward		7,761.78

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 4 JANUARY 2002
(DATE OF INCORPORATION) TO 31 DECEMBER 2003

	HK\$
Opening balance – total equity	—
Issue of shares	7.80
Net profit for the period	7,961.78
Exchange fluctuation account	(66,057.46)
Closing balance – total equity	(58,087.88)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2003

	Notes	HK\$
Assets		
Non-current assets		
Fixed assets	5	4,472.42
Acquisition of land in Mainland China	6	587,555,145.92
Negative goodwill		(309,469,319.00)
		278,090,299.34
Current assets		
Cash and bank balances		25,299,595.15
Total assets		303,389,894.49
Equity and liabilities		
Capital and reserves		
Share capital	7	7.80
Exchange fluctuation account		(66,057.46)
Retained profits		7,961.78
		(58,087.88)
Minority interests		205,557,215.64
Current liabilities		
Amount due to related parties	8	97,890,766.73
Total equity and liabilities		303,389,894.49

II. NOTES TO THE FINANCIAL INFORMATION

(1) GENERAL

The company is a private limited company incorporated in the British Virgin Islands and is engaged in investment holding.

(2) PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, and accounting principles generally accepted in Hong Kong. They have prepared under historical cost convention.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

(c) Subsidiaries

Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

(d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any provision for impairment losses.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis at the following rate per annum:–

Office equipment – 25%

(e) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date arising between the bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(f) Translation of foreign currencies

Monetary assets and liabilities denominated in a foreign currency are translated into Hong Kong dollars at approximately the rate of exchange at the balance sheet date. Transactions denominated in a foreign currency during the period are translated into Hong Kong dollars at the exchange rates which approximate to those ruling at the dates of transactions. Translation differences have been dealt with in the income statement.

The balance sheet of a subsidiary expressed in foreign currencies is translated at the rates of exchange ruling at the balance sheet date whilst its income statement is translated at an average rate. Exchange differences arising are dealt with as a movement in exchange fluctuation account.

(g) Revenue recognition

Service fee income is recognised when the service is rendered.

(h) Related party

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 operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(i) Borrowing cost

Borrowing cost incurred on assets under active development that take a substantial period of time to be readied for their intended use or sale are capitalized into the carrying value of the assets. Interest is capitalized at the interest rate applicable to specific development borrowings. All other borrowing cost not capitalized is recognised as expenses in the income statement when it is incurred.

(j) Negative goodwill

Negative goodwill arising on consolidation represents the excess the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

(k) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

(3) **TURNOVER**

Turnover represents the service fee income.

(4) **TAXATION**

- (a) No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits arising or derived in Hong Kong during the period.
- (b) No provision for PRC income tax has been made in the financial statements as there were no assessable profits for the subsidiaries operating in Mainland China during the period.
- (c) The Company and its subsidiaries had no material deferred tax assets or liabilities as at 31 December 2003.

(5) **FIXED ASSETS**

	HK\$
Office equipment	
Cost	
Acquisition of subsidiary	5,989.85
Depreciation	
Acquisition of subsidiary	1,517.43
Net book value	
At 31 December 2003	4,472.42

(6) ACQUISITION OF LAND IN MAINLAND CHINA

	<i>HK\$</i>
Land at fair value (RMB540,000,000)	505,710,000.00
Reallocation and compensation fees (RMB83,000,000)	77,729,500.00
Interest capitalized	3,733,732.00
Other acquisition expenses	381,913.92
	<u>587,555,145.92</u>

The Company's subsidiary, Jin Zun Property entered into a contract with Beijing Bus Company Limited (北京市長途汽車公司) ("Beijing Bus") on 1 February 2002. Pursuant to the contract, Jin Zun Property agreed to acquire and develop the parcel of land (the "Property") located at Area no. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (中國北京市朝陽區西壩河北里7號院土地) by payment of a relocation and compensation fee of RMB250,000,000.00. The fee is payable by Jin Zun Property to Beijing Bus. The final instalment should be payable to Beijing Bus within 32 months from date of the contract. By the supplemental contracts, Beijing Bus agreed that RMB80,000,000.00 would be settled on or before 30 September 2005 and the balance of the fee of RMB87,000,000.00 would be settled on or before 30 September 2006. Upon the completion of the application procedures and the payment of land premium to the relevant PRC authority, Jin Zun Property obtain the Land Use Right (土地使用權) of the Property.

The Property was stated at its fair value when the Company acquired 60.8% interest of Jin Zun Property. Pursuant to the valuation report prepared by B.I. Appraisals Limited, the fair value of the Property as at 31 December 2003 was RMB540,000,000.00 based on the open market value basis after taken into account the relocation and compensation fees of RMB250,000,000.00 payable by Beijing Jin Zun Property to Beijing Bus, the estimated land premium RMB470,000,000.00 and the estimated development cost of RMB3,825,000,000.

The accumulated interest capitalised included in acquisition of land in Mainland China was HK\$3,733,732.00 (RMB3,986,900.00).

(7) SHARE CAPITAL

	<i>HK\$</i>
<i>Authorised:</i>	
50,000 shares of US\$1.00 each	<u>390,000.00</u>
<i>Issue and fully paid:</i>	
1 share of US\$1.00 each	<u>7.80</u>

(8) AMOUNT DUE TO RELATED PARTIES

	<i>HK\$</i>
Amount due to related company	16,606,018.00
Amount due to director	81,284,748.73
	<u>97,890,766.73</u>

Included in the amount due to director is a sum amounting to HK\$40,650,281.00 (RMB43,406,600.00), which is unsecured, with no fixed term of repayment and interest bearing at 0.4868% per month. As from August 2003 interest is not required to be charged.

(9) CAPITAL COMMITMENTS

As at 31 December 2003, the Company's subsidiary had commitments in respect of purchase of the Property in Mainland China of approximately RMB167,000,000.00.

(10) RELATED PARTY TRANSACTIONS

The Group has the following material transactions with the related parties during the period.

- (a) The Company's subsidiary, Wenyeen purchased 20% equity interest in the capital of Xinwenan from Beijing Xin Yi Tian Property Agents Company Limited (北京信一天房地產經紀有限公司) at the consideration of RMB1,980,000.00.
- (b) The Company's subsidiary, Xinwenan purchased 20% equity interest in the capital of Wenyeen from Beijing Xin Yi Tian Property Agents Company Limited at a consideration of RMB3,352,000.00.
- (c) The Company's subsidiary, Xinwenan purchased 20% equity interest in the capital of Jin Zun Property from Mr. Han Yuejun at a consideration of RMB1,600,000.00.
- (d) The Company's subsidiary, Wenyeen purchased 51% equity interest in the capital of Jin Zun Technology from Beijing Xin Yi Tian Property Agents Company Limited at the consideration of RMB6,400,000.00.
- (e) The Company's subsidiary, Jin Zun Property paid the interest of RMB3,986,900.00 to Mr. Han Yuejun. The interest was capitalised and included in acquisition of land in Mainland China.

Mr. Han Yuejun is the director and shareholder of the Company and also has equity interest in Beijing Xin Yi Tian Property Agents Company Limited.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited accounts have been prepared for the Company and its subsidiaries in respect of any period subsequent to 31 December 2003.

Yours faithfully,

Chan And Chan

Certified Public Accountants

Hong Kong, 15 March 2004

APPENDIX III

FINANCIAL INFORMATION ON THE ENLARGED GROUP

1.

PRO FORMA STATEMENT OF UNAUDITED CONSOLIDATED ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The pro forma statement of unaudited consolidated assets and liabilities of the Enlarged Group as set out below is prepared based on the unaudited consolidated net assets of the Group as at 30 September 2003 (as set out in Appendix I to this circular) and the audited consolidated net assets of the Bestly Group as at 31 December 2003 (as set out in Appendix II to this circular), adjusted to reflect the effect of the Proposed Acquisition and the CN Issue.

	Audited consolidated net assets of the Group at 31 Mar. 2003 (restated) <i>(Note i)</i> <i>HK\$'000</i>	Unaudited consolidated net assets of the Group at 30 Sept. 2003 <i>HK\$'000</i>	Audited consolidated net assets of the Bestly Group at 31 Dec. 2003 <i>HK\$'000</i>	Unaudited pro forma consolidated net assets of the Group as enlarged by the Proposed Acquisition upon completion <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	<i>Notes</i>	Unaudited pro forma adjusted consolidated net assets of the Group as enlarged by the Proposed Acquisition upon completion <i>HK\$'000</i>
Non current assets							
Fixed assets							
Investment properties	330	330		330			330
Other property, plant and equipment	10,195	7,329	4	7,333			7,333
Acquisition of land in the PRC			587,555	587,555			587,555
Goodwill/(negative goodwill)	(950)	1,256	(309,469)	(308,213)	296,492	<i>ii</i>	(11,721)
Other assets		2,803		2,803			2,803
Interest in associates	203,246	203,247		203,247	(203,247)	<i>ii</i>	
	212,821	214,965	278,090	493,055			586,300
Current assets	50,580	101,256	25,300	126,556	55,300	<i>iii</i>	181,856
Current liabilities	77,441	49,149	97,891	147,040			147,040
Net current assets/(liabilities)	(26,861)	52,107	(72,591)	(20,484)			34,816
Total asset less current liabilities	185,960	267,072	205,499	472,571			621,116
Minority interests		1,052	205,557	206,609	(205,557)	<i>ii</i>	1,052
Net assets/(liabilities)	185,960	266,020	(58)	265,962			620,064

Notes:

- (i) No adjustment was shown in the table between the restated audited consolidated net assets of the Group as at 31 March 2003 and the unaudited consolidated net assets of the Group as at 30 September 2003 given that there were lots of entries made during the six months period and detailed disclosure would be unduly cumbersome and confusing. Accordingly, the restated audited consolidated net assets of the Group as at 31 March 2003 were presented herein for reference only.
- (ii) This represents the consolidated adjustment of goodwill arising from the acquisition of the entire equity interest in Bestly and 39.2% equity interest in the PRC Company indirectly owned by the Company as at the Latest Practicable Date.
- (iii) The amount represents net proceeds from placement of new Shares as announced on 21 January 2004.

2. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The pro forma statement of unaudited adjusted consolidated net tangible assets of the Enlarged Group immediately following completion of the Proposed Acquisition and the CN Issue as set out below is prepared based on the unaudited consolidated net assets of the Group as at 30 September 2003 (as set out in Appendix I to this circular), adjusted to reflect the effect of the Proposed Acquisition and the CN Issue.

	<i>HK\$'000</i>	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 31 March 2003		185,910
Add: Prior year adjustment (<i>Note 8</i>)	50	
Unaudited consolidated net loss of the Group for the six months ended 30 September 2003	<u>(8,925)</u>	(8,875)
Add: Net proceeds from:		
– placement of new Shares as announced on 26 June 2003	37,985	
– conversion of the Series I Convertible Notes into Shares on 17 July 2003	<u>51,000</u>	<u>88,985</u>
Unaudited consolidated net assets of the Group as at 30 September 2003 (<i>Note 1</i>)		266,020
Less: Intangible assets of the Group (<i>Note 2</i>)		<u>(1,256)</u>
Unaudited consolidated net tangible assets of the Group as at 30 September 2003		264,764
Add: Net proceeds from placement of new Shares as announced on 21 January 2004		<u>55,300</u>
Unaudited consolidated net tangible assets of the Group immediately before completion of the Proposed Acquisition and the CN Issue		320,064
Less: Cash consideration to be paid by the Group for the Proposed Acquisition (<i>Note 3</i>)		(300,000)
Add: Acquisition the entire equity interest in Bestly (<i>Note 4</i>)		309,411
Add: Convertible Notes to be issued under the CN Issue (<i>Note 3</i>)		300,000
Add: Negative goodwill arising on acquisition of Bestly (<i>Note 5</i>)		<u>(9,411)</u>
Pro forma adjusted unaudited consolidated net tangible assets of the Enlarged Group immediately after completion of the Proposed Acquisition and the CN Issue		<u><u>620,064</u></u>
Unaudited consolidated net tangible asset value of the Group per Share immediately before completion of the Proposed Acquisition and the CN Issue (<i>Note 6</i>)		<u><u>HK\$0.1127</u></u>
Pro forma unaudited consolidated net tangible asset value of the Group per Share immediately after completion of the Proposed Acquisition and the CN Issue (<i>Note 7</i>)		<u><u>HK\$0.1161</u></u>

There was no surplus or deficit arisen from the revaluation of the assets of the Group as set out in this circular.

Notes:

1.

No valuation surplus/deficit was recorded as at 30 September 2003.
2.

The amount represents the goodwill on acquisition of subsidiaries.
3.

The Convertible Notes are issued under the CN Issue to finance the Proposed Acquisition and the Convertible Notes are subject to mandatory conversion on maturity on the third anniversary of the date of issue and there shall be no cash redemption.
4.

The amount represents the fair value of the assets and liabilities of the Bestly Group as at 31 December 2003. The amount also included the interest in the Property of the PRC Company.

HK\$'000

The deficit recorded in the audited accounts of the Bestly Group as at 31 December 2003	(58)
Add: Negative goodwill included in the assets of the Bestly Group as at 31 December 2003	309,469
	<u>309,411</u>

5.

This represents the excess of the Group's share of the fair value of the assets and liabilities of Bestly over the acquisition cost. The negative goodwill is recognised as income on a straight line basis over its estimated useful life of not more than twenty years.
6.

It is calculated based on 2,839,303,500 Shares in issue before completion of the Proposed Acquisition and the CN Issue.
7.

It is calculated based on 5,339,303,500 Shares in issue upon completion of the Proposed Acquisition and the CN Issue and full conversion of the Convertible Notes assuming the Convertible Notes are converted at HK\$0.120 per Share.
8.

On 10 April 2002, the Company acquired the entire issued share capital of Artway Development Limited ("Artway") for a consideration of HK\$195,000,000 and recorded a positive goodwill of HK\$195,011,000 based on the historic net book value of Artway, without adjusting the fair value of the respective identifiable assets and liabilities. Pursuant to the valuation report prepared by Vigers Hong Kong Limited on 10 April 2002, the fair market value of Artway as at 10 April 2002 was HK\$196,000,000. Accordingly, as required by SSAP 30 "Business combinations", a prior year adjustment was made in the interim financial report for the six months ended 30 September 2003 to recognise the negative goodwill of HK\$1,000,000 instead of the positive goodwill of HK\$195,011,000 at the acquisition date. The negative goodwill is being amortised over its weighted average useful life of twenty years. The adjustment had the following effect for the year ended 31 March 2003:

HK\$'000

Increase in interest in an associate	196,011
Decrease in positive goodwill	(195,011)
Increase in negative goodwill	(950)
Decrease in administrative expenses	<u>(50)</u>



B. I. Appraisals Limited

保柏國際評估有限公司

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Email: info@biappraisals.com.hk
Website: www.bisurveyors.com.hk

15 March 2004

The Directors
China Eagle Group Company Limited
Unit 6101 on 61st Floor
The Center
99 Queen's Road Central
Hong Kong

Dear Sirs,

Re: A parcel of land located at No. 7 Xi Ba He Bei Lane (i.e. No. A7 Beisanhuan East Road), Chaoyang District, Beijing, the People's Republic of China (the "PRC")

In accordance with your instructions for us to value the property interest in the captioned property (hereinafter referred to as the "Property"), in which China Eagle Group Company Limited (hereinafter referred to as the "Company") and/or its subsidiaries (hereinafter together referred to as the "Group") have an interest, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the property interest in the Property as at the date of 31 December 2003 (hereinafter referred to as the "date of valuation").

This letter, forming part of our valuation report, identifies the property being valued, explains the basis and methodology of our valuation, and lists out the assumptions and the title investigation we have made in the course of our valuation, as well as the limiting conditions.

BASIS OF VALUATION

Our valuation of the property interest in the Property is our opinion of its open market value which we would define as intended to mean "the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

We have valued the Property on the basis that the Property will be developed and completed in accordance with the latest development proposal provided to us by the Company.

Our valuation has been prepared in accordance with the Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000 and under generally accepted valuation procedures and practices, which are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Practice Note 12 issued by The Stock Exchange of Hong Kong Limited and the requirements contained in Rule 11 of The Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission of Hong Kong.

VALUATION METHODOLOGY

In arriving at our opinion of value of the property interest in the Property, we have adopted the Direct Comparison Approach assuming such property interest is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence or offerings as available in the relevant market and by taking into account the permitted development and/or development proposal provided to us. In addition, we have also taken into consideration the construction costs that will be expended to complete the proposed development to reflect the development potential of the Property and the quality of the completed development. In forming our opinion of value of the Property, we have also made reference to comparable site transactions and land prices as available in the relevant market. The “capital value when completed” represents our opinion of the aggregate selling prices of the proposed development assuming that it would have been completed at the date of valuation.

VALUATION ASSUMPTIONS

In valuing the property interest in the Property, we have assumed that the owner of the Property has valid and enforceable title to the property interest in the Property which is freely transferable, and has free and uninterrupted right to use the same for the whole of the unexpired term granted subject to payment of annual land use fees and all requisite land premium/purchase consideration otherwise payable having been fully settled.

Our valuation has also been made on the assumption that the property interest in the Property is sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, or any similar arrangement that would serve to affect its value. No account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interest in the Property and no forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charges, mortgages or amount owing on the Property nor for any expenses or taxation that may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions, and outgoings of an onerous nature that could affect its value. In the course of our valuation, we have neither verified nor taken into account any PRC tax liability. As advised by the Company, the types of potential tax liability include business tax (營業稅), additional town and city construction and maintenance fee (附加城鎮建設維護費), additional education fee (附加教育費) and land appreciation tax (土地增值稅). The Company has confirmed that it has no intention to dispose the Property in its existing state, i.e. a development site; and that it is the long term strategy of the Company to develop the Property in accordance with the development proposal for sale/investment; therefore, unless and until the completion of the disposal of the Property, the amount of PRC tax liability would not be quantifiable nor crystallized.

TITLE INVESTIGATION

Due to the nature of the land registration system in the PRC, we are not able to investigate the title to or any liabilities against the property interest in the Property. However, we have been provided with extract copies of title documents relating to the property interest in the Property by the Company. We have not examined the original documents to verify the ownership and to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. Yet, we have been provided with a copy of the legal opinion prepared on 4 February 2004 by Jingtian & Gongcheng Attorneys at Law, the Group’s legal adviser as to PRC law (hereinafter referred to as the “PRC Legal Adviser”) regarding the title to and the Group’s interest in the Property.

In the course of our valuation, we have relied on the advice given by the Group and the PRC Legal Adviser regarding the title to the property interest in the Property. The status of title and grant of major approvals, consents or licences provided to us are as follows:

Contract for Transfer of State-owned Land Use Rights	Yes
Certificate for State-owned Land Use (held under 北京市長途汽車公司)	Yes

LIMITING CONDITIONS

We have inspected the exterior of the Property. However, no structural survey has been made nor have any tests been carried out on any of the services provided in the Property. We are, therefore, not able to report that the Property is free from rot, infestation or any other structural defects. Yet, in the course of our inspection, we did not note any serious defects.

No on-site measurement has been made. Dimensions, measurements and areas included in the valuation certificate attached are based on information contained in the documents provided to us and are therefore approximations only.

Moreover, we have not carried out any site investigations to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during any construction period.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupancy, latest development proposal, site and floor areas and all other relevant matters in the identification of the Property. We have not seen original planning consents and have assumed that the Property will have been erected and will be occupied and used in accordance with such consents.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information supplied. We considered that we have been provided with sufficient information to reach an informed view and have no reason to suspect that any information has been withheld.

REMARKS

Unless otherwise stated, all monetary amounts stated in our valuation certificate are in Renminbi (RMB).

We hereby certify that we have neither present nor prospective interests in the Group, the Property or the value reported herein.

We attach herewith our valuation certificate.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED

William C. K. Sham
MRICS, MHKIS, RPS (G.P.)
Executive Director

Encl.

Note: Mr. William C. K. Sham is a Chartered Surveyor who has over 10 years’ experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2003																				
A parcel of land located at No. 7 Xi Ba He Bei Lane (i.e. No. A7 Beisanhuan East Road), Chaoyang District, Beijing, the People’s Republic of China	The Property comprises a parcel of land with a site area of approximately 35,300 sq. m. (or 379,969 sq.ft.). The Property will be developed into a mixed commercial and residential development with a total gross floor area of approximately 350,000 sq.m. (or 3,767,400 sq.ft.). Details of usage and gross floor areas of the proposed development are as follows:	The Property was vacant.	RMB540,000,000 (39.2% equity interest attributable to the Group: RMB211,680,000)																				
	<table><tr><th rowspan="2">Usage</th><th colspan="2">Approximate Gross Floor Area</th></tr><tr><th>(sq.m.)</th><th>(sq.ft.)</th></tr><tr><td>Residential</td><td>50,000</td><td>538,200</td></tr><tr><td>Retail</td><td>40,000</td><td>430,560</td></tr><tr><td>Office</td><td>220,000</td><td>2,368,080</td></tr><tr><td>Car park</td><td>40,000</td><td>430,560</td></tr><tr><td>Total:</td><td>350,000</td><td>3,767,400</td></tr></table>	Usage	Approximate Gross Floor Area		(sq.m.)	(sq.ft.)	Residential	50,000	538,200	Retail	40,000	430,560	Office	220,000	2,368,080	Car park	40,000	430,560	Total:	350,000	3,767,400		
Usage	Approximate Gross Floor Area																						
	(sq.m.)	(sq.ft.)																					
Residential	50,000	538,200																					
Retail	40,000	430,560																					
Office	220,000	2,368,080																					
Car park	40,000	430,560																					
Total:	350,000	3,767,400																					

- Notes:
1.

Pursuant to the Certificate for State-owned Land Use 京朝國用(地)字第000224號 (Jing Chao Guo Yong (Di) Zi No. 000224) issued by 北京市朝陽區房屋土地管理局(Housing and Land Bureau, Chaoyang District, Beijing) on 9 July 1997, the land use rights of a site having a site area of approximately 50,063.956 has been granted to 北京市長途汽車公司 (Beijing Bus Company Limited, hereinafter referred to as “Beijing Bus”) by way of administrative appropriation.
2.

Pursuant to the Agreement for Transfer of Land Use Rights (hereinafter referred to as the “Transfer Agreement”) entered into between Beijing Bus and 北京金尊房地產開發有限公司 (Beijing Jin Zun Property Development Limited, hereinafter referred to as “Beijing Jin Zun Property”) on 1 February 2002, Beijing Bus agreed to sell and Beijing Jin Zun Property agreed to purchase the subject site having a site area of approximately 35,300 sq.m. for a relocation and compensation fee of RMB250,000,000.
3.

We have been advised by the Company that Beijing Jin Zun Property is a 39.2% indirectly owned associated company of Artway Development Limited, which itself is a wholly owned subsidiary of the Company.

4. Pursuant to the approval letter issued by 北京市發展計劃委員會 (Beijing Municipal Development Planning Commission) on 22 April 2002, the consent regarding the transfer of the Property from Beijing Bus to Beijing Jin Zun Property has been granted by Beijing Municipal Development Planning Commission. We have been further advised by Beijing Jin Zun Property that validity of such consent has been extended until the end of 2004.
5. We have been advised by Beijing Jin Zun Property that the development proposal (which is equivalent to the feasibility study) of the property has been submitted to 北京市發展改革委員會 (Beijing Municipal Development Reform Commission) and 北京市規劃委員會 (Beijing Municipal Planning Commission) on 31 January 2003 for approval.
6. In accordance with the progress of the proposed development of the Property, all necessary applications have been made as at the date of valuation.
7. In the course of our valuation, we have taken into account the estimated cost of development of approximately RMB3,825,000,000, the relocation and compensation fee of RMB250,000,000 payable by Beijing Jin Zun Property to Beijing Bus and the estimated land premium of approximately RMB470,000,000.
8. The capital value when completed of the proposed development is approximately RMB5,085,000,000.
9. According to the information provided by the Company, the proposed development is expected to be completed in mid-July 2007 to early 2008.
10. The legal opinion of the PRC Legal Adviser on the Property is summarized as below:
 - a) Beijing Jin Zun Property is duly incorporated in the PRC and has a right to develop real estate and a right to sign the Transfer Agreement with Beijing Bus. Beijing Jin Zun Property shall have the right to engage in real estate development of the subject site upon obtaining approvals from the relevant government authorities and settling the land premium in full.
 - b) The Transfer Agreement is legally valid. Upon fulfillment of its obligations stated in the Transfer Agreement, Beijing Jin Zun Property shall obtain the right to develop the subject site.
 - c) Upon completion of the necessary application procedures and having been granted with the relevant approvals from the relevant government authorities, Beijing Jin Zun Property will have the right to engage in the development and the sale of the Property and to obtain the relevant interest thereof.
 - d) There is no legal impediment in obtaining the approvals from the relevant government authorities in respect of applying for project recognition, land use planning and sale.
 - e) According to 《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》 (Provisional Regulations for Grant and Transfer of State-owned Land Use Rights in Cities and Towns in the PRC), the permitted land use right term of the Property is 70 years for residential use, 40 years for commercial/entertainment uses and 50 years for composite use.
 - f) According to the existing laws and regulations of the PRC, Beijing Jin Zun Property shall obtain and shall be entitled to transfer the land use rights of the Property upon settling the land premium in full.
 - g) The planned total gross floor area of 350,000 sq.m. (comprising 50,000 sq.m. for apartment, 40,000 sq.m. for retail, 220,000 sq.m. for office and 40,000 sq.m. for car park) for the proposed development is formulated in accordance with various regulating documents issued by 國家技術監督局 (National Technical Supervision Bureau) and 建設部 (Construction Bureau).

11. We have relied on the information provided and the aforesaid legal opinion and prepared our valuation based on the following assumptions:
- a) The Agreement for Transfer of Land Use Rights entered into between Beijing Bus and Beijing Jin Zun Property on 1 February 2002 was duly entered into by both parties.

b) Beijing Jin Zun Property will be in possession of a proper legal title to the Property and will be entitled to transfer the Property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

c) In accordance with the information provided, we understand that the Property is permitted for industrial use. However, we have been advised that application would be made for changing the permitted land use and that the Property will be permitted to be developed into a mixed commercial and residential complex. Hence, we have assumed that such modification of land use will be granted without extraordinary expenses and delays.

d) The land use rights of the Property will be granted for commercial, residential and composite uses for terms of 40 years, 70 years and 50 years from the issuance date of the Certificate for State-owned Land Use respectively.

e) All purchase consideration, relocation and compensation fee, land premium and other costs of ancillary utility services have been settled in full.

f) The Property will be developed in accordance with the latest development proposal provided to us, i.e. a mixed commercial and residential complex with a proposed total gross floor area of approximately 350,000 sq.m. (or 3,767,400 sq.ft.) comprising 50,000 sq.m. (or 538,200 sq.ft.) for residential use, 40,000 sq.m. (or 430,560 sq.ft.) for retail use, 220,000 sq.m. (or 2,368,080 sq.ft.) for office use and 40,000 sq.m. (or 430,560 sq.ft.) for car park use.

g) The development proposal of the Property will have been approved by the relevant government authorities.

h) The design and construction of the Property will be in compliance with the local planning regulations and will have been approved by the relevant government authorities.

i) All consents, approvals and licences from the relevant government authorities for the development of the Property will be granted without any onerous conditions or undue delay.

j) The proposed development, whether as a whole or on a strata-titled basis, may be disposed of freely to both local and overseas purchasers.

This is an explanatory statement given to all Shareholders relating to a resolution to be proposed at the Special General Meeting for approving the repurchase mandate.

This explanatory statement contains all the information required pursuant to Rule 10.06(1)(b) and other relevant provisions of the Listing Rules which is set out as follows:

1. SHAREHOLDER'S APPROVAL

All proposed repurchases of shares by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction. The Company's sole listing is on the Stock Exchange.

2. SOURCE OF FUNDS

Repurchases must be funded out of funds legally available for the purpose in accordance with the memorandum and bye-laws of the Company, the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and the laws of Hong Kong. It is presently proposed that any Shares repurchased under the repurchase mandate would be purchased out of the capital paid up on the repurchased Shares, the profits of the Company which would otherwise be available for dividend and the Company's share premium account.

3. EXERCISE OF THE REPURCHASE MANDATE

The Shares proposed to be repurchased by the Company must be fully paid up. Under the Listing Rules, the total number of shares which a company is authorised to repurchase on the Stock Exchange is shares representing up to a maximum of 10% of the existing issued share capital as at the date of the resolution granting such general mandate. Exercise in full of the repurchase mandate, on the basis of 2,839,303,500 Shares in issue as at the Latest Practicable Date and assuming no Shares are issued and repurchased by the Company, could result in up to 283,930,350 Shares being repurchased by the Company during the period from the passing of the resolution granting the repurchase mandate up to the conclusion of the next annual general meeting of the Company or the expiration of the period within the next annual general meeting of the Company as required by the Companies Ordinance and the laws of Hong Kong to be held, or when revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first.

4. REASONS FOR REPURCHASE

Although the Directors have no present intention of repurchasing any Shares, they believe that it is in the best interests of the Company and the Shareholders to have a general authority from Shareholders to enable the Directors to purchase Shares on the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

5. FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the memorandum and bye-laws of the Company and the laws of Hong Kong.

The exercise in full of the repurchase mandate might have a material adverse impact on the working capital or gearing position of the Company as compared with the position disclosed in its most recent audited accounts for the year ended 31 March 2003. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital or gearing position of the Company.

6. GENERAL

- (a) None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) has any present intention, in the event that the repurchase mandate is approved by Shareholders to sell Shares to the Company or its subsidiaries.
- (b) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws of Hong Kong.
- (c) If as a result of the share repurchase a shareholder's proportionate interest in the voting rights of the repurchasing company increases, such increase will be treated as an acquisition of voting rights for purposes of the Takeovers Code. As a result, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of a repurchasing company and thereby become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, Shinning Crown together with parties acting in concert with it were beneficially interested in approximately 42.48% of the issued share capital of the Company. If the present shareholdings and capital structure of the Company remain the same, the exercise in full of the repurchase mandate will result in Shinning Crown together with parties acting in concert with it be beneficially interested in approximately 47.19% of the issued share capital of the Company and Shinning Crown together with parties acting in concert with it will be required to make a mandatory general offer for the Shares not owned by Shinning Crown and parties acting in concert with it under Rule 26 of the Takeovers Code.

- (d) The Company has not repurchased any of its Shares (whether on the Stock Exchange or otherwise) in the six months preceding the date of this circular.
- (e) No connected person (as defined in the Listing Rules) has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event that the repurchase mandate is approved by the Shareholders.

(f) The highest and lowest prices at which the Shares have traded on the Stock Exchange during each of the previous twelve months were as follows:

	Highest HK\$	Lowest HK\$
2003		
March	0.410	0.380
April	0.400	0.240
May	0.260	0.180
June	0.248	0.132
July	0.183	0.148
August	0.200	0.183
September	0.208	0.170
October	0.215	0.188
November	0.197	0.150
December	0.178	0.120
2004		
January	0.214	0.139
February	0.395	0.150
March (up to the Latest Practicable Date)	0.380	0.350

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 not contained in this circular the omission of which would make any statement herein misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any such statement contained in this circular misleading.

SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at 31 March 2003 were as follows:		HK\$'000
<i>Authorised:</i>		
<u>20,000,000,000 Shares</u>		<u>2,000,000</u>
<i>Issued as fully paid:</i>		
<u>1,618,303,500 Shares as at 31 March 2003</u>		<u>161,830</u>

A summary of the changes in the share capital of the Company since 31 March 2003 is as follows:

	Number of shares	Issued and fully paid HK\$'000
Ordinary Shares as at 31 March 2003	1,618,303,500	161,830
Issue of Shares to placees (<i>Note 1</i>)	323,000,000	32,000
Shares issued upon conversion of convertible notes (<i>Note 2</i>)	425,000,000	42,500
Issue of shares to placees (<i>Note 3</i>)	<u>473,000,000</u>	<u>47,300</u>
Ordinary Shares issued as at the Latest Practicable Date	<u>2,839,303,500</u>	<u>283,930</u>

Notes:

- On 26 June 2003, the Company as issuer entered into a placing agreement with Ricofull Securities Limited as placing agent to place 323,000,000 Shares to independent placees at a price of HK\$0.12 per Share.
- On 17 July 2003, a total of HK\$51 million convertible notes held by Mr. Han were converted into 425,000,000 Shares at a conversion price of HK\$0.12 per Share.

3. On 7 January 2004, the Company as issuer entered into a subscription agreement with Shinning Crown as subscriber in relation to the subscription of 473,000,000 new Shares at a price of HK\$0.12 per Share.

Save as disclosed above, no other Shares have been issued since 31 March 2003.

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

The maximum number of Shares in respect of which options may be granted under the share option scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company from time to time.

As at the Latest Practicable Date, no share options had been granted under the share option scheme of the Company.

As at the Latest Practicable Date, save for the Series I Convertible Notes and the Convertible Notes, the Group did not have any outstanding options, warrants or other securities carrying rights of conversion into or exchange or subscription for the Shares.

DISCLOSURE OF INTERESTS

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

(a) Interests in the Shares

Directors	Nature of interest	Number of Shares		Approximate percentage of the existing issued share capital of the Company
		Long position	Short position	
Wong Kwong Yu	Personal	36,003,500	Nil	1.27
Wong Kwong Yu	Other*	1,170,000,000	Nil	41.21

Note:

* The interest reflects the interests held by Shinning Crown. Shinning Crown is wholly-owned by Mr. Wong.

(b) Options to subscribe for Shares

Directors	Date of grant	Exercisable period	Exercise price per Share	Number of underlying Shares comprised in the options <i>HK\$</i>	Approximate percentage of existing issued share capital of the Company
Nil	Nil	Nil	Nil	Nil	Nil

Save as disclosed above, as at the Latest Practicable Date:

- (i) none of the Directors and chief executive of the Company held any interest or short position in the Shares, the underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange;
- (ii) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group;
- (iii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group;
- (iv) none of the Directors had entered or was proposing to enter into a service contract with any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation);
- (v) none of the Directors had entered or was proposing to enter into a service contract with the Company or its subsidiaries or its associated companies which have more than 12 months to run; and no contracts have been entered into or amended within six months before the date of entering into the agreements for the Proposed Acquisition and the CN Issue; and
- (vi) none of the Directors had dealt in (A) the Shares; and (B) shares of Shinning Crown during the six months prior to the date of the Announcement and up to the Latest Practicable Date.

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

As at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors, the following are details of the persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying shares 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 were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meeting of any other member of the Group:

(a) The Company

Name of Shareholder	Nature of interest	Number of Shares		Approximate percentage of existing issued share capital of the Company
		Long position	Short position	
Shinning Crown (Note 1)	Corporate	1,170,000,000	Nil	41.21
Link Zone International Limited (Note 2)	Corporate	425,000,000	Nil	14.97

Notes:

1. Shinning Crown is wholly-owned by Mr. Wong. In addition, Mr. Wong directly owns 36,003,500 Shares.
2. The Shares are held as to 9,570,000 Shares personally by Mr. Han and as to 425,000,000 Shares by Link Zone International Limited, which is wholly and beneficially owned by Mr. Han.

(b) Other members of the Group

According to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors, other than the interest disclosed herein, there was no other person (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying shares 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, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group or in any options in respect of such capital.

OTHER INTERESTS IN THE COMPANY AND DEALINGS IN SECURITIES OF THE COMPANY

- (i) Save for the shareholdings of Mr. Wong as disclosed in the section headed “Disclosure of interests” above, none of the directors of Shinning Crown owned or controlled any securities of the Company as at the Latest Practicable Date. None of the directors of Shinning Crown had dealt in the securities of the Company during the period commencing six months prior to the date of the Announcement and up to the Latest Practicable Date.
- (ii) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Shinning Crown and any party acting in concert with it.
- (iii) As at the Latest Practicable Date, no subsidiary or associated company of the Company nor any pension fund of the Group had any interest in the securities of the Company, and none of them had dealt in the securities of the Company during the period commencing six months prior to the date of the Announcement and up to the Latest Practicable Date.
- (iv) As at the Latest Practicable Date, neither Access Capital, Altus, KGI, Chan And Chan, B.I. Appraisals Limited nor any advisers of the Company as specified in class (2) of the definition of associate under the Takeovers Code had any interests in the securities of the Company, and none of them had dealt in the securities of the Company during the period commencing six months prior to the date of the Announcement and up to the Latest Practicable Date.
- (v) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code.
- (vi) As at the Latest Practicable Date, no fund manager connected with the Company had managed any securities of the Company on a discretionary basis.

MATERIAL CONTRACTS

The following contracts are all the material contracts (not being contracts entered into in the ordinary course of business), entered into by members of the Group, within the two years preceding 24 February 2004 (being the date of the Announcement) and up to and including the Latest Practicable Date:

- A conditional agreement dated 6 February 2004 and a supplemental agreement thereto dated 24 February 2004 entered into between Mr. Han as the vendor and the Company as the purchaser for the sale and purchase of the entire issued share capital of Bestly at a consideration of HK\$300 million.
- A conditional agreement dated 6 February 2004 entered into between the Company as the issuer and Shinning Crown as the subscriber for the subscription of the convertible notes in the total principal amount of HK\$300 million.

- A conditional agreement dated 7 January 2004 entered into between the Company as the issuer and Shinning Crown as the subscriber relating to the subscription of 473,000,000 new Shares at a subscription price of HK\$0.120 per Share.
- A conditional agreement dated 26 June 2003 entered into between the Company as the issuer and Ricofull Securities Limited as the placing agent relating to the placing of 323,000,000 new Shares at a placing price of HK\$0.120 per Share and with a commission charged at the rate of 2.0% on the placing price.
- A conditional agreement dated 3 September 2002 entered into between, inter alia, China Eagle Capital Co. Limited, an indirect subsidiary of the Company, as the purchaser and independent third parties as the vendors relating to the acquisition of 95% of the issued share capital of Eagle Legend Securities Limited (then known as Gold City Securities Limited) at a consideration of HK\$14,516,418 being 95% of the net tangible asset of Eagle Legend Securities Limited and a premium of HK\$2,000,000.
- A conditional agreement dated 3 September 2002 entered into between, inter alia, China Eagle Capital Co. Limited, an indirect subsidiary of the Company, as the purchaser and independent third parties as the vendors relating to the acquisition of 95% of the issued share capital of Eagle Legend Futures Limited (then known as Gold City Futures Limited) at a consideration of HK\$8,210,965 being 95% of the net tangible asset of Eagle Legend Futures Limited and a premium of HK\$800,000.

LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

EXPERTS AND CONSENTS

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

Name	Qualifications
Access Capital	a deemed licensed corporation for types 1 (dealings in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
Altus	a deemed licensed corporation for types 1 (dealings in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
KGI	a deemed licensed corporation for types 1 (dealings in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO
Chan And Chan	Certified Public Accountants
B.I. Appraisals Limited	Professional Surveyors, Vaulers & Property Advisers

Altus, KGI, Chan And Chan and B.I. Appraisals Limited have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their respective letter and references to their name in the form and context in which they appear.

Access Capital has given and has not withdrawn its written consent to the issue of this circular with references to its name in the form and context in which they appear.

Access Capital, Altus, KGI, Chan And Chan and B.I. Appraisals Limited are not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

MARKET PRICES

The table below sets out the closing prices of the Shares quoted on the Stock Exchange on the last trading day of each of the six calendar months immediately preceding the date of the Announcement:

Date	Closing price per Share <i>HK\$</i>
29 August 2003	0.191
30 September 2003	0.208
31 October 2003	0.188
28 November 2003	0.161
31 December 2003	0.171
30 January 2004	0.188

The highest and lowest closing prices of the Shares quoted on the Stock Exchange during the period from 24 August 2003 (being the commencement of the six months preceding the date of the Announcement) up to the Latest Practicable Date were HK\$0.395 per Share and HK\$0.120 per Share respectively.

The closing price of the Shares as quoted on the Stock Exchange on 5 February 2004, being the last trading day prior to the release of the announcement on 24 February 2004 in relation to the Proposed Acquisition and the CN Issue, was HK\$0.150.

The closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date was HK\$0.37.

MISCELLANEOUS

- (a) The registered office of the Company is at Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at Unit 6101, 61st Floor, The Center, 99 Queen's Road Central, Hong Kong.
- (c) The registered office of Shinning Crown is at Trustnet Chambers, P.O. Box 3444, Road Town, Tortola, the British Virgin Islands.
- (d) The company secretary of the Company is Miss Cecilia Tang. Miss Tang is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. She is also an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.
- (e) The branch share registrars of the Company in Hong Kong is Abacus Share Registrars Limited at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong.

- (f) Access Capital Limited is at Suite 606, 6th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (g) Altus Capital Limited is at 8/F., Hong Kong Diamond Exchange Building, 8 Duddell Street, Central, Hong Kong.
- (h) KGI is at Asia Pacific Finance Tower, 27/F., Citibank Plaza, 3 Garden Road, Central, Hong Kong.
- (i) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.
- (j) As far as the Directors are aware, as at the Latest Practicable Date, Shinning Crown did not have any intention to sell or transfer to any person any Share to be issued upon conversion of the Convertible Notes.
- (k) There was no person who has irrevocably committed to vote for or against the Proposed Acquisition and the CN Issue.
- (l) There was no agreement or arrangement or understanding (including any compensation arrangement) between Shinning Crown or any party acting in concert with it and any of the Directors, recent Directors, Shareholders, recent Shareholders having any connection with or dependent upon completion of the Proposed Acquisition and the CN Issue as at the Latest Practicable Date.
- (m) The Company did not own or control any shares of Shinning Crown as at the Latest Practicable Date and the Company had not dealt in the shares of Shinning Crown during the period commencing six months prior to the date of the Announcement and up to the Latest Practicable Date.
- (n) There was no agreement or arrangement between any of the Directors and any other person which was conditional on or dependent upon completion of the Proposed Acquisition and the CN Issue as at the Latest Practicable Date.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Sidley Austin Brown & Wood at 39th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours on any weekday, except public holidays, from the date of this circular up to and including 31 March 2004:

- the memorandum of association and bye-laws of the Company;
- the memorandum and articles of association of Shinning Crown;

- the annual reports of the Company for the two years ended 31 March 2003 and the interim report for the six months ended 30 September 2003;
- the Sale and Purchase Agreement;
- the CN Subscription Agreement;
- the Supplemental Agreement;
- the letter from the Independent Board Committee set out on pages 28 to 29 of this circular;
- the letter from Altus and KGI set out on pages 30 to 57 of this circular;
- the property valuation report and certificate set out in Appendix IV to this circular;
- the material contracts referred to in the paragraph headed “Material contracts” to this Appendix; and
- the written consents referred to in the paragraph headed “Experts and consents” to this Appendix.

NOTICE OF SPECIAL GENERAL MEETING



CHINA EAGLE GROUP COMPANY LIMITED

中國鵬潤集團有限公司*

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of China Eagle Group Company Limited (the “**Company**”) will be held at Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 31 March 2004 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modification) the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Conversion Shares (as defined below):
 - (a) the entry by the Company into the sale and purchase agreement (the “**S&P Agreement**”) dated 6 February 2004 with Mr. Han Yue Jun, a copy of which together with a copy of a supplemental agreement (the “**Supplemental Agreement**”) dated 24 February 2004 have been produced to the meeting marked “A” and signed by the chairman for identification purposes, the transactions contemplated by the S&P Agreement and the Supplemental Agreement and the performance thereof by the Company, be and are hereby confirmed, ratified and approved;
 - (b) the entry by the Company into the subscription agreement (the “**Subscription Agreement**”) dated 6 February 2004 with Shinning Crown Holdings Inc., a copy of which has been produced to the meeting marked “B” and signed by the chairman for identification purposes, the transactions contemplated by the Subscription Agreement and the performance thereof by the Company, be and are hereby confirmed, ratified and approved;
 - (c) the directors of the Company (the “**Directors**”) be and are hereby authorised to issue the convertible notes (the “**Convertible Notes**”) pursuant to the terms of the Subscription Agreement;
 - (d) conditional upon the approval from the Bermuda Monetary Authority, if required, the Directors be and are hereby authorised, from time to time, to issue new shares of HK\$0.10 each in the capital of the Company (the “**Conversion Shares**”) upon the exercise of the conversion rights under the Convertible Notes on and subject to the terms and conditions of the Convertible Notes; and

* for identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

- (e) any one Director, or any two Directors if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated under the S&P Agreement, the Supplemental Agreement and the Subscription Agreement.”
- 2. “**THAT** subject to the passing of Resolution No. 1 in the notice of which this resolution forms part, the authorised share capital of the Company shall be increased from HK\$2,000,000,000 to HK\$5,000,000,000 divided into 50,000,000,000 shares (“**Shares**”) of HK\$0.10 each in the capital of the Company by the creation of 30,000,000,000 new Shares, which shall rank pari passu in all respects with the existing shares then in issue in the capital of the Company.”
- 3. “**THAT** subject to the passing of Resolution No. 1 in the notice of which this resolution forms part, the waiver (the “**Whitewash Waiver**”) granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to Note 6 of the Notes on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of Shinning Crown Holdings Inc. and parties acting in concert with it, to make a general offer for all the shares of the Company not already owned by them as a result of the conversion of the Convertible Notes (as defined in Resolution No. 1 of the notice of which this resolution forms part), be and is hereby approved.”
- 4. “**THAT:**
 - (a) subject to paragraphs (b) and (c) hereunder, the granting of an unconditional general mandate to the directors of the Company (the “**Directors**”), during the Relevant Period (as defined in paragraph (e) below) to issue, allot and deal with additional shares in the capital of the Company (“**Shares**”) or securities convertible into Shares or options, warrants or similar rights to subscribe for any Shares and to make or grant offers, agreements and options which would or might require Shares, to be issued, allotted or dealt with, be and is hereby generally and unconditionally approved;
 - (b) the unconditional general mandate under paragraph (b) above shall not extend beyond the Relevant Period save the Directors may during the Relevant Period make or grant offers, agreement and options which might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of shares in the capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board otherwise than pursuant to:
 - (i) a Rights Issue (as defined in paragraph (d) below);

NOTICE OF SPECIAL GENERAL MEETING

- (ii) the exercise of rights of subscription or conversion under the terms attaching to any warrants issued by the Company or any securities which are convertible into Shares;
- (iii) the exercise of options granted under any option scheme or similar arrangement for the time being adopted for the grant of issue of shares or rights to acquire shares in the capital of the Company to officers and/or employees of the Company and/or any of its subsidiaries; and
- (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the share capital of the Company implemented in accordance with the bye-laws of the Company,

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution; and

- (d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Company’s bye-laws or any applicable laws to be held; or
- (iii) the date on which the authority set out under this resolution is revoked or varied by an ordinary resolution of the Company’s shareholders in general meeting.

“Rights Issue” means the allotment, issue or grant of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the Directors made to holders of shares in the capital of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in, or in any territory application to the Company).”

5. **“THAT:**

- (a) the directors of the Company (the **“Directors”**) be and are hereby generally and unconditionally authorised to exercise during the Relevant Period (as defined in paragraph (c) below) all the powers of the Company to purchase its shares in the capital of the Company on the Stock Exchange or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong, subject to and in accordance with applicable laws;

NOTICE OF SPECIAL GENERAL MEETING

(b) the aggregate nominal amount of shares which may be purchased pursuant to the approval in paragraph (a) above shall not in total exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution; and

(c) for the purpose of this resolution:

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Company’s bye-laws or any applicable laws to be held; or
- (iii) the date on which the authority set out under this resolution is revoked or varied by an ordinary resolution of the Company’s shareholders in general meeting.”

6. “**THAT**, conditional upon Resolutions No. 4 and 5, as set out in the notice of which this resolution forms part, being passed and becoming unconditional, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with shares or other securities be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company purchased by the Company under the authority granted pursuant to Resolution No. 5 as set out in the Notice provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution.”

Yours faithfully,
For and on behalf of the Board
Ng Kin Wah
Executive Director

Hong Kong, 15 March 2004

NOTICE OF SPECIAL GENERAL MEETING

Registered office:

Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Principal place of business:

Unit 6101, 61st Floor
The Center
99 Queen's Road Central
Hong Kong

Notes:

- (1) Any member entitled to attend and vote at the Special General Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company may appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the meeting is enclosed herewith.
- (3) The form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be under its seal or the hand of an officer, attorney or other person duly authorised.
- (4) The form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be lodged at the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited, at G/F., BEA Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong, not later than 48 hours before the time appointed for holding the Special General Meeting or any adjourned meeting (as the case may be) and in default the 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 Special General Meeting or at any adjourned meeting (as the case may be) should they so wish.
- (5) Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either in personal or by proxy, in respect of such share as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the meeting in personal or by proxy, that the vote of one of the said persons so present whose name stands first on the register of members in respect of such share shall be accepted to the exclusion of the votes of the other joint holders.